AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 3, 1994

REGISTRATION NO. 33-51845

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

USG CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	3275	36-3329400
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

125 SOUTH FRANKLIN STREET
CHICAGO, ILLINOIS 60606-4678
(312) 606-4000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

ARTHUR G. LEISTEN, ESQ.
SENIOR VICE PRESIDENT AND GENERAL COUNSEL
125 SOUTH FRANKLIN STREET
CHICAGO, ILLINOIS 60606-4678
(312) 606-4000
(Name, address and telephone number of agent for service)

COPIES TO:

FRANCIS J. GERLITS, P.C.	SETH A. KAPLAN
Kirkland & Ellis	Wachtell, Lipton, Rosen & Katz
200 East Randolph Drive	51 West 52nd Street
Chicago, Illinois 60601	New York, New York 10019

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. / /

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

CROSS REFERENCE SHEET
PURSUANT TO ITEM 501(B) OF REGULATION S-K
SHOWING LOCATION IN PROSPECTUS OF INFORMATION REQUIRED BY ITEMS OF PART I OF FORM S-1.

REGISTRATION STATEMENT ITEM NUMBER AND CAPTION	CAPTION OR LOCATION IN PROSPECTUS
1. Forepart of the Registration Statement and Outside Front Cover Page of Prospectus	Outside Front Cover Page of Prospectus
2. Inside Front and Outside Back Cover Pages of Prospectus	Inside Front Cover Page of Prospectus; Outside Back Cover Page of Prospectus; Additional Information
3. Summary Information, Risk Factors and Ratio of Earnings to Fixed Charges	Prospectus Summary; Risk Factors
4. Use of Proceeds	Purpose of the Offering and Use of Proceeds; Management's Discussion and Analysis of Financial Condition and Results of Operations
5. Determination of Offering Price	Not applicable
6. Dilution	Dilution
7. Selling Security Holders	Ownership of Common Stock
8. Plan of Distribution	Outside Front Cover Page of Prospectus; Underwriting
9. Description of Securities to Be Registered	Prospectus Summary; Dividend Policy; Capitalization; Description of Capital Stock
10. Interests of Named Experts and Counsel	Legal Matters
11. Information with Respect to the Registrant	Outside Front Cover Page of Prospectus; Prospectus Summary; Risk Factors; Dividend Policy; Purpose of the Offering and Use of Proceeds; Capitalization; Dilution; Selected Consolidated Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations; Business; Management; Certain Relationships and Related Transactions; Description of Capital Stock; Legal Matters; Experts; Financial Statements
12. Disclosure of Commission Position on Indemnification for Securities Act Liabilities	Not Applicable

EXPLANATORY NOTE

This Registration Statement contains two forms of prospectus: one (the "U.S. Prospectus") to be used in connection with an offering in the United States and Canada and one (the "International Prospectus") to be used in connection with a concurrent international offering outside the United States and Canada. The U.S. Prospectus and the International Prospectus are identical except that they contain different front and back cover pages and different descriptions of the plan of distribution (contained under the caption "Underwriting" in both prospectuses). The form of U.S. Prospectus is included herein and is followed by those pages to be used in the International Prospectus which differ from or are in addition to those in the U.S. Prospectus. Each of the pages for the International Prospectus included herein is labelled "Alternate Page for International Prospectus."

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

PROSPECTUS SUBJECT TO COMPLETION [LOGO]
10,000,000 SHARES MARCH 3, 1994

USG CORPORATION

COMMON STOCK
($.10 PAR VALUE)

Of the 10,000,000 shares of common stock ("Common Stock") of USG Corporation ("USG" or the "Corporation") being offered, 6,000,000 shares are being sold by the Corporation and 4,000,000 shares are being sold by Water Street Corporate Recovery Fund I, L.P. (the "Selling Stockholder" or "Water Street"). See "Ownership of Common Stock -- Selling Stockholder and its Affiliates." The Corporation will not receive any of the proceeds from the sale of Common Stock by the Selling Stockholder.

Of the 10,000,000 shares of Common Stock being offered, 8,500,000 shares are being offered hereby in the United States and Canada (the "U.S. Offering") and 1,500,000 shares are being offered in a concurrent international offering outside the United States and Canada (the "International Offering" and, collectively with the U.S. Offering, the "Offering"), subject to transfers between the U.S. Underwriters (as defined herein) and the International Underwriters (as defined herein). The offering price and underwriting discounts for the U.S. Offering and the International Offering will be identical. The closing of the U.S. Offering is conditioned upon the closing of the International Offering, and the closing of the International Offering is conditioned upon the closing of the U.S. Offering. See "Underwriting."

The Common Stock is traded on the New York Stock Exchange (the "NYSE") under the symbol "USG." On February 11, 1994, the last reported sale price of the Common Stock as reported on the NYSE Composite Tape was $32.375 per share. See "Price Range of Common Stock." Potential investors are encouraged to obtain current trading price information.

PROSPECTIVE INVESTORS SHOULD CONSIDER CAREFULLY THE MATTERS DISCUSSED UNDER THE CAPTION "RISK FACTORS."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT	PROCEEDS TO CORPORATION (1)	PROCEEDS TO SELLING STOCKHOLDER
Per Share..................	$	$	$	$
Total (2)..................	$	$	$	$

(1) Before deduction of expenses payable by the Corporation, estimated to be $1,300,000.
(2) The Corporation and the Selling Stockholder have each granted to the U.S. Underwriters a 30-day option to purchase up to 637,500 additional shares of Common Stock at the Price to Public, less the Underwriting Discount, solely to cover over-allotments, if any. Additionally, the Corporation and the Selling Stockholder have each granted to the International Underwriters a 30-day option to purchase up to 112,500 additional shares of Common Stock at the Price to Public, less the Underwriting Discount, solely to cover over-allotments, if any. If the Underwriters exercise such options in full, the total Price to Public, Underwriting Discount, Proceeds to Corporation and Proceeds to Selling Stockholder will be , , , and , respectively. See "Underwriting."

The shares of Common Stock are offered subject to receipt and acceptance by the U.S. Underwriters, to prior sale and to the U.S. Underwriters' right to reject any order in whole or in part and to withdraw, cancel or modify the offer without notice. It is expected that delivery of the shares will be made at the office of Salomon Brothers Inc, Seven World Trade Center, New York, New York, or through the facilities of The Depository Trust Company, on or about , 1994.

SALOMON BROTHERS INC LAZARD FRERES & CO.
SMITH BARNEY SHEARSON INC.

The date of this Prospectus is , 1994.

[PICTURES]

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND FINANCIAL STATEMENTS (INCLUDING THE NOTES THERETO) CONTAINED ELSEWHERE IN THIS PROSPECTUS. UNLESS THE CONTEXT OTHERWISE REQUIRES, REFERENCES TO "USG" AND THE "CORPORATION" MEAN USG CORPORATION, A DELAWARE CORPORATION, AND ITS SUBSIDIARIES. UNLESS OTHERWISE SPECIFIED, THE INFORMATION PROVIDED IN THIS PROSPECTUS ASSUMES NO EXERCISE OF THE UNDERWRITERS' OVER-ALLOTMENT OPTIONS. SEE "UNDERWRITING."

OVERVIEW

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

On May 6, 1993, the Corporation completed a comprehensive restructuring of its debt through the implementation of a "prepackaged" plan of reorganization under the federal bankruptcy laws. This restructuring significantly reduced the Corporation's overall interest and debt repayment obligations and extended the maturities of a substantial portion of its remaining debt. See "The Restructuring" and "Risk Factors."

BUSINESS

The Corporation participates in three industry segments: Gypsum Products, Interior Systems and Building Products Distribution.

GYPSUM PRODUCTS. U.S. Gypsum has vertically integrated operations for extracting, processing, producing and marketing gypsum and related products, such as "SHEETROCK" brand wallboard, joint compound and industrial gypsum cements and fillers. U.S. Gypsum also manufactures cement board, which it sells under the "DUROCK" brand name. Due to the vertical integration of its key raw materials (gypsum and paper), its technical expertise and the proximity of its plants to major metropolitan areas, U.S. Gypsum believes that its delivered cost for gypsum wallboard is generally lower than its competitors'. As a result of efficiency improvements and cost reduction efforts, U.S. Gypsum's unit manufacturing cost for gypsum wallboard in 1993 (measured in nominal dollars) was lower than its unit manufacturing cost a decade ago. In the year ended December 31, 1993, the Gypsum Products segment had net sales of $1,165 million and generated EBITDA of $179 million before allocation of corporate expenses.

INTERIOR SYSTEMS. The Interior Systems segment manufactures and markets an integrated line of products used primarily for commercial interiors. Products include ceiling grid and ceiling tile, access floor systems, wall systems and mineral wool insulation and soundproofing products. In 1993, USG Interiors accounted for over one-half and approximately one-third of total domestic sales of ceiling grid and ceiling tile, respectively. CGC is the largest producer of ceiling grid and the second largest marketer

of ceiling tile in Canada. USG International's net sales in Europe, the Pacific and Latin America accounted for approximately 27% of the Interior Systems segment's net sales in 1993. In the year ended December 31, 1993, the Interior Systems segment had net sales of $550 million and generated EBITDA of $57 million before allocation of corporate expenses.

BUILDING PRODUCTS DISTRIBUTION. The Building Products Distribution segment is conducted through L&W Supply, which distributed approximately 9% of all gypsum wallboard in the United States in 1993. L&W Supply's 131 distribution centers located in 34 states offer a wide range of building products to construction contractors, including wallboard, drywall metal, ceiling tile and ceiling grid. L&W Supply is able to provide less than truckload quantities of materials directly to job sites and place the materials in areas where work is in progress, thereby reducing contractors' material handling and inventory requirements. In the year ended December 31, 1993, the Building Products Distribution segment had net sales of $528 million and generated EBITDA of $7 million before allocation of corporate expenses.

U.S. INDUSTRY TRENDS. Demand for the Corporation's products in the United States is largely influenced by the three major components of the construction industry: new residential construction (single and multi-family homes), new non-residential construction (offices, schools, stores and other institutions) and repair and remodel activity. In recent years, structural changes in residential construction activity combined with growth in the repair and remodel component have partially mitigated the impact of the cyclical demand in overall new construction components. New residential construction has shifted toward more single family housing, which typically requires twice as much wallboard as a multi-family home, and the average single family home size has increased by approximately 15% since 1986. In addition, the repair and remodel segment has become an increasing percentage of the Corporation's business. The Corporation estimates that the repair and remodel segment comprised approximately 36% of 1993 industry-wide demand for gypsum wallboard and approximately half of industry-wide demand for interior systems products. Largely as a result of these factors, United States industry shipments of gypsum wallboard were 21.6 billion square feet in 1993, as compared to 21.3 billion in 1986, despite an approximate 28% decline in the number of housing starts from 1.8 million units in 1986 to 1.3 million units in 1993.

The Corporation estimates that industry capacity utilization for gypsum wallboard has increased from an average of approximately 83% during 1992 to approximately 93% during the fourth quarter of 1993. USG's average gypsum wallboard price increased to $82.46 per thousand square feet ("MSF") in the three months ended December 31, 1993, as compared to its 14 year low of $67.77 reached in the three months ended March 31, 1992.

There can be no assurance, however, that recent increases in demand and pricing in the gypsum wallboard industry will continue or that current levels of demand and pricing can be sustained in the future. In this regard, the Corporation's business is cyclical in nature and sensitive to changes in general economic conditions, including changes in interest rates. See "Risk Factors."

The Corporation's principal executive offices are located at 125 South Franklin Street, Chicago, Illinois 60606. Its telephone number at that address is 312-606-4000.

THE RESTRUCTURING

On May 6, 1993, the Corporation completed a a comprehensive restructuring of its debt (the "Restructuring") through implementation of a "prepackaged" plan of reorganization under the federal bankruptcy laws (the "Prepackaged Plan"). The Restructuring significantly reduced the Corporation's overall interest and debt repayment obligations and extended the maturities of a substantial portion of its remaining debt. In the Restructuring, the Corporation (i) converted approximately $1.4 billion of subordinated debt and accrued interest into Common Stock and warrants to purchase Common Stock at an exercise price of $16.14 per share (the "Warrants"), (ii) converted approximately $340 million of its bank obligations into 10 1/4% Senior Notes due 2002 ("Senior 2002 Notes"), and (iii) extended the maturities of its remaining bank obligations and certain public debt. Subsequent to the Restructuring, the Corporation

also completed an exchange offer that converted an additional $138 million of bank debt into Senior 2002 Notes and eliminated all scheduled bank debt amortization prior to December 31, 1997. See "The Restructuring," "Description of Credit Agreement" and "Risk Factors."

PURPOSE OF THE OFFERING AND USE OF PROCEEDS

The Offering is part of a refinancing strategy which also includes (i) the placement (the "Note Placement") of $150 million principal amount of 9 1/4% Senior Notes due 2001 (the "Senior 2001 Notes") with certain institutional investors and (ii) the amendment of USG's bank credit agreement (the "Credit Agreement Amendments" and, together with the Offering and the Note Placement, the "Transactions"). In the Note Placement, USG issued the Senior 2001 Notes in exchange for approximately $85 million in cash and approximately $30 million aggregate principal amount of its outstanding 8% Senior Notes due 1996 (the "Senior 1996 Notes") and $35 million aggregate principal amount of its outstanding 8% Senior Notes due 1997 (the "Senior 1997 Notes"). The closing of the Note Placement occurred on February 17, 1994. The Credit Agreement Amendments will increase the size of the Corporation's revolving credit facility by $70 million and amend existing mandatory bank term loan prepayment provisions so as to allow USG, upon the achievement of certain financial tests, to retain additional free cash flow for capital expenditures and the purchase of its public debt. The Credit Agreement Amendments are contingent on the consummation of the Offering.

USG expects to use a portion of the net proceeds from the Offering and the Note Placement, together with approximately $158 million of existing cash generated from operations, to pay $140 million of its bank debt and to redeem, at 100% of principal amount, $75 million of its 8% Senior Notes due 1995 (the "Senior 1995 Notes") and $35 million of its 9% Senior Notes due 1998 (the "Senior 1998 Notes"). The Corporation also expects to use a portion of the net proceeds to purchase up to a total of approximately $85 million additional principal amount of its outstanding Senior 1996 Notes and Senior 1997 Notes, depending upon market conditions. The remainder of the net proceeds will be available for general corporate purposes, including capital expenditures for cost reduction, capacity improvement and future growth opportunities.

Sources and uses of funds in the Transactions are estimated to be as follows:

	(DOLLARS IN MILLIONS)
Sources:	
The Offering, net of the estimated underwriting discount and expenses	$ 184
The Note Placement	150
Cash on hand	158
	$ 492
Uses:	
Payment of bank debt	$ 140
Redemption of Senior 1995 Notes and Senior 1998 Notes	110
Acquisition of Senior 1996 Notes and Senior 1997 Notes	150
General corporate purposes	92
	$ 492

Collectively, the Transactions are designed, among other things, to (i) reduce the Corporation's financial leverage through the retirement of up to $250 million principal amount of the Corporation's total debt (net of the issuance of $150 million principal amount of Senior 2001 Notes in the Note Placement), (ii) reduce the amount of the Corporation's public debt maturing in 1995 through 1998 by up to $260 million (depending on the principal amount of outstanding Senior 1996 Notes and Senior 1997 Notes purchased) and prepay the $140 million of scheduled bank debt amortization in those years, (iii) extend the final maturity of a significant portion of the Corporation's debt through the Note Placement, (iv) improve the Corporation's financial and operating flexibility under its bank credit agreement

and (v) provide an estimated $92 million in funds for general corporate purposes, including capital expenditures for cost reduction, capacity improvement and future growth opportunities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" and "Purpose of the Offering and Use of Proceeds."

THE OFFERING

Common Stock offered by the Corporation:	
U.S. Offering	5,100,000 shares
International Offering	900,000 shares
Total	6,000,000 shares
Common Stock offered by the Selling Stockholder:	
U.S. Offering	3,400,000 shares
International Offering	600,000 shares
Total	4,000,000 shares
Common Stock outstanding (a):	
Prior to the Offering	37,158,085 shares
After the Offering	43,158,085 shares
Use of Proceeds	Payment of indebtedness and general corporate purposes, including capital expenditures for cost reduction, capacity improvement and future growth opportunities. See "Purpose of the Offering and Use of Proceeds."
NYSE Symbol	USG

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(a) Does not include (i) warrants to purchase up to an aggregate of 2,601,619 shares of Common Stock which are immediately exercisable at a price of $16.14 per share, (ii) options held by management to purchase up to an aggregate of 1,673,000 shares of Common Stock which will become exercisable at a price of $10.3125 per share in the years 1994 through 1996 and (iii) options granted to management on February 9, 1994 to purchase up to an aggregate of 933,000 shares of Common Stock which will become exercisable at a price of $32.5625 per share in the years 1995 through 1997. See "Management -- Executive Compensation and Benefits."

SUMMARY FINANCIAL INFORMATION
(Dollars in millions, except per share data and gypsum wallboard prices)

The following tables present summary historical financial data, summary pro forma financial data and certain other information. Due to the Restructuring and implementation of fresh start accounting, financial statements effective May 7, 1993 are not comparable to financial statements for periods prior to that date. Accordingly, a vertical line has been added to separate such information. The information in the tables should be read in conjunction with "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Pro Forma Condensed Consolidated Financial Statements" and the Corporation's Consolidated Financial Statements and notes thereto, all of which are included elsewhere in this Prospectus. See "Index to Financial Statements."

The unaudited pro forma earnings statement data for the year ended December 31, 1993 and the unaudited pro forma balance sheet data as of December 31, 1993 were prepared as if the Transactions had occurred on January 1, 1993 and December 31, 1993, respectively. The unaudited pro forma income statement data reflects the implementation of the Restructuring, including the adoption of fresh start accounting prescribed by AICPA Statement of Position 90-7, and the issuance of $138 million in aggregate principal amount of Senior 2002 Notes in exchange for bank debt as if those transactions had also occurred on January 1, 1993. The unaudited pro forma financial data shown below does not purport to be indicative of the results of operations that would actually have been reported had such transactions actually been consummated on such dates or of the results of operations that may be reported by the Corporation in the future. For additional detail, see "Pro Forma Condensed Consolidated Financial Statements."

HISTORICAL INFORMATION

	MAY 7 THROUGH DECEMBER 31, 1993	JANUARY 1 THROUGH MAY 6, 1993(A)	YEARS ENDED DECEMBER 31, 1992	1991	1990
EARNINGS STATEMENT DATA:					
Net sales	$1,325	$ 591	$1,777	$1,712	$1,915
Gross profit	263	109	317	327	416
Amortization of Excess Reorganization Value	113	--	--	--	--
Operating profit	1	38	99	133	195
Interest expense	92	86	334	333	292
Interest income	(4)	(2)	(12)	(11)	(8)
Other (income)/expense, net	(8)	6	1	5	5
Reorganization items	--	(709)(b)	--	--	--
Extraordinary gain/(loss), net of taxes	(21)	944	--	--	--
Net earnings/(loss) (c)	(129)	1,434	(191)	(161)	(90)
Average number of common shares (d)	37,157,672				
Loss before extraordinary loss per common share	(2.90)				
Net loss per common share (c)(d)	(3.46)				
Dividends paid per common share (d)	--				
BALANCE SHEET DATA (as of the end of the period):					
Total assets	2,163	2,194	1,659	1,626	1,675
Total debt	1,531(e)	1,556(e)	2,711	2,660	2,600
Total stockholders' equity/(deficit)	(134)	4	(1,880)	(1,680)	(1,518)
OTHER INFORMATION:					
EBITDA (f)	155	63	159	194	280
Capital expenditures	29	12	49	49	64
Gross margin (g)	19.8%	18.4%	17.8%	19.1%	21.7%
EBITDA margin (h)	11.7%	10.7%	8.9%	11.3%	14.6%
Gypsum wallboard shipments: (i)					
Total U.S. Industry	14.9	6.7	20.3	18.4	20.7
U.S. Gypsum	5.0	2.3	7.2	6.6	7.2
Average U.S. Gypsum wallboard price (j)	$80.58	$75.81	$71.58	$72.53	$79.08

PRO FORMA INFORMATION (K)

	YEAR ENDED DECEMBER 31, 1993
EARNINGS STATEMENT DATA:	
Operating loss	$ (18)
Interest expense	122
Interest income	(6)
Other income, net	(3)
Loss before extraordinary gain and changes in accounting principles (l)(m)	(166)
Loss before extraordinary gain and changes in accounting principles per common share (l)(m)	(3.85)
BALANCE SHEET DATA (as of the end of the period):	
Total assets	2,097
Total debt	1,281(n)
Total stockholders' equity	49
OTHER INFORMATION:	
EBITDA (f)	218
Amortization of Excess Reorganization Value	170

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(a) Fresh start accounting adjustments were recorded on May 6, 1993.

(b) Reflects one-time gain from reorganization items, including an $851 million gain from recording Excess Reorganization Value, partially offset by other fresh start adjustments, fees and expenses associated with the Restructuring and a write-off of deferred financing costs associated with the 1988 Recapitalization.

(c) For the period of May 7 through December 31, 1993, amortization of Excess Reorganization Value ($113 million) and reorganization debt discount ($8 million) reduced reported net earnings by $121 million, or $3.26 per share. Reorganization debt discount is a component of interest expense.

(d) Common shares and per share data for periods prior to May 7, 1993 have been omitted because, due to the Restructuring and implementation of fresh start accounting, they are not meaningful.

(e) Total debt as of December 31 and May 6, 1993 are shown at principal amounts. The carrying amounts (net of unamortized reorganization debt discount) as reflected on the Corporation's balance sheets as of those dates are $1,476 million and $1,461 million, respectively.

(f) EBITDA represents earnings before interest, taxes, depreciation, depletion, amortization, non-cash postretirement charges, reorganization items, extraordinary gain, discontinued operations and changes in accounting principles. The Corporation believes EBITDA is helpful in understanding cash flow generated from operations that is available for taxes, debt service and capital expenditures. In addition, EBITDA facilitates the monitoring of covenants related to certain long-term debt and other agreements entered into in conjunction with the Restructuring. EBITDA should not be considered by investors as an alternative to net earnings as an indicator of the Corporation's operating performance or to cash flows as a measure of its overall liquidity.

(g) Gross profit as a percentage of net sales.

(h) EBITDA as a percentage of net sales.

(i) In billions of square feet.

(j) Represents average price per thousand square feet realized by U.S. Gypsum during the periods shown.

(k) For additional pro forma information, see "Pro Forma Condensed Consolidated Financial Statements."

(l) Pro forma earnings statement data reflects the impact of the Transactions, implementation of the Restructuring, including the adoption of fresh start accounting prescribed by AICPA Statement of Position 90-7, and the issuance of $138 million in aggregate principal amount of Senior 2002 Notes in exchange for bank debt as if all of these transactions had occurred on January 1, 1993. The Transactions alone had the impact of reducing the pro forma loss before extraordinary gain and changes in accounting principles by $11 million, or $0.25 per share.

(m) Amortization of Excess Reorganization Value ($170 million) and reorganization debt discount ($10 million) reduced pro forma earnings before extraordinary gain and changes in accounting principles by $180 million, or $4.17 per share. Reorganization debt discount is a component of interest expense.

(n) Total pro forma debt as of December 31, 1993 is shown at the principal amount. The carrying amount (net of unamortized reorganization debt discount) as reflected on the Pro Forma Condensed Consolidated Balance Sheet as of December 31, 1993 is $1,227 million.

RISK FACTORS

PROSPECTIVE PURCHASERS OF THE COMMON STOCK OFFERED HEREBY SHOULD CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS PROSPECTUS.

HIGH LEVERAGE

The Corporation will remain highly leveraged upon completion of the Transactions. As of December 31, 1993, the Corporation had $1,531 million principal amount of total debt (which had a carrying amount of $1,476 million on the Corporation's balance sheet after deducting unamortized reorganization debt discount of $55 million) and a deficit in stockholders' equity of $134 million. As adjusted to reflect the Offering and the debt repayments to be made in connection with the Transactions, the Corporation's total principal amount of debt and stockholders' equity as of December 31, 1993 would have been $1,281 million and $49 million, respectively. The Corporation is expected to have a deficit in stockholders' equity at least during the period from 1993 through 1998 when reorganization value in excess of identifiable assets ("Excess Reorganization Value") will be amortized. See "Risk Factors -- Recent Losses," "Selected Consolidated Financial Data," "Purpose of the Offering and Use of Proceeds" and "Capitalization."

The degree to which the Corporation is leveraged will pose risks to holders of the Common Stock, including, but not limited to, the following: (i) a significant portion of the Corporation's cash flow from operations will be dedicated to the payment of principal and interest on its indebtedness, thereby reducing the funds available to the Corporation for its operations; (ii) the Corporation's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes will be restricted; (iii) certain of the Corporation's borrowings are and will continue to carry variable rates of interest, which could result in higher interest expense in the event of an increase in interest rates; and (iv) certain indebtedness contains financial and restrictive covenants, the failure to comply with which may result in an event of default which, if not cured or waived, could have a material adverse effect on the Corporation. These and other factors could have material adverse effects on the marketability, price and future value of the Common Stock.

LIQUIDITY; RELIANCE ON RECOVERY IN CONSTRUCTION-BASED MARKETS

The Corporation believes that cash generated by operations and the estimated levels of liquidity available to the Corporation will be sufficient to permit the Corporation to satisfy its debt service requirements and other capital requirements for the foreseeable future. However, the Corporation is subject to significant business, economic and competitive uncertainties that are beyond its control. Therefore, there can be no assurance that the Corporation's financial resources will be sufficient for the Corporation to satisfy its debt service obligations and other capital requirements. See "Risk Factors -- Cyclical Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

RECENT LOSSES

During the period from May 7 through December 31, 1993, the Corporation reported a net loss of $129 million after the amortization of $113 million of Excess Reorganization Value. The Corporation expects to report net losses at least until its Excess Reorganization Value is fully amortized in 1998. Such amortization will be $170 million per year in 1994 through 1997 and $57 million in 1998. Although a significant portion of the Corporation's recent net losses are the result of non-cash items, there can be no assurance that the Corporation will have net income in the future.

CYCLICAL BUSINESS

The Corporation's business is cyclical in nature and sensitive to changes in general economic conditions, including, in particular, conditions in the housing and construction-based markets. These markets are in turn influenced by a variety of factors beyond the Corporation's control, including interest rates. As a result of this cyclicality, the Corporation has experienced and in the future could experience reduced revenues and margins, which may affect the Corporation's ability to satisfy its debt service obligations on a timely basis. See "Business" and "Management's Discussion and Analysis of Financial

Condition and Results of Operations." During 1992, a modest recovery in the Corporation's markets was evidenced by increases in housing starts and wallboard pricing and shipments, in addition to improvement in sales of other construction products over 1991. This recovery continued in 1993. However, there can be no assurance that the modest recovery which began in 1992 will continue.

NONCOMPARABILITY OF HISTORICAL FINANCIAL INFORMATION

As a result of the adoption of fresh start accounting upon emergence from bankruptcy, the Corporation's assets and liabilities were adjusted to fair values and retained earnings were restated to zero. The historical financial information presented herein should not, therefore, be viewed as indicative of the Corporation's future financial performance. For a discussion of the Corporation's results of operations since emergence from Chapter 11 proceedings, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ASBESTOS LITIGATION

One of the Corporation's subsidiaries, U.S. Gypsum, is a defendant in asbestos lawsuits alleging property damage (the "Property Damage Cases") and personal injury (the "Personal Injury Cases") and seeking compensatory and, in many cases, punitive damages. This litigation has not had a material effect on the Corporation's liquidity or earnings. To date, virtually all costs of the Personal Injury Cases have been paid by insurance. U.S. Gypsum estimates that it is probable that the Personal Injury Cases pending at December 31, 1993 can be disposed of for an amount between $100 million and $120 million, virtually all of which is expected to be paid by insurance. U.S. Gypsum is unable to make a reasonable estimate of the cost of disposing of its pending Property Damage Cases, some of which are class actions or involve multiple buildings. Many of U.S. Gypsum's insurance carriers are denying coverage for the Property Damage Cases, although U.S. Gypsum believes that substantial coverage exists and the trial court in U.S. Gypsum's insurance coverage action (the "Coverage Action") against its carriers has so ruled (such ruling has been appealed).

In view of the limited insurance funding currently available to U.S. Gypsum for Property Damage Cases resulting from continued resistance by a number of its insurers to providing coverage, the effect of the asbestos litigation on the Corporation will depend upon a variety of factors, including the damages sought in Property Damage Cases that reach trial prior to the completion of the Coverage Action, U.S. Gypsum's ability to successfully defend or settle such cases, and the resolution of the Coverage Action. As a result, management is unable to determine whether an adverse outcome in the asbestos litigation will have a material adverse effect on the results of operations or the consolidated financial position of the Corporation. The Corporation's independent public accountants have also noted this uncertainty in their report with respect to the financial statements of the Corporation. See "Business -- General Information -- Asbestos Litigation" and "Consolidated Financial Statements -- Report of Independent Public Accountants."

CREDIT AGREEMENT AND OTHER RESTRICTIONS

The Credit Agreement contains certain restrictions on the Corporation's operations including, among other things, limitations on the ability of the Corporation and certain of its subsidiaries ("Restricted Subsidiaries") to (i) incur additional indebtedness, subject to certain exceptions, including an exception allowing an aggregate of $50 million of capitalized lease obligations and an aggregate of $75 million of indebtedness to be incurred by foreign subsidiaries that are not Restricted Subsidiaries, (ii) make any investments in excess of $5 million in the aggregate, subject to certain exceptions, including an exception allowing the Corporation (subject to certain terms and conditions) to repurchase its public senior debt with certain proceeds of permitted asset sales, certain proceeds from the issuance of public equity or debt securities and certain excess cash flow otherwise payable to the Banks under the Credit Agreement, (iii) make capital expenditures, subject to various exceptions and limitations, or sell assets outside the ordinary course of business, subject to certain exceptions, including an exception allowing for sales of up to $20 million in any fiscal year and $5 million in any single transaction or series of related transactions, (iv) make certain payments with respect to outstanding stock and debt, (v) give guarantees, and (vi) effect certain fundamental changes, such as the sale of all or substantially all of the

Corporation's or any Restricted Subsidiary's assets, or enter into mergers, recapitalizations or other similar transactions. Although the Credit Agreement Amendments are designed to increase the Corporation's financial and operating flexibility in certain regards, the foregoing restrictions will nonetheless limit the Corporation's ability to respond to opportunities or changes in its business. See "Description of Credit Agreement."

In addition, after January 1, 1995, the Credit Agreement will require the Corporation to achieve and maintain certain financial ratios and tests. There can be no assurance that the Corporation will be able to achieve and maintain compliance with the prescribed financial ratios and tests or other requirements under the Credit Agreement. Failure to achieve or maintain compliance with such financial ratios and tests or other requirements under the Credit Agreement would result in a default that could lead to the acceleration of the Corporation's obligations under the Credit Agreement. An acceleration under the Credit Agreement would in turn permit the acceleration of other indebtedness of the Corporation. The acceleration of any such indebtedness would result in its becoming immediately due and payable and could result in the Corporation becoming subject to a proceeding under the federal bankruptcy laws. See "Description Of Credit Agreement."

In addition to the restrictions and covenants contained in the Credit Agreement, the Senior 2002 Notes contain restrictions on the ability of the Corporation and the Subsidiaries to incur additional indebtedness, to pay dividends on the Common Stock, to effect certain fundamental changes and to enter into certain types of transactions. See "Description of Credit Agreement" and "Description of Other Debt Obligations."

RESTRICTIONS ON COMMON STOCK DIVIDENDS

The Corporation anticipates that no cash dividends will be paid on the Common Stock for the foreseeable future. Further, the Corporation's ability to pay cash dividends on the Common Stock is restricted under a number of the Corporation's existing agreements. For example, the Senior 2002 Notes prohibit the payment of cash dividends on the Common Stock subject to certain limited exceptions and the Credit Agreement prohibits the payment of any cash dividends on the Common Stock. See "Dividend Policy," "Description of Capital Stock," "Description of Credit Agreement" and "Description of Other Debt Obligations."

ANTITAKEOVER PROVISIONS

The Corporation's Certificate of Incorporation, the Corporation's Shareholder Rights Plan and the Delaware General Corporation Law contain provisions that could have the effect of delaying or preventing transactions that result in a change of control of the Corporation, including transactions in which stockholders might otherwise receive a substantial premium for their shares over then current market prices, and may limit the ability of stockholders to approve transactions that they may deem to be in their best interests. See "Description of Capital Stock."

FUTURE DISTRIBUTIONS OR SALES OF COMMON STOCK

Water Street Corporate Recovery Fund I, L.P. ("Water Street"), together with its affiliates Goldman, Sachs & Co. and The Goldman Sachs Group, L.P. (collectively the "Water Street Entities"), beneficially own 16,105,840 shares of Common Stock (including 116,070 Warrants), or approximately 43% of the Common Stock outstanding as of December 31, 1993. Water Street proposes to sell 4,000,000 shares of Common Stock in the Offering. Upon consummation of the Offering, the Water Street Entities will beneficially own 12,105,840 shares of Common Stock (including 116,070 warrants), or approximately 28% of the Common Stock to be outstanding after the Offering. Goldman, Sachs & Co. is the general partner of Water Street. Messrs. Zubrow and Fetzer, who are directors of the Corporation, are general partners of Goldman, Sachs & Co.

On February 25, 1993, the Corporation entered into a letter agreement with the Water Street Entities (the "Water Street Agreement"). The Water Street Agreement, among other things, (i) restricts purchases of Common Stock by the Water Street Entities; (ii) governs voting by the Water Street Entities of shares of Common Stock beneficially owned by them; (iii) restricts transfers by the Water Street

Entities of shares of Common Stock to any person, except for (a) sales consistent with Rule 144 of the Securities Act of 1933, (b) underwritten public offerings, (c) persons not known to be 5% holders, (d) pledgees who agree to be bound by certain provisions of the Water Street Agreement, (e) in the case of Water Street, distributions to Water Street's partners in accordance with the governing partnership agreement, (f) pursuant to certain tender or exchange offers for shares of Common Stock and (g) pursuant to transactions approved by the Board; (iv) requires that the Corporation's Shareholder Rights Plan provide temporary exemptions for ownership of Common Stock by the Water Street Entities; and (v) provides Water Street with four demand registrations and unlimited piggyback registrations, subject to certain limitations. During the 120-day period after the effective date of the Offering, Water Street (and, if it distributes Common Stock to the partners of Water Street, those partners) shall not request a demand registration of Common Stock. In addition, during such 120-day period, Water Street and Goldman, Sachs & Co. shall not sell or otherwise dispose of any shares of Common Stock or Warrants, except that, at any time after 90 days after the effective date of the Offering, Water Street may distribute all or any portion of its shares of Common Stock and Warrants to the partners in Water Street in accordance with its governing partnership agreement. In the event of any such distribution by Water Street, the partners (other than Goldman, Sachs & Co.) would not be subject to the restriction on selling shares of Common Stock or Warrants during the remainder of the 120-day period. Except in the case of the Offering, the Corporation and Water Street have mutual piggyback rights on registrations initiated by either, generally on a 50-50 basis.

There can be no assurance as to what effect future distributions of Common Stock by Water Street to its partners or future sales by Water Street or its partners would have on the trading markets for the Common Stock. See "Ownership of Common Stock" and "Certain Relationships and Related Transactions."

THE RESTRUCTURING

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

On May 6, 1993 (the "Effective Date"), the Corporation completed the Restructuring through the implementation of a "prepackaged" plan of reorganization (the "Prepackaged Plan") which was confirmed under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") by the United States Bankruptcy Court for the District of Delaware. The principal components of the Restructuring were:

- Conversion of approximately $1.4 billion of subordinated debt and accrued interest into approximately 36.1 million shares of Common Stock and Warrants to purchase approximately 2.6 million additional shares of Common Stock.

- Extension of the maturity of the Corporation's bank obligations through the issuance of approximately $340 million of Senior 2002 Notes, approximately $56 million aggregate principal amount of capitalized interest notes and approximately $540 million of term loans with mandatory amortizations from 1994 to 2000; the implementation of mandatory prepayment provisions and a cash sweep mechanism; the extension of the Corporation's then existing revolving credit facility through July 13, 1998; and the making available of an interest rate on the bank term loans and revolving credit loans of LIBOR plus 1 7/8% (or, at USG's option, a base rate maintained by the administrative agent plus 7/8%).

- Extension of the maturity of $100 million of senior notes due in 1991 and $10 million of Senior 1996 Notes through the issuance of $75 million of Senior 1995 Notes and $35 million of Senior 1998 Notes.

Substantially all other obligations of the Corporation and its subsidiaries, including obligations arising out of asbestos litigation and certain other legal proceedings against the Corporation or its subsidiaries, were not affected by the Restructuring and remained outstanding. At December 31, 1993, the Corporation's bank terms loans were subject to an interest rate of approximately 5.4%. The Corporation's bank obligations, as well as the Senior 2002 Notes, are entitled to the benefit of guarantees made by certain of the Corporation's subsidiaries. See "Risk Factors -- Asbestos Litigation," "Business -- General Information -- Asbestos Litigation" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Projected Liquidity."

Subsequent to the Restructuring, on August 10, 1993 the Corporation issued $138 million of additional Senior 2002 Notes in exchange for $92 million of bank term loans and $46 million of capitalized interest notes. In connection with the issuance of the additional Senior 2002 Notes, USG's bank credit agreement (the "Credit Agreement") was modified as follows: (i) scheduled bank term loan amortization payments totaling $95 million due in 1994, 1995 and 1996 were eliminated ($3 million was added to the final maturity of the bank term loan due in 2000); (ii) $9 million of capitalized interest notes originally due in 1998 were paid; and (iii) the cash sweep mechanism was modified to permit the application of up to $165 million of cash otherwise subject to the cash sweep mechanism in 1994, 1995 and 1996 to repayment or purchase of senior debt due prior to January 1, 1999 or bank term loans, at the discretion of the Corporation.

PURPOSE OF THE OFFERING AND USE OF PROCEEDS

The net proceeds to the Corporation from the Offering are estimated to be approximately $184 million (or $207 million if the Underwriters' over-allotment options are exercised in full), based on an assumed offering price of $32 3/8 per share (the last reported sale price of the Common Stock on the NYSE Composite Tape on February 11, 1994), and after deducting the estimated underwriting discount and offering expenses.

The Offering is part of a refinancing strategy which also includes (i) the placement of $150 million principal amount of Senior 2001 Notes with certain institutional investors in the Note Placement and (ii) the Credit Agreement Amendments. In the Note Placement, USG issued the Senior 2001 Notes in exchange for approximately $85 million in cash and approximately $30 million aggregate principal amount of its outstanding Senior 1996 Notes and $35 million aggregate principal amount of its outstanding Senior 1997 Notes. The closing of the Note Placement occurred on February 17, 1994. The Credit Agreement Amendments will increase the size of the Corporation's revolving credit facility by $70 million and amend existing bank term loan mandatory prepayment provisions so as to allow USG, upon the achievement of certain financial tests, to retain additional free cash flow for capital expenditures and the purchase of its public debt. The Credit Agreement Amendments are contingent on the consummation of the Offering.

USG expects to use a portion of the net proceeds from the Offering and the Note Placement, together with approximately $158 million of existing cash generated from operations, to pay $140 million of its bank debt and to redeem, at 100% of principal amount, $75 million of its Senior 1995 Notes and $35 million of its Senior 1998 Notes. The Corporation also expects to use a portion of the net proceeds to purchase up to a total of approximately $85 million additional principal amount of its outstanding Senior 1996 Notes and Senior 1997 Notes, depending upon market conditions. The remainder of the net proceeds will be available for general corporate purposes, including capital expenditures for cost reduction, capacity improvement and future growth opportunities.

Sources and uses of funds in the Transactions are estimated to be as follows:

	(DOLLARS IN MILLIONS)
Sources:	
The Offering, net of the estimated underwriting discount and expenses	$ 184
The Note Placement	150
Cash on hand	158
	$ 492
Uses:	
Payment of bank debt	$ 140
Redemption of Senior 1995 Notes and Senior 1998 Notes	110
Acquisition of Senior 1996 Notes and Senior 1997 Notes	150
General corporate purposes	92
	$ 492

Collectively, the Transactions are designed, among other things, to (i) reduce the Corporation's financial leverage through the retirement of up to $250 million principal amount of the Corporation's total debt (net of the issuance of $150 million principal amount of Senior 2001 Notes in the Note Placement), (ii) reduce the amount of the Corporation's public debt maturing in 1995 through 1998 by up to $260 million (depending on the principal amount of outstanding Senior 1996 Notes and Senior 1997 Notes purchased) and prepay the $140 million of scheduled bank debt amortization in those years, (iii) extend the final maturity of a significant portion of the Corporation's debt through the Note Placement, (iv) improve the Corporation's financial and operating flexibility under the Credit Agreement and (v) provide an estimated $92 million in funds for general corporate purposes, including capital expenditures for cost reduction, capacity improvement and future growth opportunities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

CAPITALIZATION

The following table sets forth the unaudited consolidated capitalization of the Corporation and its subsidiaries as of December 31, 1993 and as adjusted to give effect to the Transactions, including the issuance and sale of 6,000,000 shares of Common Stock by the Corporation in the Offering, based on an assumed offering price of $32 3/8 per share (the last reported sale price of the Common Stock on the NYSE Composite Tape on February 11, 1994). This table should be read in conjunction with the Pro Forma Condensed Consolidated Financial Statements contained elsewhere in this Prospectus.

	AS OF DECEMBER 31, 1993	
	HISTORICAL	PRO FORMA(A)
	(UNAUDITED) (DOLLARS IN MILLIONS)	
Total Debt:		
Bank debt	$ 448	$ 308
Senior notes and debentures:		
8% Senior Notes due 1995	75	--
8% Senior Notes due 1996	90	15
8% Senior Notes due 1997	100	25
9% Senior Notes due 1998	35	--
9 1/4% Senior Notes due 2001	--	150
10 1/4% Senior Notes due 2002	478	478
7 7/8% Sinking Fund Debentures due 2004	36	36
8 3/4% Sinking Fund Debentures due 2017	200	200
Industrial revenue bonds and other secured debt	69	69
Total principal amount of debt	1,531	1,281
Less unamortized reorganization discount	(55)	(54)
Total carrying amount of debt	1,476	1,227
Stockholders' Equity/(Deficit):		
Preferred Stock, $1 par value, 36,000,000 shares authorized, no shares outstanding	--	--
Common Stock, $0.10 par value, 200,000,000 shares authorized, 37,158,085 shares outstanding prior to the Offering, 43,158,085 shares outstanding upon consummation of the Offering (b)	4	5
Capital received in excess of par value	--	183
Deferred currency translation	(9)	(9)
Reinvested earnings/(deficit)	(129)	(130)
Total stockholders' equity/(deficit)	(134)	49
Total capitalization	$ 1,342	$ 1,276

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(a) Gives effect to the acquisition of approximately $30 million principal amount of Senior 1996 Notes and $35 million principal amount of Senior 1997 Notes in the Note Placement. Assumes additional purchases by the Corporation of approximately $45 million principal amount of Senior 1996 Notes and $40 million principal amount of Senior 1997 Notes. The additional purchases are assumed to be made at 100% of principal amount. However, the Senior 1996 Notes and Senior 1997 Notes are not callable and there can be no assurance that the Corporation will be able to purchase the additional Senior 1996 Notes or Senior 1997 Notes as shown. Funds not used to purchase Senior 1996 Notes and Senior 1997 Notes within 12 months after the consummation of the Offering may become subject to the cash sweep mechanism under the Credit Agreement. See "Description of Credit Agreement."

(b) Does not include (i) warrants to purchase up to an aggregate of 2,601,619 shares of Common Stock which are immediately exercisable at a price of $16.14 per share, (ii) options held by management to purchase up to an aggregate of 1,673,000 shares of Common Stock which will become exercisable at a price of $10.3125 per share in the years 1994 through 1996 and (iii) options granted to management on February 9, 1994 to purchase up to an aggregate of 933,000 shares of Common Stock which will become exercisable at a price of $32.5625 per share in the years 1995 through 1997. See "Management -- Executive Compensation and Benefits."

PRICE RANGE OF COMMON STOCK

The Common Stock is traded on the NYSE under the symbol "USG." In connection with the issuance of shares of Common Stock pursuant to the Prepackaged Plan, trading of the Common Stock commenced on the NYSE on a when-issued basis on May 7, 1993 and a regular-way basis on May 21, 1993. During the period from May 6, 1993, the date the Corporation emerged from Chapter 11 bankruptcy proceedings, through December 31, 1993, the high and low sales prices of Common Stock, as reported on the NYSE Composite Tape, were $30 1/2 per share and $9 5/8 per share, respectively. The last reported sale price of the Common Stock as reported on the NYSE Composite Tape on February 11, 1994 was $32 3/8 per share. The high and the low sales prices of the Common Stock by quarter during 1993, as reported on the NYSE Composite Tape, were:

	MAY 7 THROUGH JUNE 30	JULY 1 THROUGH SEPTEMBER 30	OCTOBER 1 THROUGH DECEMBER 31
High	$ 14	$ 22 5/8	$ 30 1/2
Low	9 5/8	13	20 1/4

Although common stock of the Corporation was publicly traded prior to May 7, 1993, the historical sales prices are not comparable with the sales prices set forth above due to the Restructuring. Potential investors are encouraged to obtain current trading price information. As of December 31, 1993, there were approximately 13,898 stockholders of record of Common Stock.

DIVIDEND POLICY

Since July 1988, the Corporation has not declared or paid any cash dividends on its Common Stock. The Corporation does not presently intend to pay any dividends in the foreseeable future. In addition, the Corporation's Credit Agreement and certain other debt instruments currently restrict the Corporation's ability to pay dividends to common stockholders. Moreover, the Corporation is prohibited from paying any dividends without surplus earnings or capital earmarked for this purpose under Delaware corporate law. See "Risk Factors -- Restrictions on Common Stock Dividends," "Description of Capital Stock," "Description of Credit Agreement" and "Description of Other Debt Obligations."

DILUTION

The following table presents certain information concerning the net tangible book value per share of the Common Stock as of December 31, 1993, and as adjusted to reflect the sale of 6,000,000 shares of Common Stock by the Corporation in the Offering, at an assumed public offering price of $32 3/8 per share (the last reported sale price of the Common Stock on the NYSE Composite Tape on February 11, 1994) and after deducting the estimated offering expenses and underwriting discounts:

Assumed public offering price per share..................		$ 32.38
Net tangible book value (deficit) per share before the Offering (1)	$ (23.37)	
Increase per share attributable to payments by new investors..	7.50	
Pro forma net tangible book value (deficit) per share after the Offering.....................................		(15.87)
Dilution per share to new investors (2)..................		$ 48.25

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(1) Net tangible book value per share of Common Stock is determined by dividing the Corporation's tangible net worth at December 31, 1993 by the aggregate number of shares of Common Stock outstanding.

(2) Dilution is determined by subtracting net tangible book value per share after the Offering from the public offering price per share.

PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited Pro Forma Condensed Consolidated Statement of Earnings for the year ended December 31, 1993 and the unaudited Pro Forma Condensed Consolidated Balance Sheet as of December 31, 1993 illustrate the effect of the Transactions. The unaudited pro forma condensed consolidated financial statements should be read in conjunction with "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Corporation's Consolidated Financial Statements and related notes thereto contained elsewhere in this Prospectus. See "Index to Financial Statements."

The unaudited Pro Forma Condensed Consolidated Statement of Earnings for the year ended December 31, 1993 was prepared as if the Transactions had occurred on January 1, 1993. Due to the Restructuring and implementation of fresh start accounting, financial statements effective May 7, 1993 are not comparable to financial statements prior to that date. However, for presentation of the Pro Forma Condensed Consolidated Statement of Earnings, total results for 1993 are shown under the caption "Total Before Adjustments." The adjustments set forth under the caption "Restructuring" reflect the implementation of the Prepackaged Plan on May 6, 1993, including the adoption of fresh start accounting prescribed by AICPA Statement of Position 90-7, and the issuance of $138 million in aggregate principal amount of Senior 2002 Notes on August 10, 1993 in exchange for bank debt as if those transactions had also occurred on January 1, 1993.

The unaudited Pro Forma Condensed Consolidated Balance Sheet as of December 31, 1993 was prepared as if the consummation of the Transactions had occurred on December 31, 1993.

USG CORPORATION

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1993

(UNAUDITED)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

	TOTAL BEFORE ADJUSTMENTS (A)	PRO FORMA ADJUSTMENTS		PRO FORMA
		RESTRUCTURING (B)	TRANSACTIONS	
Net sales	$ 1,916	$	$	$ 1,916
Cost of products sold	1,544			1,544
Gross profit	372			372
Selling and administrative expenses	220			220
Amortization of Excess Reorganization Value	113	57(c)		170
Operating profit/(loss)	39	(57)		(18)
Interest expense	178	(39)(d)	(17)(e)	122
Interest income	(6)			(6)
Other income, net	(2)	(1)		(3)
Reorganization items	(709)	709(f)		--
Earnings/(loss) before taxes on income, extraordinary gain and changes in accounting principles	578	(726)	17	(131)
Taxes on income	46	(17)	6	35
Earnings/(loss) before extraordinary gain and changes in accounting principles	532	(709)	11	(166)
Earnings/(loss) before extraordinary gain and changes in accounting principles per common share	--(g)			(3.85)(h)

SEE ACCOMPANYING NOTES TO THE PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF EARNINGS.

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

The following notes set forth the explanations and assumptions used in preparing the unaudited Pro Forma Condensed Consolidated Statement of Earnings. The pro forma adjustments are based on estimates by the Corporation's management using information currently available.

(a) Due to the Restructuring and implementation of fresh start accounting, financial statements for periods after May 6, 1993 are not comparable to financial statements prior to that date. However, for presentation of the Pro Forma Condensed Consolidated Statement of Earnings, results for 1993 are shown under the caption "Total Before Adjustments."

(b) The adjustments set forth under the caption "Restructuring" reflect the implementation of the Prepackaged Plan on May 6, 1993, including the adoption of fresh start accounting prescribed by AICPA Statement of Position 90-7, and the issuance of Senior 2002 Notes on August 10, 1993 in exchange for bank debt, as if those transactions had occurred on January 1, 1993.

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

(d) Reflects net reduction of interest expense for the period of January 1 through May 6, 1993 as a result of the assumed implementation of the Prepackaged Plan and issuance of Senior 2002 Notes on January 1, 1993. The net reduction has been estimated as follows:

Decrease in interest expense:		
Bank debt	$ (21)	
7 3/8% senior notes due 1991	(3)	
13 1/4% senior subordinated debentures	(22)	
16% junior subordinated debentures	(18)	
		$ (64)
Increase in interest expense:		
Senior 1995 Notes	2	
Senior 1998 Notes	1	
Senior 2002 Notes	18	
		21
Amortization of reorganization debt discount		4
Net reduction of interest expense		(39)

(e) Reflects net reduction of interest expense as a result of the Transactions. The net reduction has been estimated as follows:

Decrease in interest expense:		
Bank debt	$ (8)	
Senior 1995 Notes	(6)	
Senior 1996 Notes	(6)	
Senior 1997 Notes	(6)	
Senior 1998 Notes	(3)	
		$ (29)
Increase in interest expense:		
Senior 2001 Notes		14
Amortization of reorganization debt discount		(2)
Net reduction of interest expense		(17)

Gives effect to the acquisition of approximately $30 million principal amount of Senior 1996 Notes and $35 million principal amount of Senior 1997 Notes in the Note Placement. Assumes additional purchases by the Corporation of approximately $45 million principal amount of Senior 1996 Notes and $40 million principal amount of Senior 1997 Notes. The additional purchases are assumed to be made at 100% of principal amount. However, the Senior 1996 Notes and Senior 1997 Notes are not callable and there can be no assurance that the Corporation will be able to purchase the additional Senior 1996 Notes or Senior 1997 Notes as shown. Funds not used to purchase Senior 1996 Notes and Senior 1997 Notes within 12 months after the consummation of the Offering may become subject to the cash sweep mechanism under the Credit Agreement. If the Corporation is unable to purchase the additional Senior 1996 Notes and Senior 1997 Notes as shown, pro forma pre-tax interest expense could increase by up to $2 million and pro forma earnings before extraordinary gain and changes in accounting principles could decrease by up to $1 million, or $0.02 per share. See "Description of Credit Agreement."

(f) Reflects the elimination of the net gain from reorganization items associated with the implementation of the Prepackaged Plan and the adoption of fresh start accounting, since this gain would have been recorded in the period prior to January 1, 1993.

(g) Due to the Restructuring and implementation of fresh start accounting, earnings/(loss) before extraordinary gain and changes in accounting principles per common share for 1993 shown under the caption "Total Before Adjustments" is not meaningful and therefore has been omitted.

(h) Pro forma earnings/(loss) before extraordinary gain and changes in accounting principles per common share is computed based upon an average of 43,157,590 shares of Common Stock assumed to be outstanding during the year ended December 31, 1993. Amortization of Excess Reorganization Value ($170 million) and reorganization debt discount ($10 million) reduced pro forma earnings/(loss) before extraordinary gain and changes in accounting principles per common share by $4.17 (or $180 million in total). Reorganization debt discount is a component of interest expense.

USG CORPORATION
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 1993
(UNAUDITED)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

ASSETS

	HISTORICAL	ADJUSTMENTS	PRO FORMA
Current assets:			
Cash and cash equivalents	$ 211	$ (66)(a)	$ 145
Receivables	264		264
Inventories	145		145
Total current assets	620	(66)	554
Property, plant and equipment, net	754		754
Excess Reorganization Value, net	735		735
Other assets	54		54
Total assets	2,163	(66)	2,097
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 104	$	$ 104
Accrued expenses	208		208
Notes payable	2		2
Long-term debt maturing within one year	165	(158)(b)	7
Taxes on income	20		20
Total current liabilities	499	(158)	341
Long-term debt	1,309	(91)(b)	1,218
Deferred income taxes	180		180
Other liabilities	309		309
Stockholders' equity/(deficit):			
Preferred stock	--		--
Common stock	4	1(c)	5
Capital received in excess of par value	--	183(c)	183
Deferred currency translation	(9)		(9)
Reinvested earnings/(deficit)	(129)	(1)(d)	(130)
Total stockholders' equity/(deficit)	(134)	183	49
Total liabilities and stockholders' equity	2,163	(66)	2,097
Book value/(deficit) per common share	(3.61)	4.75	1.14

SEE ACCOMPANYING NOTES TO THE PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET.

USG CORPORATION

NOTES TO THE PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 1993

(UNAUDITED)

(DOLLARS IN MILLIONS)

The following notes set forth the explanations and assumptions used in preparing the unaudited Pro Forma Condensed Consolidated Balance Sheet. The pro forma adjustments are based on estimates by the Corporation's management using information currently available.

(a) Reflects the reduction in cash and cash equivalents as follows:

Payment of bank debt	$ (140)
Retirement of Senior 1995 Notes	(75)
Retirement of Senior 1996 Notes	(45)
Retirement of Senior 1997 Notes	(40)
Retirement of Senior 1998 Notes	(35)
Issuance for cash of Senior 2001 Notes in the Note Placement	85
Issuance of Common Stock in the Offering	184
Total	(66)

Gives effect to the acquisition of approximately $30 million principal amount of Senior 1996 Notes and $35 million principal amount of Senior 1997 Notes in the Note Placement. Assumes additional purchases by the Corporation of approximately $45 million principal amount of Senior 1996 Notes and $40 million principal amount of Senior 1997 Notes. The additional purchases are assumed to be made at 100% of principal amount. However, the Senior 1996 Notes and Senior 1997 Notes are not callable and there can be no assurance that the Corporation will be able to purchase the additional Senior 1996 Notes or Senior 1997 Notes as shown. Funds not used to purchase Senior 1996 Notes and Senior 1997 Notes within 12 months after the consummation of the Offering may become subject to the cash sweep mechanism under the Credit Agreement. If the Corporation is unable to purchase the additional Senior 1996 Notes and Senior 1997 Notes as shown, pro forma pre-tax interest expense could increase by up to $2 million and pro forma earnings before extraordinary gain and changes in accounting principles could decrease by up to $1 million, or $0.02 per share. See "Description of Credit Agreement."

(b) Reflects net reduction of short and long-term debt as follows:

Payment of bank debt	$ (140)
Retirement of Senior 1995 Notes	(75)
Retirement of Senior 1996 Notes	(45)
Retirement of Senior 1997 Notes	(40)
Retirement of Senior 1998 Notes	(35)
Issuance of Senior 2001 Notes in the Note Placement	85
	(250)
Write-off of related unamortized reorganization discount	1
Total	(249)

(c) Reflects the issuance of 6,000,000 shares of Common Stock, par value $0.10 per share, in the Offering, yielding net proceeds of $184 million.

(d) Reflects the write-off of an additional $1 million of unamortized reorganization debt discount which would have been recorded on December 31, 1993 if the Transactions had occurred on that date.

SELECTED CONSOLIDATED FINANCIAL DATA
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA AND GYPSUM WALLBOARD PRICES)

The following table presents selected historical consolidated financial information of the Corporation for the post-Restructuring period of May 7 through December 31, 1993 and for the pre-Restructuring periods of January 1 through May 6, 1993 and the five years ended December 31, 1992. Due to the Restructuring and implementation of fresh start accounting, financial statements effective May 7, 1993 are not comparable to financial statements for periods prior to that date. Accordingly, a vertical line has been added to separate such information. The information provided below has not been audited. However, the selected annual historical consolidated financial information presented below has been derived from the Consolidated Financial Statements of the Corporation and its subsidiaries which were examined by Arthur Andersen & Co., whose report with respect to certain of such financial statements appears elsewhere in this Prospectus. The following financial information should be read in conjunction with "Pro Forma Condensed Consolidated Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Corporation's Consolidated Financial Statements and notes thereto, all of which are included elsewhere in this Prospectus. See "Index To Financial Statements."

	MAY 7 THROUGH DECEMBER 31, 1993	JANUARY 1 THROUGH MAY 6, 1993(A)	YEARS ENDED DECEMBER 31,				
			1992	1991	1990	1989	1988
EARNINGS STATEMENT DATA:							
Net sales	$1,325	$591	$1,777	$1,712	$1,915	$2,007	$2,070
Cost of products sold	1,062	482	1,460	1,385	1,499	1,506	1,536
Gross profit	263	109	317	327	416	501	534
Selling and administrative expenses	149	71	218	194	203	209	223
Amortization of Excess Reorganization Value	113	--	--	--	--	--	--
Restructuring expenses	--	--	--	--	18	--	20
Operating profit	1	38	99	133	195	292	291
Interest expense	92	86	334	333	292	297	178
Interest income	(4)	(2)	(12)	(11)	(8)	(10)	(13)
Other (income)/expense, net	(8)	6	1	5	5	15	16
Reorganization items	--	(709)(b)	--	--	--	--	--
Nonrecurring gain	--	--	--	--	(34)	(33)	--
Taxes on income/(income tax benefit)	29	17	(33)	(53)	(6)	3	43
Extraordinary gain/(loss), net of taxes	(21)	944	--	--	--	--	--
Changes in accounting principles, net	--	(150)	--	--	--	--	--
Earnings/(loss) from discontinued operations, net	--	--	--	(20)	(36)	8	58
Net earnings/(loss) (c)	(129)	1,434	(191)	(161)	(90)	28	125
Average number of common shares (d)	37,157,672						
Loss before extraordinary loss per common share	(2.90)						
Net loss per common share (c)(d)	(3.46)						
Dividends paid per common share (d)	--						
BALANCE SHEET DATA (as of the end of the period):							
Total assets	2,163	2,194	1,659	1,626	1,675	1,585	1,806
Total debt	1,531(e)	1,556(e)	2,711	2,660	2,600	2,428	2,643
Total stockholders' equity/(deficit)	(134)	4	(1,880)	(1,680)	(1,518)	(1,438)	(1,471)
OTHER INFORMATION:							
EBITDA (f)	155	63	159	194	280	361	383
Depreciation, depletion and amortization (g)	44	22	66	68	76	79	79
Capital expenditures	29	12	49	49	64	76	81
Gross margin (h)	19.8%	18.4%	17.8%	19.1%	21.7%	25.0%	25.8%
EBITDA margin (i)	11.7%	10.7%	8.9%	11.3%	14.6%	18.0%	18.5%
Gypsum wallboard shipments: (j)							
Total U.S. Industry	14.9	6.7	20.3	18.4	20.7	21.3	21.3
U.S. Gypsum	5.0	2.3	7.2	6.6	7.2	7.2	7.3
Average U.S. Gypsum wallboard price (k)	$80.58	$75.81	$71.58	$72.53	$79.08	$85.68	$90.65

NOTES TO SELECTED CONSOLIDATED FINANCIAL DATA

(a) Fresh start accounting adjustments were recorded on May 6, 1993.

(b) Reflects one-time gain from reorganization items, including an $851 million gain from recording Excess Reorganization Value, partially offset by other fresh start adjustments, fees and expenses associated with the Restructuring and a write-off of deferred financing costs associated with the 1988 Recapitalization.

(c) For the period of May 7 through December 31, 1993, amortization of Excess Reorganization Value ($113 million) and reorganization debt discount ($8 million) reduced reported net earnings by $121 million, or $3.26 per share. Reorganization debt discount is a component of interest expense.

(d) Common shares and per share data for periods prior to May 7, 1993 have been omitted because, due to the Restructuring and implementation of fresh start accounting, they are not meaningful.

(e) Total debt as of December 31 and May 6, 1993 are shown at principal amounts. The carrying amounts (net of unamortized reorganization debt discount) as reflected on the Corporation's balance sheets as of those dates are $1,476 million and $1,461 million, respectively.

(f) EBITDA represents earnings before interest, taxes, depreciation, depletion, amortization, non-cash postretirement charges, reorganization items, extraordinary gain, discontinued operations and changes in accounting principles. The Corporation believes EBITDA is helpful in understanding cash flow generated from operations that is available for taxes, debt service and capital expenditures. In addition, EBITDA facilitates the monitoring of covenants related to certain long-term debt and other agreements entered into in conjunction with the Restructuring. EBITDA should not be considered by investors as an alternative to net earnings as an indicator of the Corporation's operating performance or to cash flows as a measure of its overall liquidity.

(g) Excludes amortization of Excess Reorganization Value, which is shown separately under "Earnings Statement Data."

(h) Gross profit as a percentage of net sales.

(i) EBITDA as a percentage of net sales.

(j) In billions of square feet.

(k) Represents average price per thousand square feet realized by U.S. Gypsum during the periods shown.

RESULTS OF OPERATIONS

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

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

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

RESULTS OF OPERATIONS BY GEOGRAPHIC AREA	NET SALES 1993	NET SALES 1992	NET SALES 1991	EBITDA 1993	EBITDA 1992	EBITDA 1991
	YEARS ENDED DECEMBER 31, (DOLLARS IN MILLIONS)					
United States:						
Gypsum Products	$ 986	$ 889	$ 835	$ 148	$ 99	$ 93
Interior Systems	376	368	386	45	47	59
Building Products Distribution	528	464	424	7	5	4
Corporate	--	--	--	(25)	(28)	(19)
Intrasegment eliminations	(236)	(216)	(212)	--	--	--
Total United States	1,654	1,505	1,433	175	123	137
Total Canada	143	149	169	17	14	29
Total Other Foreign	208	208	193	26	22	28
Transfers between geographic areas	(89)	(85)	(83)	--	--	--
Total USG Corporation	1,916	1,777	1,712	218	159	194

CONSOLIDATED RESULTS

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

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

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

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

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

UNITED STATES

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

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

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

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

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

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

CANADA

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

OTHER FOREIGN

Despite the continuing recession in Europe and the impact of the strengthened U.S. dollar compared with European currencies, net sales in 1993 for the Corporation's Other Foreign businesses (primarily operations in Europe, the Pacific and Mexico managed by USG International) were unchanged from 1992 due to increased sales of ceiling tile in Europe. However, EBITDA in 1993 increased $4 million, or 18.2%, over 1992 due to reduced overhead costs. Comparing 1992 to 1991, net sales increased $15 million, or 7.8%, while EBITDA decreased $6 million, or 21.4%. The improvement in net sales reflects

increased sales of interior systems products in certain markets as well as the impact of a weakened U.S. dollar in 1992. The decline in EBITDA resulted from recessionary market conditions in Europe, costs associated with the Aubange, Belgium ceiling tile plant and increased overhead costs.

OTHER EARNINGS INFORMATION

Interest expense, which was significantly reduced as a result of the Restructuring, amounted to $92 million in the period of May 7 through December 31, 1993, of which $8 million represented non-cash amortization of reorganization debt discount. For the period of January 1 through May 6, 1993, interest expense was $86 million. For the years ended December 31, 1992 and 1991, interest expense was $334 million and $333 million, respectively.

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

On May 6, 1993, the Corporation completed the Restructuring through implementation of the Prepackaged Plan. The provisions of the Prepackaged Plan were agreed upon in principle with all committees and certain institutions representing debt subject to the Restructuring in January 1993. The

Corporation's Registration Statement (Registration No. 33-40136), which included a Disclosure Statement and Proxy Statement -- Prospectus, was declared effective by the Securities and Exchange Commission (the "SEC") in February 1993. The solicitation process for approvals of the Prepackaged Plan was completed on March 15, 1993. The Corporation commenced a prepackaged Chapter 11 bankruptcy case in Delaware (IN RE: USG CORPORATION, Case No. 93-300) on March 17, 1993 and received the U.S. Bankruptcy Court's confirmation of the Prepackaged Plan on April 23, 1993. None of the subsidiaries of the Corporation were part of this proceeding and there was no impact on trade creditors of the Corporation's subsidiaries. Under the Prepackaged Plan, all previously existing defaults were waived or cured.

In the Restructuring, the Corporation (i) converted approximately $1.4 billion of subordinated debt and accrued interest into Common Stock and Warrants, (ii) converted approximately $300 million principal amount of bank term loan (the "Bank Term Loan") and $40 million of other obligations under the Credit Agreement with a syndicate of commercial banks (the "Banks" or the "Bank Group") into Senior 2002 Notes and (iii) extended the maturities of its remaining Bank Debt and certain public debt. Further, modifications were made to the Credit Agreement which resulted in, among other things, (i) the issuance of $56 million of notes (the "Capitalized Interest Notes" and, together with the Bank Term Loan, the "Bank Debt") in exchange for an equal amount of accrued but unpaid interest and other obligations and (ii) modifications to a revolving credit facility (the "Revolving Credit Facility"). See "The Restructuring" and "Index to Financial Statements -- Predecessor Company -- Notes to Financial Statements -- Financial Restructuring" for additional information on the Restructuring.

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

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

On February 17, 1994, the Corporation completed the Note Placement of $150 million principal amount of Senior 2001 Notes. In such placement, the Corporation received in exchange for the Senior 2001 Notes approximately $30 mllion principal amount of Senior 1996 Notes, $35 million principal amount of Senior 1997 Notes and approximately $85 million in cash, of which $75 million was used to prepay its Bank Term Loans in satisfaction of the scheduled payment of $40 million for 1997 and in reduction of the scheduled payment for 1998 from $100 million to $65 million.

In addition to the exchange of notes and payment of Bank Term Loans in connection with the Note Placement as described above, the Corporation expects to use a portion of the net proceeds from the Offering, together with approximately $158 million of existing cash generated from operations, to pay up to an additional $65 million of Bank Term Loans and to prepay, redeem or purchase approximately $195 million aggregate principal amount of certain other senior debt issues. The remainder of the net proceeds, approximately $92 million, will be available for general corporate purposes, including capital expenditures for cost reduction, capacity improvement and future growth opportunities. See "Purpose of the Offering and Use of Proceeds" for more information on the Offering and Note Placement.

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

WORKING CAPITAL

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

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

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

CAPITAL EXPENDITURES

Capital expenditures amounted to $29 million in the period of May 7 through December 31, 1993 and $12 million in the period of January 1 through May 6, 1993 for a total of $41 million in the year ended December 31, 1993. In 1992, capital expenditures were $49 million. Capital expenditure commitments for the replacement, modernization and expansion of operations amounted to $11 million as of December 31, 1993, compared with $24 million as of December 31, 1992. The Credit Agreement restricts,

among other things, capital expenditures above certain levels. The Corporation believes that these permitted levels are adequate. In connection with the planned Offering and Note Placement, the Credit Agreement will be amended, allowing the Corporation to retain additional cash flow for capital expenditures and other uses. Upon completion of the Transactions, the Corporation intends to augment its capital spending program on a basis consistent with such new amendment. See "Purpose of the Offering and Use of Proceeds" for more information on the Offering and Note Placement.

LITIGATION

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

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

BUSINESS

INTRODUCTION

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

The Corporation believes that its leading industry positions and low cost structure position it to take advantage of the long-term potential in its three industry segments: Gypsum Products, Interior Systems and Building Products Distribution.

U.S. INDUSTRY OVERVIEW

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

NEW RESIDENTIAL AND NONRESIDENTIAL CONSTRUCTION

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

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

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

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

GYPSUM WALLBOARD INDUSTRY SHIPMENTS
AND TOTAL HOUSING STARTS

[GRAPHIC]

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

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

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

REPAIR AND REMODEL

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

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

GYPSUM PRODUCTS

BUSINESS

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

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

PRODUCTS

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

FINANCIAL PERFORMANCE

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

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

See "Selected Consolidated Financial Data." For additional information on the Corporation's results by industry segment, including intersegment sales eliminations and corporate expenses, see "Index to Financial Statements -- Notes to Financial Statements -- Geographic and Industry Segments."

MANUFACTURING

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

USG's vertically integrated gypsum and paper operations provide several cost and quality advantages. Since the Corporation obtains substantially all of its gypsum requirements from its own quarries and mines, it controls the cost, quality and continuity of its supply. These factors are vital to producing wallboard of a consistently high quality at a low cost. The Corporation's geologists estimate that

recoverable rock reserves are sufficient for more than 30 years of operation based on the Corporation's average annual production of crude gypsum during the past five years. Proven reserves contain approximately 243 million tons, of which approximately 69% are located in the United States and 31% in Canada. Additional reserves of approximately 153 million tons exist on three properties not in operation. The Corporation's total average annual production of crude gypsum in the United States and Canada during the past five years was 9.4 million tons.

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

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

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

MARKETING AND DISTRIBUTION

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

COMPETITION

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

INTERIOR SYSTEMS

BUSINESS

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

The Corporation has increased its emphasis on the interior systems business since 1986 when Donn Inc. ("Donn"), a manufacturer of ceiling grid and other interior products, was acquired. Already second behind Armstrong World Industries, Inc. in the ceiling tile market, the acquisition of Donn

positioned the Corporation as the worldwide leader in ceiling suspension systems and the only company to offer complete pre-designed, pre-engineered and fully integrated ceiling systems. With the acquisition of Donn, USG Interiors was established as a separate subsidiary to combine the operations of Donn and USG Acoustical Products Company, formerly part of U.S. Gypsum and a leading producer of mineral fiber ceiling products.

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

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

PRODUCTS

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

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

FINANCIAL PERFORMANCE

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

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

See "Selected Consolidated Financial Data." For additional information on the Corporation's results by industry segment, including intersegment sales eliminations and corporate expenses, see "Index to Financial Statements -- Notes to Financial Statements -- Geographic and Industry Segments."

MANUFACTURING

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

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

MARKETING AND DISTRIBUTION

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

COMPETITION

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

BUILDING PRODUCTS DISTRIBUTION

BUSINESS

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

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

L&W Supply was founded in 1971 by U.S. Gypsum to address what management perceived as a growing demand in the construction industry for a specialized delivery service for construction materials, especially gypsum wallboard. U.S. Gypsum management believed the construction industry could

benefit from a service-oriented organization that would deliver less than truckload quantities of construction materials to a job site and place them in the areas where the work was being done, thereby reducing or eliminating the need for handling by contractors. To perform this service, U.S. Gypsum established a number of distribution centers that could stock construction materials and be able to deliver relatively large quantities with short lead times.

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

FINANCIAL PERFORMANCE

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

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

See "Selected Consolidated Financial Data." For additional information on the Corporation's results by industry segment, including intersegment sales eliminations and corporate expenses, see "Index to Financial Statements -- Notes to Financial Statements -- Geographic and Industry Segments."

DISTRIBUTION CENTERS

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

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

COMPETITION

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

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

PROPERTIES OF THE CORPORATION

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

GYPSUM PRODUCTS

Gypsum Board and Other Gypsum Products

	UNITED STATES
(*)(**)	Baltimore, Maryland
*	Boston (Charlestown), Massachusetts
*	Detroit (River Rouge), Michigan
**	East Chicago, Indiana
	Empire, Nevada
	Fort Dodge, Iowa
*	Fremont, California
(*)(**)	Galena Park, Texas
*	Gypsum, Ohio
*	Jacksonville, Florida
(*)(**)	New Orleans, Louisiana
*	Norfolk, Virginia
	Oakfield, New York
	Plaster City, California
	Plasterco (Saltville), Virginia
*	Santa Fe Springs, California
	Shoals, Indiana
	Sigurd, Utah
	Southard, Oklahoma
	Sperry, Iowa
*	Stony Point, New York
	Sweetwater, Texas
	CANADA
	Hagersville, Ontario
*	Montreal, Quebec
*	St. Jerome, Quebec
	MEXICO
***	Puebla, Puebla

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

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

** These plants purchase synthetic gypsum from outside sources.

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

Joint Compound

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

Paper

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

Ocean Vessels

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

Miscellaneous

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

INTERIOR SYSTEMS

Ceiling Tile

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

Ceiling Grid

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

Access Floor Systems

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

Mineral Wool

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

Wall Systems

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

GENERAL INFORMATION

ASBESTOS LITIGATION

One of the Corporation's subsidiaries, U.S. Gypsum, is among numerous defendants in lawsuits arising out of the manufacture and sale of asbestos-containing building materials. U.S. Gypsum sold certain asbestos-containing products beginning in the 1930's; in most cases the products were discontinued or asbestos was removed from the product formula by 1972, and no asbestos-containing products were sold after 1977. Some of these lawsuits seek to recover compensatory and in many cases punitive damages for costs associated with maintenance or removal and replacement of products containing asbestos (the "Property Damage Cases"). Others of these suits 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 $625 million of insurance remains potentially available. Because U.S. Gypsum's insurance carriers initially responded to its claims for defense and indemnification with various theories denying or limiting coverage and the applicability of their policies, U.S. Gypsum filed a declaratory judgment action against them in the Circuit Court of Cook

County, Illinois on December 29, 1983. (U.S. GYPSUM CO. v. ADMIRAL INSURANCE CO., ET AL.) (the "Coverage Action"). U.S. Gypsum alleges in the Coverage Action that the carriers are obligated to provide indemnification for settlements and judgments and, in some cases, defense costs incurred by U.S. Gypsum in property damage and personal injury claims in which it is a defendant. The current defendants are ten insurance carriers that provided comprehensive general liability insurance coverage to U.S. Gypsum between the 1940's and 1984. As discussed below, several carriers have settled all or a portion of the claims in the Coverage Action.

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

Property Damage Cases

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

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

In total, U.S. Gypsum has settled property damage claims of approximately 191 plaintiffs involved in approximately 75 cases. Twenty-five cases have been tried to verdict, 16 of which were won by U.S. Gypsum and 6 lost; two other cases, one won at the trial level and one lost, were settled during appeals. Another case that was lost at the trial court level has been reversed on appeal and a new trial ordered.

Appeals are pending in 5 of the tried cases. In the cases lost, compensatory damage awards against U.S. Gypsum have totaled $11.5 million. Punitive damages totalling $5.5 million were entered against U.S. Gypsum in four trials. Two of the punitive damage awards, totalling $1.45 million, were paid after appeals were exhausted; a third was settled after the verdict was reversed on appeal. The remaining punitive damage award is on appeal.

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

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

Personal Injury Cases

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

U.S. Gypsum is a member, together with 19 other former producers of asbestos-containing products, of the Center for Claims Resolution (the "Center"). The Center has assumed the handling, including the defense and settlement, of all Personal Injury Cases pending against U.S. Gypsum and the other members of the Center. Each member of the Center is assessed a portion of the liability and defense costs of the Center for the Personal Injury Cases handled by the Center, according to predetermined allocation formulas. Five of U.S. Gypsum's insurance carriers that in 1985 signed an Agreement Concerning Asbestos-Related Claims (the "Wellington Agreement") are supporting insurers (the "Supporting Insurers") of the Center. The Supporting Insurers are obligated to provide coverage for the defense and indemnity costs of the Center's members pursuant to the coverage provisions in the Wellington Agreement. Claims for punitive damages are defended but not paid by the Center; if punitive damages are recovered, insurance coverage may be available under the Wellington Agreement depending on the terms of particular policies and applicable state law. Punitive damages have not been awarded against U.S. Gypsum in any of the Personal Injury Cases. Virtually all of U.S. Gypsum's personal injury liability and defense costs are paid by those of its insurance carriers that are Supporting Insurers. The Supporting Insurers provided approximately $350 million of the total coverage referred to above, of which approximately $262 million remains unexhausted.

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

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

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

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

U.S. Gypsum's average settlement cost for Personal Injury Cases over the past three years has been approximately $1,600 per claim, exclusive of defense costs. Management anticipates that its average settlement cost is likely to increase due to such factors as the possible insolvency of co-defendants, although this increase may be offset to some extent by other factors, including the possibility for block settlements of large numbers of cases and the apparent increase in the percentage of asbestos personal injury cases that appear to have been brought by individuals with little or no physical impairment. Through the Center, U.S. Gypsum has reached settlements on approximately 26,700

pending Personal Injury Cases for an amount estimated at approximately $32 million. These settlements will be consummated and the cases closed over a three year period. In management's opinion, based primarily upon U.S. Gypsum's experience in the Personal Injury Cases disposed of to date and taking into consideration a number of uncertainties, it is probable that all asbestos-related Personal Injury Cases pending against U.S. Gypsum as of December 31, 1993, can be disposed of for a total amount, including both indemnity costs and legal fees and expenses, estimated to be between $100 million and $120 million (of which all but $2 million or $5 million, respectively, is expected to be paid by insurance). The estimated cost of resolving pending claims takes into account, among other factors, (i) an increase in the number of pending claims; (ii) the settlements of certain large blocks of claims for higher per-case averages than have historically been paid; (iii) the committed but unconsummated settlements described above; and (iv) a small increase in U.S. Gypsum's historical settlement average.

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

Coverage Action

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

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

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

Eight carriers, including two of the Supporting Insurers, have settled U.S. Gypsum's claims for both property damage and personal injury coverage and have been dismissed from the Coverage Action entirely. Four of these carriers have agreed to pay all or a substantial portion of their policy limits to U.S. Gypsum beginning in 1991 and continuing over the next four years. Three other excess carriers, including the two settling Supporting Insurers, have agreed to provide coverage for the Property

Damage Cases and the Personal Injury Cases subject to certain limitations and conditions, when and if underlying primary and excess coverage is exhausted. It cannot presently be determined when such coverage might be reached. Taking into account the above settlements, including participation of certain of the settling carriers in the Wellington Agreement, and consumption through December 31, 1993, carriers providing a total of approximately $90 million of unexhausted insurance have agreed, subject to the terms of the various settlement agreements, to cover both Personal Injury Cases and Property Damage Cases. Carriers providing an additional $250 million of coverage that was unexhausted as of December 31, 1993 have agreed to cover Personal Injury Cases under the Wellington Agreement, but continue to contest coverage for Property Damage Cases and remain defendants in the Coverage Action. U.S. Gypsum will continue to seek negotiated resolutions with its carriers in order to minimize the expense and delays of litigation.

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

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

Accounting Change

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

ENVIRONMENTAL LITIGATION

The Corporation and certain of its subsidiaries have been notified by state and federal environmental protection agencies of possible involvement as one of numerous "potentially responsible parties" in a number of so-called "Superfund" sites in the United States. In substantially all of these sites, the

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

OTHER

The Corporation's plants are substantial users of thermal energy. Five major fuel types are used in a mix consisting of 81% natural gas, 10% electricity, 3% coke, 3% coal and 3% oil. With few exceptions, plants which 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.

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.

None of the industry segments has any special working capital requirements.

None of the industry segments 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 4% of the Corporation's 1993 or 1992 consolidated net sales.

Because orders are filled upon receipt, none of the industry segments has any significant backlog.

No material part of any industry segment'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 has performed extensive research and development activities and makes the necessary capital expenditures to maintain production facilities in sufficient operating condition.

The average number of persons employed by the Corporation during 1993 and 1992 was 11,900 and 11,850, respectively.

MANAGEMENT

DIRECTORS OF THE CORPORATION

In connection with the consummation of the Prepackaged Plan, the number of persons comprising the Board was increased by five effective May 6, 1993 which, after the May 1993 retirement of one director, brought the total Board membership to 15. Of the five new directors (the "New Directors"), two, Messrs. Crutcher and Lesser, were nominated by a committee representing holders of the Corporation's senior subordinated debentures which were converted into Common Stock under the Prepackaged Plan (each a "Senior Subordinated Director"); two, Messrs. Fetzer and Zubrow, were nominated by Water Street (each a "Water Street Director"); and one, Mr. Brown, was nominated by a committee representing holders of the Corporation's junior subordinated debentures which were converted into Common Stock and Warrants under the Prepackaged Plan (a "Junior Subordinated Director").

As the respective terms of office of the New Directors expire, the Prepackaged Plan provides that each such New Director will be renominated. If a New Director declines or is unable to accept such nomination, or in the event a New Director resigns during his term or otherwise becomes unable to continue his duties as a director, such New Director or, in the case of a Water Street Director, Water Street, shall recommend his successor to the Committee on Directors of the Board. In the event of the

death or incapacity of a New Director, his successor shall be recommended, in the case of a Water Street Director, by Water Street, in the case of a Senior Subordinated Director, by the remaining Senior Subordinated Director, and in the case of a Junior Subordinated Director, by the remaining New Directors. Any such nominee shall be subject to approval by the Board's Committee on Directors and the Board, which approval shall not be unreasonably withheld.

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

NAME AND AGE	PRINCIPAL OCCUPATION, FIVE YEAR EMPLOYMENT HISTORY AND OTHER DIRECTORSHIPS	YEAR FIRST BECAME DIRECTOR AND CLASS
Eugene B. Connolly, 61	Chairman and Chief Executive Officer, since January 1994; Chairman, President and Chief Executive Officer (April 1993-December 1993); Chairman of the Board and Chief Executive Officer (June 1990-March 1993); President and Chief Executive Officer (January 1990-May 1990); Executive Vice President of the Corporation (1987-1989); and President and Chief Executive Officer of USG Interiors, Inc. (March 1987-March 1989). He also was President and Chief Executive Officer of DAP Inc. (July 1988-March 1989). Prior to that, he served as President and Chief Operating Officer of United States Gypsum Company. He joined the Corporation in 1958, was appointed General Manager of the Southern Construction Products Division in 1980, and was elected a Group Vice President, Subsidiaries in 1983 and Group Vice President, International and Industrial in 1984. Mr. Connolly is a director of BPB Industries plc, London, England and a director of U.S. Can Corporation. He is a member of the Advisory Board of the Kellogg Graduate School of Management, Northwestern University, the Dean's Advisory Council, School of Business, Indiana University and the Governing Council, Good Shepherd Hospital (Barrington, Illinois). Mr. Connolly has been a director of the Corporation since May 1988 and is Chairman of the Board's Executive Committee.	1988 Class 1994
Keith A. Brown, 42	President (since 1987) of Chimera Corporation, a private management holding company. Mr. Brown is a director (since 1988) of Adelphia Incorporated, a director (since 1988) of Global Film & Packaging Corporation, a director (since 1989) of Mansfield Foundry Corporation, and a director (since 1993) of Ashland Castings Corporation. Mr. Brown has been a director of the Corporation since May 1993 and is a member of the Board's Audit Committee and Public Affairs Committee.	1993 Class 1994
James C. Cotting, 60	Chairman and Chief Executive Officer (since April 1987) of Navistar International Corporation, diesel truck manufacturing and engineering and financial services. Mr. Cotting is a director of Asarco Incorporated and The Interlake Corporation. He is a director of the National Association of Manufacturers and is a member of the Conference Board. Mr. Cotting has been a director of the Corporation since October 1987, is a member of the Board's Executive Committee and is Chairman of its Finance Committee.	1987 Class 1994

NAME AND AGE	PRINCIPAL OCCUPATION, FIVE YEAR EMPLOYMENT HISTORY AND OTHER DIRECTORSHIPS	YEAR FIRST BECAME DIRECTOR AND CLASS
Philip C. Jackson, Jr., 65	Formerly Vice Chairman and a director of Central Bank of the South, Birmingham, Alabama, and of its parent company, Central Bancshares of the South (1980-1989), banking and financial services; presently Adjunct Professor, Birmingham-Southern College, Birmingham, Alabama (since January 1989). Mr. Jackson was a member (April 1990-April 1993) of the Thrift Depositors Protection Oversight Board, Washington, D.C. He is Director, Saul Centers, Inc., Washington D.C. His past affiliations include: member of the Board of Governors of the Federal Reserve System, Washington, D.C., (July 1975-November 1978) and Vice President and a director of the Jackson Company (mortgage banking operations) of Birmingham, Alabama (October 1949-June 1975). Mr. Jackson is Trustee, Birmingham-Southern College, Birmingham, Alabama. He has been a director of the Corporation since May 1979, is a member of the Board's Executive Committee and is Chairman of its Public Affairs Committee.	1979 Class 1994
John B. Schwemm, 59	Retired Chairman (1983-1989) and Chief Executive Officer (1983-1988) of R.R. Donnelley & Sons Company, commercial and financial printing and publishing. He joined that Company in 1965, prior to which he was with the law firm of Sidley & Austin. Mr. Schwemm was appointed General Counsel in 1969 and elected Group Vice President, Book Group in 1976. He serves as a director of Walgreen Company and William Blair Mutual Funds; he also serves as a Trustee of Northwestern University. Mr. Schwemm has been a director of the Corporation since May 1988 and is a member of the Board's Audit Committee and Compensation and Organization Committee.	1988 Class 1994
W.H. Clark, 61	Chairman of the Board (since 1984), Chief Executive Officer (since 1982) and President (1984-1990) of Nalco Chemical Company of Naperville, Illinois, specialized chemicals and technology. He joined the company in 1960 and served in various capacities until his appointment as a General Manager in 1978. Mr. Clark was elected Group Vice President and President, Industrial Division (both in 1978); director in 1980; and Executive Vice President, Domestic Operations, in 1982. He is a director of Northern Trust Corporation and The Northern Trust Bank, Nicor Corporation, Bethlehem Steel Corporation, James River Corporation and Northern Illinois Gas Company. Mr. Clark has been a director of the Corporation since August 1985, is a member of the Board's Executive Committee and Compensation and Organization Committee and is Chairman of its Committee on Directors and Audit Committee.	1985 Class 1995
Lawrence M. Crutcher, 51	Managing Director (since 1990) of Veronis, Suhler & Associates, investment bankers. From 1967 to 1989, Mr. Crutcher was with Time Inc. He was President of Book-of-the-Month Club (1985-1989), Vice President for Financial Planning (1984), Vice President, Magazines (1981-1983), and Vice President, Circulation (1976-1980). Mr. Crutcher has been	

NAME AND AGE	PRINCIPAL OCCUPATION, FIVE YEAR EMPLOYMENT HISTORY AND OTHER DIRECTORSHIPS	YEAR FIRST BECAME DIRECTOR AND CLASS
	director of the Corporation since May 1993 and is a member of the Board's Committee on Directors and Public Affairs Committee.	1993 Class 1995
Wade Fetzer III, 56	Partner (since 1986) of Goldman, Sachs & Co., investment bankers. Mr. Fetzer is a member of the Board of Trustees and the Executive Committee of Rush-Presbyterian St. Luke's Medical Center, a Trustee of Northwestern University and the University of Wisconsin Foundation, and a member of the Board of United Charities of Chicago. Mr. Fetzer has been a director of the Corporation since May 1993 and is a member of the Board's Compensation and Organization Committee, Public Affairs Committee and Committee on Directors.	1993 Class 1995
William C. Foote, 42	President and Chief Operating Officer since January 1994; President and Chief Executive Officer, USG Interiors, Inc. (January 1993-December 1993); President and Chief Executive Officer, L&W Supply Corporation (September 1991-December 1993); Executive Vice President and Chief Operating Officer, L&W Supply Corporation (December 1990-August 1991); Senior Vice President and General Manager, Central Construction Products Region, United States Gypsum Company (April 1989-November 1990); Senior Vice President, USG Interiors, Inc. (December 1988-March 1989); Vice President, USG Corporation and Vice President, International & Business Development, USG Interiors, Inc. (January 1988-November 1988). He joined the Corporation in January 1984 and was appointed Vice President, Strategic Planning and Corporate Development, USG Corporation in March 1985. Mr. Foote is an alternate director of BPB Industries plc, London, England; a member of the Del Nor Community Health Care Foundation; and a member of Chicago United. He has been a director of the Corporation since March 1994 and is a member of the Board's Executive Committee.	1994 Class 1995
Judith A. Sprieser, 40	President and Chief Executive Officer (June 1993-present) of Sara Lee Bakery, North America, a division of Sara Lee Corporation, packaged food and consumer products. Ms. Sprieser has been with Sara Lee Corporation since 1987 and served as Assistant Treasurer, Corporate Finance (1987-1990) and Corporate Financial Officer (1990-1993) of North American Bakery, Sara Lee Bakery. She was also Vice President, Sara Lee Food Group (January 1993-June 1993). She has been a director of the Corporation since February 1994 and is a member of the Board's Audit Committee and Committee on Directors.	1994 Class 1995
Robert L. Barnett, 53	Formerly Vice Chairman of Ameritech (1991-1992) and President of the Ameritech Bell Group (1989-1992), communications and information services, which includes eight wholly-owned subsidiaries of American Information Technologies Corporation (Ameritech) and the Bell Group staff. Mr. Barnett also served as President of Ameritech Enterprise Group	

NAME AND AGE	PRINCIPAL OCCUPATION, FIVE YEAR EMPLOYMENT HISTORY AND OTHER DIRECTORSHIPS	YEAR FIRST BECAME DIRECTOR AND CLASS
	(1987-1989), President and Chief Executive Officer of Wisconsin Bell Company (1985-1987), Vice President of Operations for Wisconsin Bell Company (1984-1985), President of Ameritech Mobile Communications Company (1983-1984), and in various other capacities with the Bell System, which he joined in 1964. He is a director of Johnson Controls, Inc. and is a member of the Advisory Council of the Robert R. McCormick School of Engineering and Applied Science at Northwestern University and of the University's Electrical Engineering and Computer Science Industrial Advisory Board. He is affiliated with the Institute of Electrical and Electronics Engineers. Mr. Barnett has been a director of the Corporation since May 1990 and is a member of the Board's Compensation and Organization Committee, Audit Committee and Committee on Directors.	1990 Class 1996
David W. Fox, 62	Chairman and Chief Executive Officer (since 1990) of Northern Trust Corporation and The Northern Trust Company, banking and financial services. He has been with The Northern Trust Company since 1955 and served as Senior Vice President (1974-1978), Executive Vice President (1978-1981), Vice Chairman (1981-1987) and President (1987-1993). Mr. Fox is a director of The Federal Reserve Bank of Chicago, Northern Trust of Florida Corp., Banque Rivaud (Paris, France), INROADS/Chicago and the Chicago Central Area Committee. He is a Governor of the Chicago Stock Exchange and a trustee of Northwestern Memorial Hospital, the Adler Planetarium, The Orchestral Association, and DePaul University. Mr. Fox has been a director of the Corporation since May 1987, is a member of the Board's Executive Committee, Finance Committee and Committee on Directors and is Chairman of its Compensation and Organization Committee.	1987 Class 1996
Marvin E. Lesser, 52	Managing Partner (since 1989) of Cilluffo Associates, L.P., a private investment partnership. Managing Partner (since 1993) of Sigma Partners, L.P., a private investment partnership. Mr. Lesser has also been a private consultant since 1992. He was Senior Vice President (1986-1988) of Bessemer Securities Corporation, a private investment company and a director (1989-1991) of Amdura Corporation. Mr. Lesser is Chairman of the Seacoast Area Chapter (New Hampshire) of the American Red Cross. He has been a director of the Corporation since May 1993 and is a member of the Board's Finance Committee, Committee on Directors and Public Affairs Committee.	1993 Class 1996
Alan G. Turner, 60	Chairman and Chief Executive of BPB Industries plc, London, England, a manufacturer of gypsum products and other building materials and paper and packaging products. Prior to September 1993, Mr. Turner was Chairman (November 1992-August 1993), Chairman and Chief Executive (1985-1992), Chief Executive (1978-1985), Deputy Chief Executive (1974-1978), and served in various other capacities since his association with BPB Industries plc in 1962. He has been a director of that company since 1972. Mr. Turner is	

NAME AND AGE	PRINCIPAL OCCUPATION, FIVE YEAR EMPLOYMENT HISTORY AND OTHER DIRECTORSHIPS	YEAR FIRST BECAME DIRECTOR AND CLASS
	also a director and Vice President of the National Council of Building Material Producers Limited, United Kingdom; director of The Manufacturers Life Insurance Company, Toronto; director of Jaguar Limited, United Kingdom; director of Adelphi Enterprises Ltd.; and a member of the European Advisory Board of Boral Limited, Australia. He is an honorary president of Eurogypsum; a member of the Council and Treasurer of the Royal Society for the Encouragement of Arts, Manufactures & Commerce, United Kingdom and a member of the Institution of Chemical Engineers. Mr. Turner has been a director of the Corporation since May 1984 and is a member of the Board's Audit Committee and Committee on Directors. (BPB Industries plc, London, England, beneficially owns 1,000 shares of common stock of the Corporation).	1984 Class 1996
Barry L. Zubrow, 40	Partner (since 1988) of Goldman, Sachs & Co., investment bankers. Mr. Zubrow is a member of the Board of Managers of Haverford College. He has been a director of the Corporation since May 1993 and is a member of the Board's Finance Committee and Committee on Directors.	1993 Class 1996

EXECUTIVE OFFICERS OF THE CORPORATION (WHO ARE NOT DIRECTORS)

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

NAME, AGE AND PRESENT POSITION	PRIOR BUSINESS EXPERIENCE IN PAST FIVE YEARS	HAS HELD PRESENT POSITION SINCE
Matthew P. Gonring, 38 Vice President, Corporate Communications	Director, Public Relations to January 1991; Director, Corporate Communications to March 1993.	March 1993
J. Bradford James, 47 Vice President; President and Chief Executive Officer, USG Interiors, Inc.	Vice President, Finance & Administration, USG Interiors, Inc. to March 1989; Director, Corporate Strategic Planning, USG Corporation and Vice President, Finance & Administration, USG Interiors, Inc. to January 1990; Vice President, Financial and Strategic Planning, USG Corporation to January 1991; Vice President and Chief Financial Officer, USG Corporation to March 1993; Senior Vice President and Chief Financial Officer to December 1993.	January 1994
John E. Malone, 50 Vice President and Treasurer; Vice President -- Finance, USG International, Ltd.	Vice President and Controller, USG Corporation to December 1993; Vice President -- Finance, USG International, Ltd. since March 1993.	January 1994
James S. Phillips, 64 Vice President, Corporate Accounts	Vice President, National Accounts, United States Gypsum Company to March 1989; Vice President National Accounts, USG Corporation to December 1990.	December 1990
Donald E. Roller, 56 Vice President; President and Chief Executive Officer, United States Gypsum Company	Executive Vice President and Chief Operating Officer, USG Interiors, Inc. to March 1989; President and Chief Executive Officer, USG Interiors, Inc. to January 1993; President and Chief Executive Officer, United States Gypsum Company since January 1993.	January 1994
Stanley R. Sak, 53 Vice President; President and Chief Executive Officer, USG International, Ltd.	Group Vice President, Ceiling Group, USG Interiors, Inc. to March 1989; Executive Vice President, USG Interiors, Inc. to October 1990; President and Chief Executive Officer, USG International, Ltd. since October 1990.	January 1994
S. Gary Snodgrass, 42 Vice President, Human Resources -- Operations	Vice President Human Resources, USG Interiors, Inc. to December 1989; Director, Corporate Human Resources Planning, USG Corporation and Vice President, Human Resources, USG Interiors, Inc. to November 1990; Director, Human Resources, USG Corporation to September 1992; Vice President, Management Resources and Employee Relations to December 1993.	January 1994
Dean H. Goossen, 46 Corporate Secretary	General Counsel and Secretary, Arthur J. Gallagher & Co. to 1989; Vice President, General Counsel and Secretary, Xerox Financial Services Life Insurance Company to February 1993; Assistant Secretary, USG Corporation to February 1994.	February 1994

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

EXECUTIVE COMPENSATION AND BENEFITS

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

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

SUMMARY COMPENSATION TABLE

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

		ANNUAL COMPENSATION			LONG TERM COMPENSATION			
					AWARDS		PAYOUTS	
NAME AND PRINCIPAL POSITION (AS OF JANUARY 1, 1994)	YEAR	SALARY ($)	BONUS ($)(A)	OTHER ANNUAL COMPEN- SATION ($)(B)	RESTRICTED STOCK AWARDS ($)(C)	OPTIONS/ SARS (#)(D)	LTIP PAYOUTS ($)(E)	ALL OTHER COMPEN- SATION ($)(F)
Eugene B. Connolly Chairman of the Board and CEO	1993	$ 612,500	$ 717,624	$ 52,952	--	250,000	$1,164,005	$ 42,426
	1992	555,000	--	--	--	--	--	530
	1991	475,000	--	--	$ 213,750	--	--	530
Anthony J. Falvo, Jr. Vice Chairman (retired February 28, 1994)	1993	473,750	543,120	--	--	50,000	800,168	32,869
	1992	432,500	--	--	--	--	--	530
	1991	376,667	--	--	142,500	--	--	530
P. Jack O'Bryan Senior Vice President and Chief Technology Officer	1993	280,000	255,096	--	--	100,000	470,448	17,739
	1992	256,000	--	--	--	--	--	530
	1991	236,750	--	--	83,125	--	--	530
Donald E. Roller Vice President; President and CEO, United States Gypsum Company	1993	280,000	255,096	--	--	100,000	446,614	17,574
	1992	250,000	--	--	--	--	--	530
	1991	233,333	--	--	83,125	--	--	530
Harold E. Pendexter, Jr. Senior Vice President and Chief Administrative Officer	1993	269,583	250,614	--	--	100,000	408,524	17,739
	1992	242,500	--	--	--	--	--	530
	1991	210,000	--	--	83,125	--	--	530

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

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

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

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

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

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

OPTION/SAR GRANTS IN LAST FISCAL YEAR (A)

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

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(a) No SARs were granted in 1993.

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

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

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

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

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

EMPLOYMENT AGREEMENTS

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

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

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

TERMINATION COMPENSATION AGREEMENTS

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

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

The benefits include payment of full base salary through the date of termination at the rate in effect at the time of notice of termination, payment of any unpaid bonus for a past fiscal year and pro rata

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

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

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

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

RETIREMENT PLANS

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

RETIREMENT PLAN TABLE

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

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

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

DIRECTOR COMPENSATION

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

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

1994 STOCK OPTION GRANTS

Options for 933,000 shares of Common Stock were granted on February 9, 1994 to 76 officers and key managers, none of whom is a Named Executive, at the exercise price of $32.5625 per share. These options become exercisable in the years 1995 through 1997.

OWNERSHIP OF COMMON STOCK

SELLING STOCKHOLDER AND ITS AFFILIATES

The following table sets forth certain information regarding the beneficial ownership of the Common Stock of the Selling Stockholder and its affiliates as of December 31, 1993 and as adjusted to reflect the Selling Stockholder's sale of shares in the Offering. See "Certain Relationships and Related Transactions -- Agreement with Water Street Entities."

NAME AND ADDRESS	SHARES OWNED BEFORE THE OFFERING		SHARES BEING OFFERED	SHARES OWNED AFTER THE OFFERING	
	NUMBER(A)	PERCENT(B)		NUMBER(A)	PERCENT(B)
Water Street Corporate Recovery Fund I, L.P. and its affiliates... 85 Broad Street New York, New York 10004	16,105,840	43%	4,000,000	12,105,840	28%

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

(b) Based on 37,158,085 shares outstanding prior to the Offering and 43,158,085 shares outstanding after the Offering.

OTHER 5% STOCKHOLDERS

Other than the Selling Stockholder and its affiliates, the following table presents the beneficial ownership, as of February 23, 1994, of the only other person known to the Corporation to beneficially own more than 5% of the Common Stock.

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
FMR Corp.(a)... 83 Devonshire Street Boston, MA 02109	1,922,400	5.2%

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

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information as of January 1, 1994 regarding the beneficial ownership of Common Stock by each current director and Named Executive and by all current directors and

executive officers of the Corporation as a group (30 persons). Such information is derived from the filings made with the SEC by such persons under Section 16(a) of the Exchange Act. The totals include any shares allocated to the accounts of those individuals through December 31, 1993 under the USG Corporation Investment Plan.

NAME	SHARES BENEFICIALLY OWNED	PERCENT OF CLASS(A)
Robert L. Barnett	20	
Keith A. Brown	119,256	
W. H. Clark	2,248	
Eugene B. Connolly	7,789	
James C. Cotting	20	
Lawrence M. Crutcher	1,800	
Wade Fetzer III	(b)	
David W. Fox	112	
William C. Foote	1,268	
Philip C. Jackson, Jr	1,963	
Marvin E. Lesser	500	
P. Jack O'Bryan	5,029	
Harold E. Pendexter, Jr	5,085	
Donald E. Roller	4,970	
John B. Schwemm	154	
Judith A. Sprieser	0	
Alan G. Turner	0	
Barry L. Zubrow	(b)	
All current directors and present executive officers as a group (30 persons), including those current directors and Named Executives named above	165,228	

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(a) Total beneficial ownership of 165,228 shares of Common Stock by members of the group identified above represents approximately 0.4% of the total outstanding shares of Common Stock, excluding the shares that Messrs. Fetzer and Zubrow may be deemed to beneficially own as described in the following note. No director had a right to acquire beneficial ownership of any shares of Common Stock within 60 days after January 1, 1994 except as described as follows and in note (b) below: Warrants that are currently exercisable are as follows: Mr. Brown, 16,458 Warrants; Mr. Connolly, 1,003 Warrants; Mr. Fox, 19 Warrants; Mr. Jackson, 879 Warrants; Mr. O'Bryan, 831 Warrants; Mr. Pendexter, 619 Warrants; Mr. Roller, 975 Warrants; Mr. Schwemm, 25 Warrants. Warrants held by directors and executive officers as a group totaled 138,137. The above table also excludes options to purchase an aggregate of 1,370,000 shares of Common Stock which are not exercisable within 60 days after January 1, 1994.

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

AGREEMENT WITH WATER STREET ENTITIES

On February 25, 1993, the Corporation entered into the Water Street Agreement. The Water Street Agreement, among other things, (i) restricts the Water Street Entities from purchasing, or offering or agreeing to purchase, any shares of Common Stock or other voting securities of the Corporation, except for Permitted Acquisitions (as defined in the Water Street Agreement) and acquisitions by any Water Street Entity other than Water Street of up to an aggregate of 10% of the then outstanding shares of Common Stock in the ordinary course of its business; (ii) requires (a) Water Street to vote all shares of Common Stock and other voting securities of the Corporation beneficially owned by it and (b) the other Water Street Entities to vote all shares of Common Stock beneficially owned by them in excess of 10% of the then outstanding shares of Common Stock, in each case, in the same proportion as the votes cast by all other holders of Common Stock and other voting securities of the Corporation, subject to certain exceptions described below; (iii) places restrictions on the ability of the Water Street Entities to transfer shares of Common Stock to any person, except for (a) sales consistent with Rule 144 of the Securities Act of 1933, (b) underwritten public offerings, (c) persons not known to be 5% holders, (d) pledgees who agree to be bound by certain provisions of the Water Street Agreement, (e) in the case of Water Street, distributions to Water Street's partners in accordance with the governing partnership agreement, (f) pursuant to certain tender or exchange offers for shares of Common Stock and (g) pursuant to transactions approved by the Board; (iv) provides Water Street with certain rights to nominate directors to the Board and Finance Committee (as described below); (v) requires the maintenance of directors' and officers' liability insurance and indemnification rights; (vi) requires that the Corporation's shareholder rights plan provide temporary exemptions for ownership of Common Stock by the Water Street Entities; (vii) provides Water Street with four demand registrations and unlimited piggyback registrations, subject to certain limitations described below; and (viii) provides for indemnification by the Corporation of Water Street, its underwriters and related parties for securities law claims related to any demand or piggyback registration contemplated in clause (vii) above.

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

Furthermore, the Water Street Entities will not be subject to the voting restrictions contained in the Water Street Agreement if, among other things: (i) the Corporation defaults on the payment of principal or interest required to be paid pursuant to any indebtedness if the aggregate amount of such indebtedness is $25 million or more; (ii) the principal of any of the Corporation's indebtedness is declared due and payable prior to the date on which it would otherwise become due and payable if the aggregate amount of such indebtedness is $25 million or more; (iii) any person other than Water Street becomes the beneficial owner of more than 10% of the then outstanding shares of Common Stock; or (iv) the Corporation fails to comply with (x) the following financial covenants: a minimum senior interest coverage ratio, a minimum total interest coverage ratio, a minimum fixed charge coverage ratio, a minimum adjusted cumulative net worth, and a maximum leverage ratio or (y) a minimum total interest coverage ratio of 0.63 for a specified coverage period in 1993 and for the first quarter of 1994, 0.84 for the second

quarter of 1994, 0.97 for the third quarter of 1994 and 1.14 for the fourth quarter of 1994, provided that (a) such financial covenants shall be calculated based only on domestic revenues unless the Corporation's non-domestic consolidated revenues exceed 35% of its total consolidated revenues, and (b) the Corporation shall not be deemed out of compliance in the event of a breach, after 1994 and prior to 1998, of the senior interest coverage ratio or the total interest coverage ratio unless there shall also exist at such time a breach of the fixed charge coverage ratio or in the event of a breach, after 1994 and prior to 1998, of the fixed charge coverage ratio unless there shall also exist at such time a breach of either the senior interest coverage ratio or the total interest coverage ratio. See "Description of Credit Agreement." If the Corporation complies with the financial covenants within the two fiscal quarters following the first failure to comply, the voting restrictions shall apply again. However, if the Corporation thereafter fails to comply with any of the financial covenants, the voting restrictions shall terminate.

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

The Water Street Agreement originally provided, subject to certain exceptions, that, in connection with the first underwritten public offering of Common Stock after the Restructuring, the Corporation would have the right to sell, without participation of Water Street, up to such number of shares of Common Stock as would yield an aggregate price to the public of $100,000,000 and that, if a greater number of shares were to be sold in that offering, Water Street and the Corporation would each have the right to sell 50% of such greater number of shares. In addition, in connection with such offering, subject to certain exceptions, the Water Street Agreement originally provided that Water Street (and, if it distributes Common Stock to its partners, those partners) would not request or demand registration of Common Stock during the 180-day period after the effective date of such offering, rather than the 120-day period that applies to the Offering. In connection with the Offering, the Corporation and Water Street have entered into an amendment to the Water Street Agreement that reflects their mutual determination that they would sell in the Offering the number of shares of Common Stock reflected on the cover page of this Prospectus, without regard to such $100,000,000 limitation, and that such 120-day period would apply in lieu of such 180-day period. The amendment also includes certain provisions which are designed to facilitate a distribution of Common Stock by Water Street to its partners.

NOTE PLACEMENT

Fidelity Management & Research Company and Fidelity Management Trust Company may be deemed to beneficially own in excess of 5% of the outstanding shares of Common Stock. See "Ownership of Common Stock." In connection with the Note Placement, certain funds and accounts managed or advised by Fidelity Management & Research Company and Fidelity Management Trust Company

purchased $150 million in aggregate principal amount of Senior 2001 Notes. Such purchasers exchanged approximately $30 million aggregate principal amount of the Corporation's outstanding Senior 1996 Notes and $35 million aggregate principal amount of the Corporation's outstanding Senior 1997 Notes and paid the approximately $85 million balance of the purchase price in cash.

DESCRIPTION OF CREDIT AGREEMENT

INTRODUCTION

Pursuant to the Prepackaged Plan, the Credit Agreement was entered into by the Corporation, USG Interiors and the Bank Group. The Credit Agreement amended and restated a previous credit agreement which was entered into in connection with the 1988 Recapitalization. In connection with the Prepackaged Plan and the implementation of the Credit Agreement, the following transactions occurred: (i) the exchange of $324 million of principal and accrued but unpaid interest on outstanding term loans for Senior 2002 Notes; (ii) the extension of final maturity of the remaining principal of the term loans from 1996 to 2000 and the deferral of all scheduled principal payments until December 1994; (iii) the capitalization of $51 million in accrued interest originally due on or after December 31, 1991 and the issuance of capitalized interest notes ("Capitalized Interest Notes") to represent the capitalized amounts; (iv) the making available (at the Corporation's option but subject to certain limitations on the availability of LIBOR pricing) an annual interest rate applicable to the term loans and the Revolving Credit Facility of LIBOR plus 1 7/8% or Citibank's Alternate Base Rate III ("Base Rate") plus 7/8%, with the option to capitalize the amount of such interest in excess of LIBOR plus 1% per annum (such capitalized interest to bear interest at an annual rate of LIBOR plus 2 1/4% or Citibank's Base Rate plus 1 1/4% and mature in the years 1998 and 2000); (v) the implementation of mandatory prepayment provisions, including an excess cash flow sweep, that takes into account certain liquidity thresholds; (vi) the suspension of all financial covenants through January 1, 1995 and providing for new covenants thereafter; (vii) the extension to 1998 of the maturity date of, and the establishment of a maximum borrowing capacity of $175 million under the then existing revolving credit facility, including a $110 million letter of credit subfacility (the "Revolving Credit Facility"); and (viii) the exchange of $16 million owed in connection with certain interest rate swap contracts for an equal principal amount of Senior 2002 Notes and, in addition, the exchange of approximately $5 million owed in connection with such interest rate swap contracts for an equal principal amount of Capitalized Interest Notes. In connection with the Restructuring, all existing defaults under the previous credit agreement were waived or cured. Whenever defined terms under the Credit Agreement, as amended, are referred to but not defined herein, such defined terms are incorporated herein by reference.

On August 10, 1993, the parties to the Credit Agreement entered into an amendment to the Credit Agreement (the "1993 Amendments"), pursuant to which (i) scheduled bank term loan amortization payments totaling $95 million due in 1994, 1995 and 1996 were eliminated ($3 million was added to the final maturity of the bank term loan due in 2000); (ii) $9 million of Capitalized Interest Notes originally due in 1998 were paid; and (iii) the cash sweep mechanism was modified to apply up to $165 million of cash otherwise subject to the cash sweep mechanism in 1994, 1995 and 1996 to repayment or purchase of senior debt due prior to January 1, 1999 or Bank Term Loans, at the discretion of the Corporation. In addition, $46 million of Capitalized Interest Notes and $92 million of Bank Term Loans were exchanged for Senior 2002 Notes. Following such transactions, approximately $1 million principal amount of Capitalized Interest Notes remained outstanding. Such remaining amount was repaid in December 1993 and accordingly, no Capitalized Interest Notes are outstanding.

In connection with the Transactions, the parties to the Credit Agreement are entering into the Credit Agreement Amendments, pursuant to which, among other things, the size of the Revolving Credit Facility will be increased by $70 million and the mandatory prepayment provisions and cash sweep mechanism will be modified as described below. The Credit Agreement Amendments require that (i) $75 million of the proceeds of the Note Placement be used to prepay Bank Term Loans in the order of maturity (thus fully prepaying the scheduled amortization payment due December 31, 1997 and partially prepaying the scheduled amortization payment due December 31, 1998) and (ii) up to $65 million of the proceeds of the Offering be used to prepay Bank Term Loans in the order of maturity (thus, in such event,

fully prepaying the remaining portion of the scheduled amortization payment due December 31, 1998). Giving effect to such prepayments, the remaining scheduled amortization of the Bank Term Loans will consist of $125 million in 1999 and $183 million in 2000.

CREDIT AGREEMENT OVERVIEW

ELIMINATION OF ABILITY TO CAPITALIZE INTEREST

The Credit Agreement Amendments provide that USG's ability to defer the payment of interest in excess of LIBOR plus 1% by issuing Capitalized Interest Notes will be terminated.

REVOLVING CREDIT FACILITY

The maximum borrowing capacity under the Revolving Credit Facility, as currently in effect, is $175 million. As part of the Credit Agreement Amendments, the size of the Revolving Credit Facility will be increased by $70 million. The increased amount of the Revolving Credit Facility is intended to provide the Corporation with additional funds for the purchase or payment of the Senior 1996 Notes and Senior 1997 Notes remaining after the Transactions are consummated. Accordingly, the Credit Agreement Amendment limits borrowing of the additional commitment (the "Note Purchase Facility") for the purpose of purchasing or paying Senior 1996 Notes and Senior 1997 Notes. The Revolving Credit Facility's maturity date is July 13, 1998. Material conditions precedent to borrowing under the Revolving Credit Facility are limited to the accuracy of certain representations and warranties, the absence of injunctions and of certain events of default, such as payment defaults, bankruptcy and certain cross-defaults to other indebtedness of the Corporation exceeding $25 million in principal amount, unstayed judgments and intentional breaches of negative covenants, but prior to January 1, 1995 do not include the satisfaction of financial covenants or a material adverse change condition precedent.

LETTER OF CREDIT SUBFACILITY

The Revolving Credit Facility also includes a letter of credit subfacility (the "Letter of Credit Subfacility"). The Issuing Bank or Banks will issue letters of credit under the Letter of Credit Subfacility ("Facility Letters of Credit") in amounts not to exceed $110 million in the aggregate.

CASH SWEEP MECHANISM

Under the Credit Agreement as currently in effect, within 30 days after January 15th of each year (a "Test Date"), commencing on January 15, 1994, the amount of "Cash Available for Sweep" is calculated in accordance with a pre-determined formula and paid to holders of the Bank Term Loans on or before February 15th of each year; provided that, in the case of Test Dates occurring on January 15, 1994, 1995 and 1996 payments shall instead be made: (i) first, up to $165 million to either the Corporation's public debt having maturities prior to January 1, 1999 or Bank Term Loans in order of maturity, as the Corporation shall elect in its discretion (PROVIDED, that after the payment or repurchase in full of such public debt (which may occur as a result of an equity or debt offering), such $165 million of Cash Available for Sweep (or remaining portion thereof) shall be applied 90% to the Bank Term Loans in order of maturity and 10% to the Corporation as Retained Amounts); and (ii) second, two-thirds to the Bank Term Loans in order of maturity and one-third to the Corporation as Retained Amounts (until such Retained Amounts, when added to the Retained Amounts described in clause (i), equal $50 million, at which time 100% of Cash Available for Sweep would be applied to the Bank Term Loans in order of maturity). "Cash Available for Sweep" means, with respect to each Test Date, an amount equal to the product of (i) the "Sweep Percentage" applicable to such Test Date and (ii) the excess, if any, of the "Available Liquidity" for such Test Date over the "Minimum Liquidity" for such Test Date. The "Sweep Percentage" is 100% for the 1994 through 1996 Test Dates, inclusive, 90% for the 1997 and 1998 Test Dates, and 85% for the 1999 and subsequent Test Dates. "Available Liquidity" for any Test Date means (i) the daily average of all domestic cash and cash balances during the applicable Test Period, excluding net proceeds of certain debt and equity issuances (which are separately required to be applied to repay the Bank Term Loans and/or senior debt securities); PLUS (ii) the daily average of all cash of the Corporation's non-domestic Subsidiaries in excess of certain minimum cash balances during the applicable Test Period, subject to certain limitations and adjustments for repatriation taxes and exchange rates; PLUS (iii) the average daily amount available for borrowing under the Revolving Credit Facility (not including any availability under the Note Purchase Facility) during the applicable Test Period; SUBJECT TO

(iv) certain adjustments for changes in working capital. "Minimum Liquidity" for any Test Date means (i) the sum of the Retained Amount for all prior Test Dates, net of the amount thereof utilized to fund additional Capital Expenditures and repurchases of senior debt securities (through the maturity dates thereof); plus (ii) the amount set forth below opposite such Test Date; minus (iii) the Senior Note Prepayment Amount for such Test Date:

TEST DATE	MINIMUM LIQUIDITY
1/15/94..................................	$100,000,000 (PLUS the Asbestos Adjustment)
1/15/95..................................	100,000,000
1/15/96..................................	100,000,000
1/15/97..................................	200,000,000
1/15/98..................................	135,000,000
Thereafter...............................	100,000,000

The "Asbestos Adjustment" will equal $40 million minus the actual aggregate amount of payments made by U.S. Gypsum to settle property damage asbestos cases in 1992 and 1993. The amount of such settlement payments for 1992 was $21.7 million. "Retained Amount" means, for any Test Date, an amount equal to the product of (i) 100% minus the Sweep Percentage for such Test Date and (ii) the excess, if any, of the Available Liquidity for such Test Date over the Minimum Liquidity for such Test Date. "Senior Note Prepayment Amount" means, for any Test Date on or after January 15, 1997, the principal amount of the Corporation's public debt originally due during the same calendar year which has been prepaid as of such Test Date out of funds other than any Retained Amounts.

The Credit Agreement Amendments will provide that the Sweep Percentage for the January 15, 1997 Test Date and for each Test Date thereafter shall be 50% if (i) the aggregate outstanding amount of Bank Term Loans at such time does not exceed $148 million and (ii) USG's public senior debt is then rated at least BB by Standard & Poor's Corporation and Ba2 by Moody's Investors Service, Inc.

EVENTS OF DEFAULT

The Credit Agreement provides that if an event of default occurs, then, in the case of an event of default involving certain bankruptcy or insolvency events, the maturity of loans made under the Credit Agreement will automatically be accelerated and the obligation of the Senior Lenders to make future revolving loans or issue letters of credit will terminate or, in the case of any other event of default, so long as such event of default exists, the Requisite Senior Lenders will be entitled to accelerate the maturity of loans made under the Credit Agreement and terminate their obligation to make future revolving loans or issue letters of credit.

Events of default include: failure to pay any principal, interest or other amount due to the Senior Lenders; failure to pay other indebtedness, including subordinated debt, if the aggregate amount of such other indebtedness is $25 million or more or any breach or default under any instrument, agreement or indenture relating to such indebtedness if the effect thereof is to accelerate or permit the holders of such indebtedness to accelerate the maturity of such indebtedness; any single stockholder or group acquiring 50% or more of the Corporation's stock (directly or indirectly); failure to discharge a judgment or writ of attachment involving an amount exceeding $5 million, net of insurance; certain events involving the bankruptcy or insolvency of the Corporation or certain significant Restricted Subsidiaries; the invalidation or ineffectiveness of any security agreement governing, or any lien upon, collateral securing the obligations under the Credit Agreement; the incurrence of certain termination liabilities under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"); and failure of the Corporation to meet covenants (subject to certain grace periods), including various financial covenants described below. The events of default are applicable only to the Corporation and its Restricted Subsidiaries.

AFFIRMATIVE COVENANTS

Affirmative covenants under the Credit Agreement require the Corporation to, among other things, submit periodic financial, labor, environmental and litigation reports; maintain its corporate existence

and franchises; remain qualified to do business in all appropriate jurisdictions; comply with all requirements of law; pay all taxes and material claims unless contested in good faith and covered by reserves in accordance with GAAP; permit members of the Bank Group to inspect its properties, books and records; maintain its properties in good repair and maintain proper insurance policies; and maintain licenses, permits, governmental approvals and authorizations.

NEGATIVE COVENANTS

The Credit Agreement contains negative covenants that cover: restrictions on the incurrence of additional indebtedness, subject to certain exceptions; sales of assets outside the ordinary course of business, subject to certain exceptions including a blanket exception for up to $20 million in any fiscal year and $5 million in any single transaction or group of related transactions; the incurrence of liens and encumbrances on the property of the Corporation and its Restricted Subsidiaries; investments; guarantees; dividends and distributions, and payments upon securities junior in right to the Bank Debt Obligations; operating leases; mergers, consolidations or sales, leases or transfers of all or any substantial part of the business, property or assets of the Corporation or any of its Restricted Subsidiaries; acquisitions of the business, property or assets of any person, except for acquisitions not exceeding certain permitted capital expenditure limits; ERISA prohibited transactions; amendments to corporate charter and by-laws; sale of subsidiaries; amendments of material debt documents; sale and leaseback transactions; prepayment (including acquisitions for value) of long-term debt; and certain other transactions and activities.

The negative covenants in the Credit Agreement permit the prepayment or purchase with Cash Available for Sweep of the Corporation's senior debt securities having maturities prior to January 1, 1999; PROVIDED, that to the extent such prepayment or purchase involves the payment of a premium in excess of 100% of the face amount of any such security, such excess will reduce the Corporation's existing or future Retained Amounts.

FINANCIAL COVENANTS

From and after January 1, 1995, the Corporation will be required to satisfy the Financial Covenants set forth below:

MINIMUM SENIOR INTEREST COVERAGE RATIO. The Senior Interest Coverage Ratio for the Coverage Period ending with each fiscal quarter of each Fiscal Year set forth below (commencing with the first fiscal quarter of 1995), shall not be less than the minimum ratio set forth below opposite such fiscal quarter:

	1995	MINIMUM RATIO	1996	MINIMUM RATIO
Quarter	1	1.00	1	2.20
	2	1.25	2	2.30
	3	1.75	3	2.40
	4	2.00	4	2.50

	1997	MINIMUM RATIO	1998	MINIMUM RATIO
Quarter	1	2.50	1	2.80
	2	2.60	2	2.80
	3	2.70	3	2.80
	4	2.80	4	2.80

	1999	MINIMUM RATIO	2000	MINIMUM RATIO
Quarter	1	2.80	1	2.80
	2	2.80	2	2.80
	3	2.80	3	2.80
	4	2.80	4	2.80

MINIMUM TOTAL INTEREST COVERAGE RATIO. The Total Interest Coverage Ratio for the Coverage Period ending with each fiscal quarter of each Fiscal Year set forth below (commencing with the first fiscal quarter of 1995), shall not be less than the minimum ratio set forth below opposite such fiscal quarter:

	1995	MINIMUM RATIO	1996	MINIMUM RATIO
Quarter	1	1.00	1	2.05
	2	1.25	2	2.10
	3	1.75	3	2.15
	4	2.00	4	2.20

	1997	MINIMUM RATIO	1998	MINIMUM RATIO
Quarter	1	2.25	1	2.40
	2	2.30	2	2.40
	3	2.35	3	2.40
	4	2.40	4	2.40

	1999	MINIMUM RATIO	2000	MINIMUM RATIO
Quarter	1	2.40	1	2.40
	2	2.40	2	2.40
	3	2.40	3	2.40
	4	2.40	4	2.40

MINIMUM FIXED CHARGE COVERAGE RATIO. The Fixed Charge Coverage Ratio for the Coverage Period ending with each fiscal quarter of each Fiscal Year set forth below (commencing with the first fiscal quarter of 1995), shall not be less than the minimum ratio set forth below opposite such fiscal quarter:

	1995	MINIMUM RATIO	1996	MINIMUM RATIO
Quarter	1	1.0	1	1.3
	2	1.1	2	1.4
	3	1.1	3	1.4
	4	1.2	4	1.5

	1997	MINIMUM RATIO
Quarter	1	1.5
	2	1.5
	3	1.5
	4	1.5

MINIMUM ADJUSTED CUMULATIVE NET WORTH. The Adjusted Cumulative Net Worth as of the end of each Fiscal Year set forth below and the end of the three immediately succeeding fiscal quarters shall not be less than the minimum amount set forth below opposite such year:

END OF FISCAL YEAR	MINIMUM AMOUNT
1995	$ 51,000,000
1996	102,000,000
1997	179,000,000
1998	244,000,000
1999	296,000,000
2000	345,000,000

LEVERAGE RATIO. The Leverage Ratio as of the end of each Fiscal Year set forth below and the end of the three immediately succeeding fiscal quarters shall not be greater than the maximum amount set forth below opposite such year:

END OF FISCAL YEAR	MAXIMUM RATIO
1995	0.97
1996	0.93
1997	0.87
1998	0.81
1999	0.76
2000	0.70

MINIMUM CURRENT RATIO. The ratio of Consolidated Current Assets to Consolidated Current Liabilities as of the end of each calendar quarter shall not be less than the minimum ratio set forth below opposite such Fiscal Year in which such quarter occurs:

FISCAL YEAR	MINIMUM RATIO
1995	1.05
1996	1.10
1997	1.15
1998	1.20
1999	1.20
2000	1.20

MAXIMUM CAPITAL EXPENDITURES. Domestic Capital Expenditures made by the Corporation and its U.S. Subsidiaries on a consolidated basis shall not exceed, for any Fiscal Year, the sum of the following items:

(i) The Base Capital Expenditure Allowance for such year LESS the amount, if any, of such Base Capital Expenditure Allowance which was used during the immediately preceding Fiscal Year under clause (ii) below;

(ii) (a) the excess of (1) the sum of (x) the actual cumulative principal payments (for the period beginning on May 6, 1993) of the Term Loans as a result of mandatory amortization payments through such date and (y) the actual cumulative prepayments of Public Debt (including Investments therein), Term Loans and Capitalized Interest Loans, in each case under this clause (y), as a result of Cash Available for Sweep over (2) the Projected Cumulative Principal Payments (such excess being the "Excess Principal Payments") LESS (b) the cumulative amount of such Excess Principal Payments used for Capital Expenditures in all prior years, PROVIDED, that in no event shall the amount included under this clause (ii) for any Fiscal Year exceed 50% of the Base Capital Expenditure Allowance for the immediately succeeding Fiscal Year;

(iii) (a) the excess of the actual cumulative net cash proceeds arising from the sale of assets occurring after January 1, 1992 over the Projected Cumulative Asset Sale Proceeds (the "Excess Sale Proceeds") LESS (b) the cumulative amount of such Excess Sale Proceeds used for Capital Expenditures and Investments in all prior years, PROVIDED, that in no event shall any amount be included under this clause (iii) for any Fiscal Year if the sum of (x) the actual cumulative principal payments of the Term Loans as a result of mandatory amortization payments as of the end of the immediately preceding Fiscal Year and (y) the actual cumulative prepayments of Public Debt (including Investments therein), Term Loans and Capitalized Interest Loans, in each case under this clause (y), as a result of Cash Available for Sweep as of the end of the immediately preceding Fiscal Year (but including any prepayments of Cash Available for Sweep made on or prior to February 15th of the current Fiscal Year) does not exceed the Projected Cumulative Principal Payments as of the end of the immediately preceding Fiscal Year;

(iv) all amounts used for Capital Expenditures the source of which constitutes Project Financing;

(v) the cumulative amount of the portion of the Cash Available for Sweep which has been retained by the Company in all prior Fiscal Years (the "Cash Sweep Retention Amount") LESS the cumulative amount of such Cash Sweep Retention Amount used for Capital Expenditures and other permitted purposes in all prior years;

(vi) the amount of Capital Expenditures used for creating additional plant capacity, PROVIDED, that (a) the aggregate amount of such Capital Expenditures under this clause (vi) for all Fiscal Years shall not exceed $30,000,000 and (b) at least thirty days prior to making or becoming committed to make any such Capital Expenditures, the Corporation has notified the Agents thereof in a writing which describes the additional plant capacity and the business purpose therefor;

(vii) Capital Expenditures for assets the purchase price of which is paid with the Common Stock of the Company; and

(viii) the aggregate amount of the Base Capital Expenditures Allowances for all prior Fiscal Years which have not been used for Capital Expenditures.

The Credit Agreement Amendments will permit the Corporation to make additional Strategic Capital Expenditures in an aggregate amount equal to the net proceeds of the Offering in excess of $100,000,000 PLUS the Cash Available for Sweep with respect to the January 15, 1994 Test Date in excess of $100,000,000.

DEFINED TERMS USED IN FINANCIAL COVENANTS. Capitalized terms used in the financial covenants in the Credit Agreement shall have the meanings set forth below or, if not defined below, the meanings set forth in the Old Credit Agreement:

"Adjusted Cumulative Net Worth" of the Corporation, at the end of any quarter, shall mean the cumulative after tax net income (adjusted to exclude fresh start accounting) from January 1, 1995 through the end of such quarter PLUS the aggregate net cash proceeds received by the Corporation from the issuance of equity securities after May 6, 1993.

"Base Capital Expenditure Allowance" for each Fiscal Year, shall mean the amount set forth below opposite such Fiscal Year:

1993..	$33,900,000
1994..	34,200,000
1995..	39,300,000
1996..	39,800,000
1997..	51,900,000
1998..	52,200,000
1999..	52,200,000

"Consolidated Current Assets" on any date, shall mean the total consolidated assets of the Corporation and its Subsidiaries (with inventories being stated on a FIFO basis) which may properly be classified as current assets in conformity with GAAP.

"Consolidated Current Liabilities" on any date, shall mean the total consolidated liabilities of the Corporation and its Subsidiaries which may properly be classified as current liabilities in conformity with GAAP, not including current maturities of long-term debt, but including any Revolving Loans which may, in accordance with GAAP, be considered long-term.

"Coverage Period" means (i) with respect to the first fiscal quarter of 1995, the three-month period ending on March 31, 1995, (ii) with respect to the second fiscal quarter of 1995, the six-month period ending on June 30, 1995, (iii) with respect to the third fiscal quarter of 1995, the nine-month period ending on September 30, 1995, and (iv) with respect to any succeeding fiscal quarter, the twelve-month period ending on the last day of such fiscal quarter.

"Debt" at any time, shall mean, with respect to the Corporation and its Subsidiaries on a consolidated basis, the sum of (i) the outstanding principal balance of the Revolving Loans at such

time or any indebtedness at such time arising from a permitted revolving credit facility replacement thereof (less the aggregate amount of cash held by the Corporation and its consolidated Subsidiaries located in the United States at such time), (ii) the aggregate amount of long-term indebtedness at such time (including the current portions thereof), (iii) the outstanding amount of capital leases (classified as such according to GAAP) shown as a liability on the Corporation's consolidated balance sheet at such time and (iv) the aggregate amount of all Accommodation Obligations with respect to third-party indebtedness of the type described in clauses (ii) and (iii) above at such time.

"EBITDA" for any period, means the consolidated operating earnings from continuing operations of the Corporation and its subsidiaries before interest, taxes, depreciation, amortization, other income and expense, minority interests, the impact of fresh start accounting and other non-cash adjustments to income for such period.

"Fixed Charge Coverage Ratio" of the Corporation as of the end of any fiscal quarter shall mean the ratio of (a) EBITDA for the 12-month period ending on the last day of such fiscal quarter, excluding the impact of non-cash fresh start accounting adjustments for such 12-month period, MINUS actual Capital Expenditures during such 12-month period (excluding Capital Expenditures under clauses (iv) and (vi) of the Capital Expenditures covenant described above) to (b) the total net consolidated interest expense of the Corporation and its Subsidiaries during such 12-month period, excluding the impact of non-cash amortizations resulting from fresh start accounting during such period plus the aggregate scheduled principal payments due (and not previously prepaid) on senior indebtedness of the Corporation and its Subsidiaries during the 12-month period immediately succeeding the end of such fiscal quarter.

"Leverage Ratio" of the Corporation on any date, shall mean the ratio of Debt to Total Capital on such date.

"Projected Cumulative Principal Payments" means the following amounts as of February 15 of each Fiscal Year below of projected cumulative principal payments of (i) the Capitalized Interest Notes and the Bank Term Loans as a result of mandatory amortization payments and cash sweep prepayments and (ii) any prepayments on or purchases of the Corporation's public debt securities having maturities prior to January 1, 1999 through such date:

FEBRUARY 15 OF FISCAL YEAR	CUMULATIVE PAYMENTS
1994	$ 0
1995	57,000,000
1996	133,000,000
1997	220,000,000
1998	332,000,000
1999	456,000,000
2000	579,000,000

"Projected Cumulative Asset Sale Proceeds" means the following amounts as of the end of each Fiscal Year below of projected cumulative cash proceeds arising from the sale of assets PLUS for the Fiscal Year in which the Libertyville facility is sold and each Fiscal Year thereafter, an amount equal to the net cash proceeds received from the sale of the Libertyville facility:

END OF FISCAL YEAR	CUMULATIVE PROCEEDS
1992	$ 7,000,000
1993	16,000,000
1994	21,000,000
1995	26,000,000
1996	31,000,000
1997	36,000,000
1998	41,000,000
1999	46,000,000

"Senior Interest Coverage Ratio" of the Corporation for any Coverage Period shall mean the ratio of (i) EBITDA for such period, excluding the impact of non-cash fresh start accounting adjustments for such period to (ii) the total net consolidated interest expense (excluding interest on Subordinated Debt) of the Corporation and its Subsidiaries during such period, excluding the impact of non-cash amortizations resulting from fresh start accounting during such period.

"Total Capital" on any date, shall mean the sum of (i) Debt on such date and (ii) Adjusted Cumulative Net Worth on such date.

"Total Interest Coverage Ratio" of the Corporation for any Coverage Period shall mean the ratio of (i) EBITDA for such period, excluding the impact of non-cash fresh start accounting adjustments for such period to (ii) the total net consolidated interest expense of the Corporation and its Subsidiaries during such period, excluding the impact of non-cash amortizations resulting from fresh start accounting during such period.

DOMESTIC NATURE OF COVENANTS. Each of the financial covenants will be calculated on a domestic basis only, PROVIDED, that, if at anytime the Corporation's non-domestic consolidated revenues for a Fiscal Year constitute 35% or more of the Corporation's total consolidated revenues for such year, then, effective as of the first test date in the immediately succeeding Fiscal Year, such financial covenants shall be calculated to include the financial performance of the Corporation and all of its consolidated Subsidiaries, PROVIDED further, that, if such event occurs and the Corporation so requests, the Corporation, the Bank Group, the Agents and the Administrative Agent shall in good faith recast the foregoing financial covenants to account for the inclusion of the financial performance of the non-domestic Subsidiaries.

CERTAIN LIMITS ON COMPLIANCE WITH FINANCIAL COVENANTS. No Event of Default or Potential Event of Default would be deemed to exist or be continuing with respect to a breach of the Senior Interest Coverage Ratio and/or the Total Interest Coverage Ratio for any quarter during Fiscal Years 1995, 1996 and 1997 unless there would also exist a breach of the Fixed Charge Coverage Ratio for such quarter. Conversely, no Event of Default or Potential Event of Default would be deemed to exist or be continuing with respect to a breach of the Fixed Charge Coverage Ratio for any quarter during fiscal years 1995, 1996 and 1997 unless there would also exist a breach of either the Senior Interest Coverage Ratio or the Total Interest Coverage Ratio for such quarter. No Event of Default or Potential Event of Default would be deemed to exist or be continuing with respect to the financial covenants described above unless either (i) such Event of Default shall be disclosed in or determinable on the basis of the financial statements, compliance statements or officer's certificates delivered to the Bank Group pursuant to the Credit Agreement or (ii) the Administrative Agent, at the direction of the Requisite Senior Lenders, shall have given written notice of such Event of Default to the Corporation. All calculations of the foregoing financial covenants shall be rounded to the nearest 1/100. For purposes of calculating the foregoing covenants, GAAP shall be constant from and after the date of the Credit Agreement, unless the Corporation and the Requisite Senior Lenders agree to modify such covenants to account for any subsequent changes to GAAP.

COLLATERAL

Borrowings under the Credit Agreement are all secured by first priority security interests in the capital stock of certain Subsidiaries. Such security interests were granted pursuant to the Collateral Trust Agreement and related Pledge Agreements which provide that the collateral will also equally and ratably secure certain other debt of the Corporation and one of the Subsidiaries, including the Senior 2002 Notes. See "Description of Other Debt Obligations" and "Description of Collateral Trust Agreement."

AMENDED GUARANTEES

The Corporation has guaranteed all obligations of USG Interiors under the Credit Agreement. Each of United States Gypsum Company, USG Industries, Inc., USG Interiors, Inc., USG Foreign Investments, Ltd., L&W Supply Corporation, Westbank Planting Company, USG Interiors International, Inc., American Metals Corporation and La Mirada Products Co., Inc. (together, the "Subsidiary Guarantors") in turn has guaranteed pursuant to the Amended Subsidiary Guarantees both the obligations of the Corporation

under the Credit Agreement and the Senior 2002 Notes and the obligations of USG Interiors under the Credit Agreement. In connection with the 1993 Amendments, the Subsidiary Guarantors executed the Amended Subsidiary Guarantees, which entitle the Senior 2002 Notes issued at such time to participate on a PARI PASSU basis in the benefits of the Amended Subsidiary Guarantees. The Amended Subsidiary Guarantees are full and unconditional guarantees of prompt payment and performance, when due, of all (i) the Obligations (as defined in the Credit Agreement) of the Borrowers (as defined therein) and (ii) all obligations of the Corporation under the Senior 2002 Notes. The Bank Group has the right to enforce the Amended Subsidiary Guarantees and seek collection thereunder (for the ratable benefit of the Bank Group and holders of the Senior 2002 Notes) at any time when one or more Events of Default have occurred and are continuing under the Credit Agreement (which Events of Default will include the occurrence and continuation of any event of default under the Senior 2002 Notes Indenture). The Bank Group will have the right to (i) determine whether, when and to what extent the Amended Subsidiary Guarantees will be enforced (provided that each Amended Subsidiary Guarantee payment will be applied to the Bank Term Loans, Revolving Credit Facility, Capitalized Interest Notes and Senior 2002 Notes pro rata based on the respective principal amounts owed thereon) and (ii) amend or eliminate the Amended Subsidiary Guarantees; provided that the pro rata sharing requirement contemplated in (i) above is not waivable (in the absence of a complete release of the Amended Subsidiary Guarantees) without the approval of the holders of a majority in principal amount of each of the two series of Senior 2002 Notes, voting separately. The Amended Subsidiary Guarantees will terminate when the Bank Term Loans, the Revolving Credit Facility and the Capitalized Interest Notes are retired, regardless of whether any portion of the Senior 2002 Notes then remains outstanding. The liability of each Subsidiary Guarantor on its Amended Subsidiary Guarantee is limited to the greater of (i) 95% of the lowest amount, calculated as of the date of delivery of the original Amended Subsidiary Guarantee, sufficient to render the guarantor insolvent, leave the guarantor with unreasonably small capital or leave the guarantor unable to pay its debts as they become due (each as defined under applicable law) and (ii) the same amount calculated as of the date any demand for payment under such guarantee is made, in each case plus collection costs.

See "Index To Financial Statements Significant Accounting Policies and Practices" for condensed consolidating financial statements of the Subsidiary Guarantors and non-guarantors.

INTEREST

The Corporation may elect, subject to the availability of LIBOR pricing, to have interest on the Bank Term Loans and Revolving Loans calculated either at reserve adjusted LIBOR plus 1 7/8% or at Citibank's Base Rate plus 7/8% per annum. An increase of 2% on all of the above interest rates would automatically take place five business days after notice of the occurrence of an Event of Default, and will remain at such increased level for so long as the default continues. Interest is calculated on the basis of the actual number of days elapsed in the period during which interest accrues and a year of 360 days. Interest is payable as follows: (i) for loans bearing interest calculated by reference to LIBOR, interest is payable on the last day of each interest period, consisting of one, two, three or, when available, six month periods (interest is also payable after three months in the latter case); (ii) for the Bank Term Loans bearing interest calculated by reference to Citibank's Base Rate, interest is payable on the last day of each calendar quarter; and (iii) for Revolving Loans bearing interest calculated by reference to Citibank's Base Rate, interest is payable on the last day of each calendar month. The Corporation may purchase interest rate caps, swaps, collars or similar devices on terms mutually acceptable to the Corporation and the Agents.

VOLUNTARY PREPAYMENTS

Voluntary prepayments of the Bank Term Loans, Revolving Loans and Capitalized Interest Loans may be made upon two business days' prior notice, PROVIDED THAT the Bank Group shall be indemnified for any breakage costs resulting from such voluntary prepayment.

MANDATORY PREPAYMENTS

In addition to the excess cash sweep described above, the Corporation is required to make mandatory prepayments on the Bank Term Loans as a result of the issuance for cash of new debt and equity securities. Prior to the payment in full of all outstanding senior debt securities having maturity dates before January 1, 1999 (other than the Bank Term Loans), 100% of the net proceeds resulting from the issuance for cash of new debt and equity securities (the "Refinancing Proceeds") would be applied to the outstanding principal balance of the Corporation's Bank Term Loans and senior debt securities in order of maturity; PROVIDED that to the extent such Refinancing Proceeds are insufficient to repay all of such Bank Term Loans and other senior debt securities due in any given calendar year, the amount of such Refinancing Proceeds available for such year will be applied pro rata to the mandatory amortization of the Bank Term Loans and senior debt securities due during such year based on the principal amount of Bank Term Loans and senior debt securities due during such year. Subject to the following sentence, following the payment in full of all existing senior debt securities having maturity dates before January 1, 1999, 100% of the Refinancing Proceeds would be applied as follows: (i) first, to the outstanding principal balance of the Bank Term Loans in the order of maturity, but only to the extent that the principal balance of the Bank Term Loans has not been reduced by at least $300 million, and (ii) second, to any of the Corporation's senior debt securities having a final maturity prior to December 31, 2002, including the Bank Term Loans (to scheduled installments in the order of maturity), as determined by the Corporation in its discretion; provided that the minimum amount of such Refinancing Proceeds applied to the Bank Term Loans under this clause (ii) shall be a percentage of such Refinancing Proceeds obtained by dividing the outstanding principal balance of the Bank Term Loans at such time by the sum of such outstanding principal balance of the Bank Term Loans and the outstanding principal balance of the Senior 2002 Notes at such time. In the event that all existing senior debt securities having maturity dates before January 1, 1999 have been paid in full, the outstanding principal balance of the Bank Term Loans has been reduced by at least $300 million and the Corporation's senior debt securities are rated at least BB+ by Standard & Poor's Corporation or Ba1 by Moody's Investors Service, Inc., the amount of Refinancing Proceeds subject to the immediately preceding sentence shall be reduced from 100% to 66 2/3%, with the remaining 33 1/3% of such Refinancing Proceeds not being subject to the mandatory prepayment provisions.

The Credit Agreement Amendments (i) permit, prior to the repayment in full of all existing senior public debt due before 1999, the use by USG of any Refinancing Proceeds for the prepayment, at USG's option, of any such public debt and/or Bank Term Loans in any order of maturity; (ii) require the application of any such Refinancing Proceeds within one year of issuance; and (iii) provide that USG may retain 33 1/3% of future Refinancing Proceeds if all existing senior public debt due before 1999 has been paid in full, the aggregate outstanding Bank Term Loans at such time does not exceed $148,000,000 and USG's public senior debt is then rated at least BB by Standard & Poor's Corporation and Ba2 by Moody's Investors Service, Inc.

FEES

Commitment fees on the unused portion of the Extended Revolving Credit Facility accrue at a per annum rate of 3/8% and are payable quarterly in arrears. Commitment fees on the undrawn face amount of all Facility Letters of Credit accrue at a per annum rate of 1 1/2% and are payable quarterly in advance.

DESCRIPTION OF OTHER DEBT OBLIGATIONS

THE 1986 INDENTURE SECURITIES

The Senior 1996 Notes, the Senior 1997 Notes and the Senior 2017 Debentures were issued under an indenture and certain related instruments delivered thereunder (collectively, the "1986 Indenture"), dated as of October 1, 1986, between the Corporation and the Harris Trust and Savings Bank, as trustee (the "1986 Indenture Trustee"). As part of the Restructuring, the 1986 Indenture was supplemented by resolutions adopted by the Board (the "Bond Board Resolutions") and an officer's certificate delivered in accordance therewith to provide for the Senior 1995 Notes and the Senior 1998 Notes. In connection with the Note Placement, the 1986 Indenture is being supplemented by further resolutions adopted by

the Board (the "1994 Bond Board Resolutions") and an officer's certificate delivered in accordance therewith to provide for the Senior 2001 Notes. The Senior 1995 Notes, the Senior 1996 Notes, the Senior 1997 Notes, the Senior 1998 Notes, the Senior 2001 Notes and the Senior 2017 Debentures are collectively referred to herein as the "1986 Indenture Securities." Conformed copies of the 1986 Indenture, the Bond Board Resolutions and the 1994 Bond Board Resolution have been filed as exhibits to the Registration Statement and are available as described under "Available Information." Whenever particular provisions or defined terms of the 1986 Indenture Securities or the 1986 Indenture, as supplemented by the Bond Board Resolutions and the 1994 Bond Board Resolutions, are referred to, such provisions or defined terms are deemed incorporated herein by reference and such statements are qualified in their entirety by such reference. Initial capitalized terms which are defined in the 1986 Indenture are used herein as so defined.

GENERAL

The Senior 1995 Notes are a series of securities which are limited to $75 million aggregate principal amount. The Senior 1995 Notes bear interest at the rate of 8% per annum and will mature on December 15, 1995. Interest is payable semiannually on June 15 and December 15 of each year, to the persons in whose names the Senior 1995 Notes are registered at the close of business on the next preceding June 1 or December 1, as the case may be.

The Senior 1996 Notes bear interest at 8% per annum and will mature on December 15, 1996. Interest is payable semiannually on June 15 and December 15 of each year to the persons in whose names the Senior 1996 Notes are registered at the close of business on the next preceding June 1 or December 1, as the case may be.

The Senior 1997 Notes bear interest at 8% per annum and will mature on March 15, 1997. Interest is payable semiannually on September 15 and March 15 of each year to the persons in whose names the Senior 1997 Notes are registered at the close of business on the next preceding September 1 or March 1, as the case may be.

The Senior 1998 Notes are a series of securities which are limited to $35 million aggregate principal amount. The Senior 1998 Notes bear interest at the rate of 9% per annum and will mature on December 15, 1998. Interest is payable semi-annually on June 15 and December 15 of each year to the persons in whose names the Senior 1998 Notes are registered at the close of business on the next preceding June 1 or December 1, as the case may be.

The Senior 2001 Notes are a series of securities which are limited to $150 million aggregate principal amount. The Senior 2001 Notes bear interest at 9 1/4% per annum and will mature on September 15, 2001. Interest is payable semi-annually on March 15 and September 15 of each year, beginning September 15, 1994, to the persons in whose names the Senior 2001 Notes are registered at the close of business on the next preceding March 1 or September 1, as the case may be.

The Senior 2017 Debentures bear interest at 8.75% per annum and will mature on March 1, 2017. Interest is payable semiannually on September 1 and March 1 of each year to the persons in whose names the Senior 2017 Debentures are registered at the close of business on the next preceding August 15 or February 15, as the case may be.

Principal (and premium, if any) and interest is payable, and the transfer of the 1986 Indenture Securities is registrable, at the office or agency of the Corporation maintained for such purpose in the City of Chicago, State of Illinois, currently the Corporate Trust Office of the 1986 Indenture Trustee, Harris Trust and Savings Bank, 311 West Monroe Street, Chicago, Illinois 60690; provided, however, that payment of interest may be made at the option of the Corporation by check or draft mailed to the person entitled thereto as such person's address appears in the security register maintained for such purpose pursuant to the 1986 Indenture. No service charge will be made for any transfer or exchange except the Corporation may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The Senior 1995 Notes and the Senior 1998 Notes are issued in fully registered form without coupons and in denominations of $250 and integral multiples thereof. The Senior 1996 Notes, the Senior 1997 Notes, Senior 2001 Notes and the Senior 2017 Debentures are issued in fully registered form without coupons and in denominations of $1,000 and integral multiples thereof.

The 1986 Indenture Securities rank PARI PASSU with all senior secured indebtedness of the Corporation.

SECURITY

The 1986 Indenture Securities are secured by first priority security interests in capital stock of certain Subsidiaries which were granted pursuant to the Collateral Trust Agreement and related pledge and security agreements. The Collateral Trust Agreement provides that the collateral thereunder equally and ratably secures certain other debt of the Corporation and one of the Subsidiaries, including the Senior 2002 Notes and the Bank Debt Obligations. Holders of the Bank Debt Obligations primarily control the operation of the Collateral Trust. See "Description of Collateral Trust."

REDEMPTION

The Senior 1995 Notes and the Senior 1998 Notes may be redeemed by the Corporation in whole or in part at any time without penalty or premium.

The Senior 1996 Notes, the Senior 1997 Notes and the Senior 2001 Notes may not be redeemed at the option of the Corporation prior to maturity.

The Senior 2017 Debentures may be redeemed at the option of the Corporation in whole or in part from time to time on at least 30 and not more than 90 days' notice by mail to registered holders thereof at the following redemption prices (expressed in percentages of principal amount):

If redeemed during the 12-month period commencing March 1 of each of the years indicated:

YEAR	PERCENTAGE	YEAR	PERCENTAGE
1993..........................	105.974%	2000..........................	102.987%
1994..........................	105.547	2001..........................	102.560
1995..........................	105.120	2002..........................	102.134
1995..........................	104.694	2003..........................	101.707
1997..........................	104.267	2004..........................	101.280
1998..........................	103.840	2005..........................	100.853
1999..........................	103.414	2006..........................	100.427

and thereafter at 100% of the principal amount thereof, in each case together with accrued and unpaid interest to the date fixed for redemption.

Notwithstanding the foregoing provisions, the Corporation may not redeem any of the Senior 2017 Debentures prior to March 1, 1997, directly or indirectly, from or in anticipation of moneys borrowed by or for the account of the Corporation or any of its Subsidiaries at an interest cost of less than 8.77% per annum, except for Senior 2017 Debentures redeemed pursuant to the provisions described below under "Sinking Fund."

SINKING FUND

As a mandatory sinking fund for the Senior 2017 Debentures, the Corporation will pay to the 1986 Indenture Trustee before March 1, in each of the years 1998 to 2016, inclusive, an amount in cash sufficient to redeem, at the Sinking Fund Redemption Price, $10,000,000 aggregate principal amount of the Senior 2017 Debentures. At its option, the Corporation may pay to the 1986 Indenture Trustee before each mandatory sinking fund payment date an additional amount in cash sufficient to redeem at the Sinking Fund Redemption Price up to an additional $15,000,000 aggregate principal amount of the Senior 2017 Debentures. The right to make such optional sinking fund payments is not cumulative, but any optional sinking fund payment may be used to reduce the amount of any subsequent mandatory sinking fund payment. The Corporation may, at its option, credit against mandatory sinking fund

payments the principal amount of Senior 2017 Debentures acquired or redeemed other than through the operation of the mandatory sinking fund, provided that such Senior 2017 Debentures have not theretofore been used for any such credit or delivered to the 1986 Indenture Trustee for cancellation in connection with certain sale and leaseback transactions as described below under "Limitation Upon Sale and Leaseback Transactions."

RESTRICTED AND UNRESTRICTED SUBSIDIARIES

The various restrictive provisions of the 1986 Indenture, as supplemented by the Bond Board Resolutions and the 1994 Bond Board Resolutions, summarized below, while applicable to the Corporation and its Restricted Subsidiaries, do not apply to Unrestricted Subsidiaries. A "Subsidiary" is any corporation, a majority of the Voting Stock of which is at the time owned directly or indirectly by the Corporation and its other Subsidiaries. "Voting Stock," as applied to the stock of any corporation, is stock of any class or classes having ordinary voting power for the election of a majority of the directors of such corporation, other than stock having such power only by reason of the happening of a contingency. A "Restricted Subsidiary" is any Subsidiary which owns any Principal Operating Property. "Principal Operating Property" is any principal manufacturing plant, or distribution or research facility, and related facilities located in the United States and owned and operated by the Corporation or any Subsidiary for more than 90 days, other than (i) any facility acquired for the control or abatement of atmospheric pollutants or contaminants, water pollution, noise, odor or other pollution or (ii) any plant or other facility which, in the opinion of the Board, is not of material importance to the business of the Corporation and its Restricted Subsidiaries taken as a whole. An "Unrestricted Subsidiary" is any Subsidiary other than a Restricted Subsidiary.

RESTRICTIONS ON MERGER

So long as any 1986 Indenture Securities are outstanding, the Corporation may not consolidate with or merge into any other corporation or sell or transfer all or substantially all of its properties and assets to another Person unless (i) the successor is a corporation organized and existing under the laws of the United States of America or a state thereof and expressly assumes the due and punctual payment of the principal of (and premium, if any), interest, if any, and Additional Amounts, if any, on all the 1986 Indenture Securities and any coupons and the due and punctual performance and observance of all covenants and conditions of the Corporation in the 1986 Indenture, as supplemented by the Bond Board Resolutions, and (ii) such successor corporation shall not, immediately after such merger or consolidation, or such sale or conveyance, be in default in the performance of any covenant or condition of the 1986 Indenture, as supplemented by the Bond Board Resolutions.

LIMITATION UPON SECURED DEBT OF THE CORPORATION AND ITS RESTRICTED SUBSIDIARIES

So long as any 1986 Indenture Securities are outstanding, the Corporation will not itself, and will not permit any Restricted Subsidiary to, incur, issue, assume, guarantee or suffer to exist any indebtedness for money borrowed ("Debt") secured by a mortgage, pledge, lien or security interest ("Mortgage") on any Principal Operating Property or on any shares of stock or Debt of any Restricted Subsidiary, without effectively providing that such 1986 Indenture Securities (together with, if the Corporation so determines, any other Debt of the Corporation or such Restricted Subsidiary then existing or thereafter created which is not subordinated Debt) shall be secured equally and ratably with (or, at the Corporation's option, prior to) such secured Debt so long as such secured Debt shall be so secured, unless the aggregate amount of all such secured Debt, together with all Attributable Debt of the Corporation and its Restricted Subsidiaries in respect of sale and leaseback transactions involving Principal Operating Properties (other than those exempt under clauses (ii) through (iv) under "Limitation Upon Sale and Leaseback Transactions" below), would not exceed 5% of Consolidated Net Tangible Assets. "Consolidated Net Tangible Assets" means the Corporation's aggregate amount of assets minus (a) all liabilities except (i) indebtedness for money borrowed maturing on, or extendable at the option of the obligor to, a date more than one year from the date of determination thereof, (ii) deferred income taxes and (iii) stockholders' equity and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles. This restriction does not apply to, and there will be excluded from secured Debt in any computation under such restriction, Debt secured by (i) Mortgages

on property of, or on any shares of stock or Debt of, any corporation existing at the time such corporation becomes a Restricted Subsidiary; (ii) Mortgages in favor of the Corporation or a Restricted Subsidiary; (iii) Mortgages in favor of governmental bodies to secure progress, advance or other payments pursuant to any contract or provision of any statute; (iv) certain Mortgages created (A) in the ordinary course of business, (B) in connection with taxes, assessments or other governmental charges or (C) in connection with legal proceedings; (v) Mortgages on property (including leasehold estates), shares of stock or Debt existing at the time of acquisition thereof (including acquisition through merger or consolidation); (vi) purchase money and construction Mortgages which are entered into within specified time limits; and (vii) any extension, renewal, replacement or refunding of any Mortgage referred to in the foregoing clauses (i) through (vi), inclusive. "Attributable Debt" is defined in general to mean the total net amount of rent required to be paid during the remaining term of any lease, discounted at a rate per annum equal to one-fourth of one percent over the rate per annum borne by the applicable 1986 Indenture Securities (except that for 1998 Senior Notes such rate shall be 8 1/4%) compounded semi-annually.

LIMITATION UPON SALE AND LEASEBACK TRANSACTIONS

So long as any of the following 1986 Indenture Securities are outstanding, the Corporation will not itself, and will not permit any Restricted Subsidiary to, sell or transfer any Principal Operating Property owned as of the following dates with the intention of taking back a lease thereof (a "sale and leaseback transaction"):

Senior 1995 Notes......................	December 15, 1986
Senior 1996 Notes......................	December 15, 1986
Senior 1997 Notes......................	March 15, 1987
Senior 1998 Notes......................	December 15, 1986
Senior 2017 Debentures.................	March 1, 1987
Senior 2001 Notes......................	September 15, 2001

This restriction does not apply to any sale and leaseback transaction if: (i) the Corporation or such Restricted Subsidiary could mortgage such Principal Operating Property under the restrictions set forth under "Limitation Upon Secured Debt of the Corporation and its Restricted Subsidiaries" above in an amount equal to the Attributable Debt with respect to such sale and leaseback transaction without equally and ratably securing the 1986 Indenture Securities; (ii) within 120 days after the sale or transfer is completed, the Corporation or a Restricted Subsidiary applies to the retirement of Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary an amount equal to the greater of (A) the net proceeds of the sale of the Principal Operating Property leased or (B) the fair market value of the Principal Operating Property leased; (iii) the lease in such sale and leaseback transaction is for a period, including renewals, of no more than three years; or (iv) such arrangement is between the Corporation and a Restricted Subsidiary or between Restricted Subsidiaries.

EVENTS OF DEFAULT

The following will be Events of Default under the 1986 Indenture, as supplemented by the Bond Board Resolutions: (i) default in the payment of any principal or premium, if any, on the 1986 Indenture Securities; (ii) default for 30 days in the payment of any interest or Additional Amounts on the 1986 Indenture Securities; (iii) default for 90 days after written notice thereof in the performance of any other covenant applicable to such Notes; (iv) acceleration of the maturity of any indebtedness of the Corporation or any Subsidiary in excess of $50 million principal amount in the aggregate if such acceleration results from a default under the instruments giving rise to such indebtedness and is not annulled within 10 days after written notice of such default; or (v) certain events of bankruptcy, insolvency or reorganization. No Event of Default with respect to a particular series of securities issued under the 1986 Indenture, as supplemented by the Bond Board Resolutions, necessarily constitutes an Event of Default with respect to any other series of securities issued thereunder. In case an Event of Default (other than an Event of Default under clause (v)) shall occur and be continuing with respect to any series, the 1986 Indenture Trustee or the holders of not less than 25% in aggregate principal amount of all series of securities affected thereby then outstanding under the 1986 Indenture, as supplemented by the Bond

Board Resolutions, (voting as one class) by notice to the Corporation may declare the principal (or, in the case of discounted securities, the amount specified in the terms thereof) of such series to be due and payable immediately. In case an Event of Default under clause (v) shall occur and be continuing, the 1986 Indenture Trustee or the holders of not less than 25% in aggregate principal amount of all securities then outstanding under the 1986 Indenture, as supplemented by the Bond Board Resolutions, (voting as one class) by notice may declare the principal (or, in the case of discounted securities, the amount specified in the terms thereof) of all such outstanding securities to be due and payable immediately. Any Event of Default with respect to a particular series of securities issued under the 1986 Indenture, as supplemented by the Bond Board Resolutions, may be waived, and a declaration of acceleration rescinded, by the holders of a majority in aggregate principal amount of the outstanding securities of such series (or if all such outstanding securities, as the case may be), except in a case of failure to pay principal or premium, if any, or interest or Additional Amounts in respect of such security for which payment had not been subsequently made. The 1986 Indenture, as supplemented by the Bond Board Resolutions, provides that the 1986 Indenture Trustee may withhold notice to the securityholders of any default (except in payment of principal, premium, if any, or interest or Additional Amounts) if it determines in good faith that it is in the interest of the securityholders to do so.

Subject to the provisions of the 1986 Indenture, as supplemented by the Bond Board Resolutions, relating to the duties of the 1986 Indenture Trustee in case an Event of Default occurs and is continuing, the 1986 Indenture Trustee will be under no obligation to exercise any of its rights or powers under the 1986 Indenture, as supplemented by the Bond Board Resolutions, at the request, order or direction of any of the securityholders, unless such securityholders have offered to the 1986 Indenture Trustee reasonable indemnity. Subject to such provisions for the indemnification of the 1986 Indenture Trustee and to certain other limitations, the holders of a majority in aggregate principal amount of the securities of all series affected (voting as one class) at the time outstanding have the right to direct the time, method and place of conducting any proceeding for any remedy available to the 1986 Indenture Trustee, or exercising any trust or power conferred on the 1986 Indenture Trustee.

The Corporation is required to file with the 1986 Indenture Trustee annually an officers' certificate as to the absence of certain defaults under the terms of the 1986 Indenture, as supplemented by the Bond Board Resolutions.

DEFEASANCE

The Corporation, at its option, (i) will be discharged from any and all obligations in respect of any series of the 1986 Indenture Securities (except for certain obligations to register the transfer or exchange of such 1986 Indenture Securities, replace such stolen, lost, destroyed or mutilated 1986 Indenture Securities, maintain paying agencies and hold moneys for payment in trust) or (ii) will not be under any obligation to comply with certain covenants and provisions applicable to such 1986 Indenture Securities, including those described above under "Limitation Upon Secured Debt of the Corporation and Restricted Subsidiaries" and "Limitation Upon Sale and Leaseback Transactions," if the Corporation (i) irrevocably deposits with the 1986 Indenture Trustee, in trust for the holders of such 1986 Indenture Securities, (A) money or (B) noncallable obligations issued or fully guaranteed by the United States of America which through the payment of interest and income thereon and principal thereof will provide money, in each case in an amount sufficient to pay all the principal of (and premium, if any) and interest on such 1986 Indenture Securities on the dates such payments are due in accordance with the terms of such 1986 Indenture Securities and (ii) shall have paid or caused to be paid all other sums payable with respect to such 1986 Indenture Securities. To exercise either of the options described above, the Corporation is required, among other things, to deliver to the 1986 Indenture Trustee an opinion of nationally recognized tax counsel to the effect that holders of such 1986 Indenture Securities will not recognize income, gain or loss for federal income tax purposes as a result of such deposit and discharge and will be subject to federal income tax in the same amount and in the same manner and at the same times as would have been the case if such deposit and discharge had not occurred, and an officer's certificate and opinion of counsel to the effect that all conditions precedent relating to such deposit and discharge under the 1986 Indenture, as supplemented by the Bond Board Resolutions, have been

complied with, and that such deposit and discharge will not cause any violation of the Investment Company Act of 1940, as amended, on the part of the Corporation, the trust, the trust funds representing such deposit or the 1986 Indenture Trustee.

MODIFICATION OF THE INDENTURE

The 1986 Indenture, as supplemented by the Bond Board Resolutions, contains provisions permitting the Corporation and the 1986 Indenture Trustee to modify or otherwise amend the 1986 Indenture, as supplemented by the Bond Board Resolutions, or any supplemental indenture thereto or the rights of the holders of the securities issued thereunder, with the consent of the holders of not less than a majority in principal amount of the securities of all series at the time outstanding under such 1986 Indenture, as supplemented by the Bond Board Resolutions, which are affected by such modification or amendment (voting as one class); provided that no such modification or amendment shall (i) change the fixed maturity of any securities, or reduce the principal amount thereof, or premium, if any, or reduce the rate or extend the time of payment of interest or Additional Amounts thereon, or reduce the amount due and payable upon the acceleration of the maturity thereof or the amount provable in bankruptcy, or make the principal of, or interest, premium or Additional Amounts on, any security payable in any coin or currency other than that provided in such security; (ii) impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof; or (iii) reduce the aforesaid percentage in principal amount of securities, the consent of the holders of which is required for any such modification or amendment, or the percentage required for the consent of the holders to waive defaults, without the consent of the holder of each security so affected.

THE SENIOR 2002 NOTES

The Senior 2002 Notes are issued under two indentures (the "Senior 2002 Note Indentures") among the Corporation, the Subsidiary Guarantors and State Street Bank and Trust Company (the "Senior 2002 Note Trustee"), as trustee. The forms of the Senior 2002 Note Indentures have been filed as exhibits to the Registration Statement and are available as described under "Available Information." Whenever particular provisions or defined terms of the Senior 2002 Note Indentures are referred to, such provisions or defined terms are deemed incorporated herein by reference. Capitalized terms used but not otherwise defined in this summary have the meanings given to such terms in the Senior 2002 Note Indentures.

GENERAL

The Senior 2002 Notes are limited to $478 million aggregate principal amount. The Senior 2002 Notes bear interest at a rate of 10 1/4% per annum (computed on the basis of a 360-day year consisting of twelve 30-day months) and will mature on December 15, 2002. Interest is payable semiannually on June 15 and December 15, to the persons in whose names the Senior 2002 Notes are registered at the close of business on the next preceding June 1 or December 1, as the case may be.

The Senior 2002 Notes rank PARI PASSU with all senior secured indebtedness of the Corporation.

Principal and interest are payable, and the transfer of Senior 2002 Notes is registrable, at the office or agency of the Corporation maintained for such purpose in the City of Chicago, State of Illinois; provided, however, that payment of interest may be made at the option of the Corporation by check or draft mailed to the person entitled thereto as it appears in the security register maintained for such purpose pursuant to the Senior 2002 Note Indentures.

The Senior 2002 Notes are issued in fully registered form without coupons and in denominations of $1,000 and integral multiples thereof. No service charge will be made for any transfer or exchange except the Corporation may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

SECURITY

The Senior 2002 Notes are secured by first priority security interests in the capital stock of certain Subsidiaries pursuant to the Collateral Trust Agreement and related pledge and security agreements

which provide that the security interests equally and ratably secure certain other debt of the Corporation and certain of the Subsidiaries, including the 1986 Indenture Securities and the Bank Debt Obligations. The Bank Group will primarily control the operation of the Collateral Trust Agreement. See "Description of Collateral Trust."

SUBSIDIARY GUARANTEES

Pursuant to contingent payment guarantees (the "Contingent Payment Guarantees"), holders of the Senior 2002 Notes are entitled to participate on a PARI PASSU basis in any collections made by the Bank Group from the Subsidiary Guarantors pursuant to the Subsidiary Guarantees of the Bank Term Loans, the Extended Revolving Credit Facility, the Capitalized Interest Notes and the Senior 2002 Notes. The provisions in the Senior 2002 Note Indentures which provide for the Contingent Payment Guarantees confirm (but do not expand upon or add to) the obligation of the Subsidiary Guarantors under the Subsidiary Guarantees and the right of the holders of the Senior 2002 Notes to participate in any payments thereunder. However, the Bank Group has the exclusive right to (i) determine whether, when and to what extent the Subsidiary Guarantees will be enforced (provided that each guarantee payment will be applied to the Bank Term Loans, Revolving Credit Facility, Capitalized Interest Notes and Senior 2002 Notes pro rata based on the respective amounts owed thereon) and (ii) amend or eliminate the Subsidiary Guarantees; provided that the pro rata sharing requirement contemplated in (i) above is not waivable (in the absence of a complete release of the Subsidiary Guarantees) without the approval of the holders of a majority in principal amount of each series of the Senior 2002 Notes then outstanding. In addition, each Subsidiary Guarantor's liability under its guarantee is limited to the greater of (i) 95% of the lowest amount, calculated as of the date of delivery of the original Subsidiary Guarantee, sufficient to render the guarantor insolvent, leave the guarantor with unreasonably small capital or leave the guarantor unable to pay its debts as they become due (each as defined under applicable law) and (ii) the same amount calculated as of the date any demand for payment is made, in each case plus collection costs. Holders of the Senior 2002 Notes are entitled to enforce the pro rata sharing requirement described above in the event that the Bank Group fails to share proceeds collected under the Subsidiary Guarantees in accordance with the terms thereof. The Subsidiary Guarantees will terminate when the Bank Term Loan, the Extended Revolving Credit Facility and the Capitalized Interest Notes are retired, regardless of whether any portion of the Senior 2002 Notes then remains outstanding. See "Description of Credit Agreement -- Guarantees."

REDEMPTION

Subject to certain limitations contained in the Credit Agreement, the Corporation may, at its option, redeem the Senior 2002 Notes in whole at any time or in part (in integral multiples of $1,000) from time to time, at the following redemption prices (expressed as a percentage of principal amount) plus accrued interest to the redemption date:

REDEMPTION DATE	REDEMPTION PRICE
At any time through and including May 6, 1994	103%
At any time between May 6, 1994 and May 6, 1995	102%
At any time between May 6, 1995 and May 6, 1996	101%
On the day next following May 6, 1996	100%

In addition, the Senior 2002 Notes are subject to mandatory redemption, to the extent of any and all payments (together with earnings thereon, if any) received by the Senior 2002 Note Trustee pursuant to the Contingent Payment Guarantees referred to above or by the Collateral Trustee under the Collateral Trust Agreement, at a redemption price equal to 100% of the principal amount of the Senior 2002 Notes redeemed plus accrued interest thereon to the date of redemption.

CERTAIN COVENANTS OF THE CORPORATION AND ITS RESTRICTED SUBSIDIARIES

Each of the Senior 2002 Note Indentures contains certain covenants binding upon the Corporation and its Restricted Subsidiaries which include, among others, the negative covenants described below.

These covenants do not apply to Unrestricted Subsidiaries. See "The 1986 Indenture Securities -- Restricted and Unrestricted Subsidiaries" above for the definitions of Restricted and Unrestricted Securities.

Limitation Upon Debt of the Corporation and its Restricted Subsidiaries

So long as any Senior 2002 Notes are outstanding, neither the Corporation nor any Restricted Subsidiary shall issue, assume, guarantee, incur or otherwise become liable for (collectively "issue"), directly or indirectly, any Debt, unless the Interest Coverage Ratio for the four consecutive fiscal quarters (treated as one accounting period) immediately preceding, and ending at least 30 days prior to, the issuance of such Debt (as shown by a pro forma consolidated income statement of the Corporation and its Domestic Subsidiaries for such period after giving effect to (i) the issuance of such Debt and, if applicable, the application of the net proceeds thereof to refinance other Debt, as if such Debt was issued and proceeds applied at the beginning of the period; (ii) the issuance and retirement of any other Debt since the last day of the most recent fiscal quarter covered by such income statement as if such Debt was issued or retired at the beginning of the period; and (iii) within certain limits, the acquisition of any company or business acquired by the Corporation since the first day of the period, including any acquisition which will be consummated contemporaneously with the issuance of such Debt, as if such acquisition occurred at the beginning of the period and without giving effect to any adjustments to the historical book value of acquired assets or liabilities required or permitted by generally accepted accounting principles) exceeds the following ratios for Debt issued in the respective periods indicated: (a) the period through December 31, 1996, 1.50; (b) the period from January 1, 1997 through December 31, 1998, 1.75; and (c) from January 1, 1999 and thereafter, 2.00. The preceding restrictions will not prohibit the Corporation or any Restricted Subsidiary from issuing the following Debt: (i) Debt issued pursuant to the Credit Agreement; provided that (A) amounts outstanding (including outstanding Facility Letters of Credit) under the Extended Revolving Credit Facility shall not exceed $175 million at any time, and (B) the Bank Term Loans, once repaid or prepaid, in whole or in part, shall not again be incurred under this restriction, except for extensions, renewals, substitutions, refinancings and replacements as permitted under clause (xi) below; (ii) Debt outstanding on the Effective Date; provided that any such Debt, once repaid or prepaid, in whole or in part, shall not again be incurred under this restriction, except for extensions, renewals, substitutions, refinancings and replacements as permitted under clause (xi) below; (iii) Debt under the Senior 2002 Notes; (iv) so long as any Debt remains outstanding under the Credit Agreement, Debt of the Corporation to any Restricted Subsidiary; provided that (a) the maker of any loan resulting in the incurrence of such Debt shall not be insolvent at the time such loan was made or rendered insolvent as a result of the making of such loan, (b) such loan was in compliance with applicable law and (c) such loan shall be subordinate in right of payment to the repayment in full of the Senior 2002 Notes following the acceleration of the Senior 2002 Notes; (v) Debt of any Restricted Subsidiary to the Corporation or any other Restricted Subsidiary; (vi) Debt relating to letters of credit (other than Debt permitted by clauses (i) and (ii) above) issued for the account of the Corporation or any Restricted Subsidiary in an aggregate amount not to exceed $2.5 million; (vii) Debt incurred in connection with deferred compensation arrangements for employees and former employees of the Corporation and its Subsidiaries entered into in the ordinary course of business; (viii) Debt of the Corporation or any of its Restricted Subsidiaries which constitutes Project Financing; (ix) Capital Lease Obligations (other than Debt permitted by clause (ii) above) having an aggregate amount not exceeding $70 million; (x) Debt (other than Debt permitted by clauses (i) through (ix) above) in an aggregate principal amount at any one time outstanding not to exceed (a) $100 million, during the period when any Debt remains outstanding under the Credit Agreement or any extension or renewal thereof or any successive extension or renewal thereof, and (b) $50 million, at any time thereafter; and (xi) Debt issued in connection with any extension, renewal, substitution, refinancing or replacement of Debt permitted under clauses (i) through (x) above, or any successive extension, renewal, substitution, refinancing or replacement thereof; provided, that (a) the reincurrence of any such Debt after repayment or prepayment of such Debt shall remain subject to the provisos in clauses (i) or (ii) above, as applicable, (b) the principal amount of such newly issued Debt shall not be greater than the aggregate principal amount of the Debt being extended, renewed, substituted, refinanced or replaced thereby and (c) no such Debt shall be

issued containing any recourse to the Corporation or its Subsidiaries additional to the recourse of the Debt being extended, renewed, substituted, refinanced or replaced thereby. For purposes of the foregoing covenant, the term "Debt" means, as applied to any Person, without duplication, (i) all indebtedness of such Person for borrowed money, (ii) all indebtedness of such Person evidenced by notes, debentures, bonds or other similar instruments, (iii) all reimbursement obligations of such Person with respect to letters of credit issued for such Person's account (other than obligations with respect to letters of credit securing obligations entered into in the ordinary course of business of such Person to the extent not drawn on or, if and to the extent drawn on, such drawing is reimbursed promptly following receipt by such Person of a demand for reimbursement following payment on the letter of credit), (iv) all obligations of such Person to pay the deferred purchase price of property or services (but excluding trade accounts payable in the ordinary course of business), (v) all Capital Lease Obligations of such Person, (vi) all obligations of the type referred to in clauses (i) through (v) of other Persons for the payment of which such Person is responsible or liable as obligor, guarantor or otherwise, and (vii) all obligations of the type referred to in clauses (i) through (v) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person); and the term "Interest Coverage Ratio" means, with respect to any period, the ratio of (a) the Corporation's Consolidated Domestic EBITDA (which is defined to exclude the impact of fresh start accounting principles) for such period, minus Domestic Capital Expenditures during such period, to (b) the Total Domestic Consolidated Interest Expense during such period.

Limitation on Restricted Payments

So long as any Senior 2002 Notes are outstanding, the Corporation will not (i) declare or pay any dividend or make any distribution on any capital stock of the Corporation (other than dividends or distributions payable solely in capital stock of the Corporation (excluding preferred stock redeemable at the option of the holder prior to the first anniversary of the stated maturity of the Senior 2002 Notes ("Redeemable Preferred")) or rights to acquire capital stock (other than Redeemable Preferred) of the Corporation or, as part of a shareholder rights plan, rights to acquire capital stock (other than Redeemable Preferred) of another Person) or (ii) purchase, redeem, retire or otherwise acquire, or permit any Subsidiary to purchase, redeem, retire or otherwise acquire, for value, any capital stock of the Corporation or any option, warrant or other right to acquire capital stock of the Corporation (any such dividend, distribution, purchase, redemption, retirement or other acquisition being hereinafter referred to as a "Restricted Payment"), if at the time the Corporation or such Subsidiary makes such Restricted Payment (a) an Event of Default shall have occurred and be continuing (or would result therefrom); (b) the Corporation could not or, after giving effect thereto, would not be able to incur an additional $1.00 of Debt under the restrictions set forth under the heading "Limitation Upon Debt of the Corporation and its Restricted Subsidiaries"; or (c) the aggregate amount of such Restricted Payment and all other Restricted Payments made since the Effective Date, would exceed the sum of: (1) $10 million; plus (2) 25% of the Corporation's Domestic Consolidated Net Income (which is defined to exclude the impact of fresh start accounting adjustments) accrued during the period (treated as one accounting period) from January 1, 1995 to December 31, 1996 (or, in case such Domestic Consolidated Net Income shall be a deficit, minus 100% of such deficit); plus (3) 50% of the Corporation's Domestic Consolidated Net Income accrued during the period (treated as one accounting period) on or after January 1, 1997 (or, in case such Domestic Consolidated Net Income shall be a deficit, minus 100% of such deficit); plus (4) the aggregate net cash proceeds received by the Corporation from the issuance, sale or other disposition (other than to a Subsidiary) subsequent to the Effective Date of capital stock (or any option, warrant or other right to acquire capital stock), including a sale or issuance of capital stock (or options, warrants or other rights to acquire capital stock) upon the conversion of Debt (convertible in accordance with its terms) issued or sold for cash subsequent to the Effective Date (in which case such capital stock shall be deemed to have been issued for the dollar amount of such Debt so converted). The restrictions described above do not prohibit (i) the payment of any dividend within 60 days after the date of declaration thereof, if at said date of declaration such payment complied with the restrictions described above; (ii) the acquisition of any shares of capital stock of the Corporation in exchange for, or upon conversion of, or out of the proceeds of the substantially concurrent sale for cash (other than to a

Subsidiary) of, shares of capital stock (other than Redeemable Preferred) of the Corporation (in which event neither the receipt nor the application of such proceeds shall be included in any computation under this paragraph); (iii) the acquisition of capital stock of the Corporation for the purpose of eliminating fractional shares; (iv) the distribution of, or redemption by, the Corporation of any rights to purchase capital stock of the Corporation or any other Person which rights were issued as part of a shareholder rights plan (in which event such distribution or redemption shall not be included in any computation under this paragraph); (v) the issuance, acquisition, reclassification or redemption by the Corporation of its capital stock pursuant to the 1988 Recapitalization (such issuance, acquisition, reclassification or redemption shall not be included in any computation under this paragraph); (vi) the making of any payment to dissenting stockholders of the Corporation pursuant to any appraisal right arising under law or court order; (vii) the exercise and payment of stock appreciation rights pursuant to the Corporation's Management Performance Plan or any successor equity compensation plan or the repurchase at any time after the Effective Date of Common Stock from the participants in the Management Performance Plan or any successor equity compensation plan in order to satisfy withholding tax obligations (such payment or repurchase shall not be included in any computation under this paragraph); (viii) the cash settlement of certain restricted shares of Common Stock pursuant to the Management Performance Plan (in addition to the repurchases permitted under clause (vii) above) in an aggregate amount of consideration not to exceed $750,000 (such cash settlement shall not be included in any computation under this paragraph); and (ix) any payments or distributions made pursuant to and as described in the Prepackaged Plan (such payments or distributions shall not be included in any computation under this paragraph).

Limitation on Transactions with Affiliates

So long as any Senior 2002 Notes are outstanding, the Corporation shall not, and shall not permit any Subsidiary to, directly or indirectly, enter into any transaction or series of related transactions involving the purchase, sale, lease or exchange of property or the rendering of any service by or to the Corporation or any Subsidiary having a fair market value in excess of $5 million (as reasonably determined by the Board) with any Affiliate (including financing, acquisitions and divestitures), unless the Board by resolution (excluding any members of the Board having a financial interest in such transaction) concludes, in its reasonable good faith judgment, that (i) such transaction is upon terms no less favorable to the Corporation or such Subsidiary than could be obtained in a comparable arm's-length transaction with a Person not an Affiliate and (ii) such transaction is reasonably necessary or desirable for the Corporation or such Subsidiary in the conduct of its business (including financings, acquisitions and divestitures). Notwithstanding the requirements of the foregoing sentence, transactions with any Affiliate that constitute transactions in the ordinary course of business of such Affiliate and the Corporation or such Subsidiary need not be approved by, or disclosed in advance to, the Board; provided such transactions are periodically reported to the Board on at least a quarterly basis and otherwise meet the requirements of subclauses (i) and (ii) of the preceding sentence. "Affiliate" means any Person other than the Corporation or any Subsidiary which (i) directly or indirectly through one or more intermediaries, controls the Corporation; (ii) directly or indirectly through one or more intermediaries, beneficially owns 5% or more of any class of voting stock of the Corporation, CGC or any domestic Subsidiary; or (iii) is controlled by any Person referred to in clauses (i) or (ii) above.

Limitation on Guaranteed Debt

So long as any Senior 2002 Notes are outstanding, and at any time when no Debt remains outstanding under the Credit Agreement, the Corporation shall not issue or incur any Debt the repayment of principal or interest or both of which is guaranteed by any Subsidiary, unless each such Subsidiary which guarantees such other Debt also guarantees the Senior 2002 Notes on a direct and unconditional basis.

Restrictions on Merger

So long as any Senior 2002 Notes are outstanding, the Corporation shall not consolidate with or merge into, or sell or transfer all or substantially all of its property and assets to, any Person unless (i) the

resulting, surviving or transferee Person (if not the Corporation) shall be organized and existing under the laws of the United States of America or any State thereof or the District of Columbia, and such entity shall expressly assume, by a supplemental indenture, executed and delivered to the Senior 2002 Note Trustee,in form satisfactory to the Senior 2002 Note Trustee, all the obligations of the Corporation under the Senior 2002 Notes and each of the Senior 2002 Note Indentures; (ii) immediately prior to and after giving effect to such transaction, no Event of Default shall have occurred and be continuing; (iii) immediately after giving effect to such transaction, the resulting, surviving or transferee Person could issue an additional $1.00 of Debt pursuant to the restrictions set forth under the heading "Limitation Upon Debt of the Corporation and its Restricted Subsidiaries" above; and (iv) immediately after giving effect to such transaction, the resulting, surviving or transferee Person shall have Consolidated Net Worth in an amount which is not less than the Consolidated Net Worth (which may be negative) of the Corporation prior to such transaction.

Limitation on Sale and Leaseback Transactions

So long as any Senior 2002 Notes are outstanding, except as set forth below, the Corporation will not itself, and it will not permit any Restricted Subsidiary to, enter into any transaction with any bank, insurance company or other lender or investor, or to which any such bank, insurance company, lender or investor is a party, providing for the leasing by the Corporation or a Restricted Subsidiary of any Principal Operating Property owned at the Effective Date which has been or is to be sold or transferred by the Corporation or a Restricted Subsidiary to such bank, company, lender or investor, or to any Person to whom funds have been or are to be advanced by such bank, insurance company, lender or investor on the security of such Principal Operating Property (a "sale and leaseback transaction"). The restriction described above does not apply to any sale and leaseback transaction if (i) the Corporation or such Restricted Subsidiary could create Debt secured by a Mortgage (under the restrictions set forth under "Limitation of Secured Debt of the Corporation and its Restricted Subsidiaries" below, without regard to clauses (i) through (viii) thereof), on the Principal Operating Property to be leased in an amount equal to the Attributable Debt with respect to such sale and leaseback transaction without equally and ratably securing the Securities; or (ii) within 120 calendar days after the sale or transfer has been made by the Corporation or by a Restricted Subsidiary, the Corporation or a Restricted Subsidiary applies an amount equal to the greater of (A) the net proceeds from the sale of the Principal Operating Property leased pursuant to such arrangement or (B) the fair market value of the Principal Operating Property so leased at the time of entering into such arrangement (as determined in any manner approved by the Board) to the retirement of Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary; provided, that the amount to be applied to the retirement of Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary will be reduced by (x) the principal amount of any Senior 2002 Notes (or other debentures or notes constituting Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary) delivered within 75 calendar days after such sale or transfer to the Senior 2002 Note Trustee or other applicable trustee for retirement and cancellation and (y) the principal amount of Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary, other than Funded Debt included under clause (x), voluntarily retired by the Corporation or a Restricted Subsidiary within 75 calendar days after such sale; provided further that, notwithstanding the foregoing, no retirement referred to in this clause (ii) may be effected by payment at maturity or pursuant to any mandatory sinking fund payment or any mandatory prepayment provision; (iii) the lease in such sale and leaseback transaction is for a period, including renewals, of no more than three years; or (iv) such arrangement is between the Corporation and a Restricted Subsidiary or between Restricted Subsidiaries.

Limitation of Secured Debt of the Corporation and its Restricted Subsidiaries

So long as any Senior 2002 Notes are outstanding, the Corporation will not itself, and will not permit any Restricted Subsidiary to, incur, issue, assume, guarantee or suffer to exist any indebtedness for borrowed money (for purposes hereof, "Secured Debt") secured by a Mortgage on any Principal Operating Property of the Corporation or any Restricted Subsidiary, or any shares of stock of or Debt of any Restricted Subsidiary, without effectively providing that the Senior 2002 Notes (together with, if the Corporation so determines, any other Debt of the Corporation or such Restricted Subsidiary then

existing or thereafter created which is not subordinated Debt) will be secured equally and ratably with (or, at the option of the Corporation, prior to) such Secured Debt so long as such Secured Debt will be so secured, unless, after giving effect thereto, the aggregate amount of all such Secured Debt plus all Attributable Debt of the Corporation and its Restricted Subsidiaries in respect of sale and leaseback transactions (other than those exempt described under clauses (ii) through (iv), inclusive, under "Limitation Upon Sale and Leaseback Transactions" above) would not exceed 5% of Consolidated Net Tangible Assets (as defined under "the 1986 Indenture Securities -- Limitation Upon Secured Debt of the Corporation and its Restricted Subsidiaries" above). This restriction will not apply to, and there will be excluded from Secured Debt in any computation under such restriction, Debt secured by (i) Mortgages on, and limited to, property of, or on any shares of stock of or Debt of, any corporation existing at the time such corporation becomes a Restricted Subsidiary; (ii) Mortgages in favor of the Corporation or any Restricted Subsidiary; (iii) Mortgages in favor of any governmental body to secure progress, advance or other payments pursuant to any contract or provision of any statute; (iv) (A) if made and continuing in the ordinary course of business, any Mortgage as security for the performance of any contract or undertaking not directly or indirectly in connection with the borrowing of money or the securing of Debt, or (B) any Mortgage with any governmental agency required or permitted to qualify the Corporation or any Restricted Subsidiary to conduct business, to maintain self-insurance or to obtain the benefits of any law pertaining to workmen's compensation, unemployment insurance, old age pensions, social security or similar matters; (v) Mortgages for taxes, assessments or governmental charges or levies if such taxes, assessments, governmental charges or levies will not at the time be due and payable, or if the same thereafter can be paid without penalty, or if the same are being contested in good faith by appropriate proceedings; (vi) Mortgages created by or resulting from any litigation or legal proceeding which at the time is currently being contested in good faith by appropriate proceedings; or Mortgages arising out of judgments or awards as to which the time for prosecuting an appeal or proceeding for review has not expired; (vii) Mortgages on, and limited to, property (including leasehold estates), shares of stock or Debt existing at the time of acquisition thereof (including acquisition through merger or consolidation) or to secure the payment of all or any part of the purchase price thereof or construction thereon or to secure any Debt incurred prior to, at the time of, or within 120 calendar days after the later of the acquisition, the completion of construction or the commencement of full operation of such property or within 120 calendar days after the acquisition of such shares or Debt for the purpose of financing all or any part of the purchase price thereof or construction thereon; or (viii) any extension, renewal or replacement (or successive extension, renewals or replacements), as a whole or in part, of any Mortgage referred to in the foregoing clauses (i) through (vii), inclusive, provided that (A) such extension, renewal or replacement Mortgage will be limited to all or a part of the same property, shares of stock or Debt that secured the Mortgage so extended, renewed or replaced (plus improvements on such property) and (B) the Debt secured by such Mortgage at such time is not increased. "Attributable Debt" is defined in general to mean the total net amount of rent required to be paid during the remaining term of any lease, discounted at a rate equal to 10 1/2%.

EVENTS OF DEFAULT

Each of the Senior 2002 Note Indentures contain certain events of default ("Events of Default"), remedies upon such Events of Default and provisions regarding notices of default, waivers of default and certificates of compliance comparable to those contained in the 1986 Indenture, as supplemented by the Bond Board Resolutions. In addition, an Event of Default shall be deemed to have occurred if the Corporation or USG Interiors shall fail to repay either the Extended Revolving Credit Facility or the Bank Term Loans when due upon the respective final scheduled maturity date thereof and, as a result thereof, the Bank Group files a Notice of Actionable Default under the Collateral Trust Agreement or a written demand for payment under any of the Subsidiary Guarantees. See "The 1986 Indenture Securities -- Events of Default."

DEFEASANCE

The Senior 2002 Note Indentures contain provisions regarding defeasance comparable to those contained in the 1986 Indenture, as supplemented by the Bond Board Resolutions. Upon defeasance of

the Senior 2002 Notes in accordance with such provisions, the Corporation will no longer be obligated to comply with any of the negative covenants described under "Certain Covenants of the Corporation and its Restricted Subsidiaries" above. See "The 1986 Indenture Securities -- Defeasance."

MODIFICATION

Each of the Senior 2002 Note Indentures contain provisions regarding modifications and amendments comparable to those contained in the 1986 Indenture, as supplemented by the Bond Board Resolutions. See "The 1986 Indenture Securities -- Modification of the Indenture."

DESCRIPTION OF COLLATERAL TRUST

In connection with the 1988 Recapitalization, the Corporation established a collateral trust pursuant to the Collateral Trust Agreement, dated as of July 13, 1988 (the "Old Collateral Trust Agreement"), among the Corporation and certain of the Subsidiaries (collectively, the "Grantors") and Wilmington Trust Company and William J. Wade (collectively, the "Collateral Trustee"). Under the Old Collateral Trust Agreement, the Grantors granted a first priority security interest in (i) all of the capital stock of the Corporation's principal domestic Subsidiaries, including U.S. Gypsum, USG Interiors, L&W Supply and USG Foreign Investments, Ltd.; and (ii) 65% of the capital stock of CGC and certain other of the Corporation's foreign Subsidiaries (collectively, the "Collateral"). The Collateral is held in trust for the equal and ratable benefit of the holders of (i) the Bank Debt Obligations; and (ii) the senior debt securities, including the 1986 Indenture Securities. In connection with the Restructuring, the Old Collateral Trust Agreement was amended to provide that the Senior 1995 Notes, the Senior 1998 Notes and Senior 2002 Notes (together with the Bank Debt Obligations and the previously existing senior debt securities, the "Senior Secured Obligations") be equally and ratably secured with the other Senior Secured Obligations (the "Collateral Trust Agreement"). In connection with the Note Placement, the Collateral Trust Agreement is being further amended to provide that the Senior 2001 Notes will be equally and ratably secured with the other Senior Secured Obligations.

Under the Collateral Trust Agreement, an "Actionable Default" occurs upon the acceleration of any of the Senior Secured Obligations. A "Notice of Actionable Default" may be given (i) in the case of an acceleration of the Bank Debt Obligations, by the Administrative Agent under the Credit Agreement or the holders of a majority of the Bank Debt Obligations (the "Requisite Senior Lenders"); or (ii) in the case of an acceleration of any series of securities, by the trustee under the indenture governing such series or, if provided under the terms of such series, by the requisite holders of such series. A Notice of Actionable Default may be withdrawn by the party which gave it (i) at any time when the Collateral Trustee has not exercised any remedies with respect to the Collateral as a result thereof or (ii) after the Collateral Trustee has exercised remedies if the Requisite Senior Lenders consent to such withdrawal. In addition, a Notice of Actionable Default is deemed withdrawn when the party giving such Notice has acknowledged payment in full of the Senior Secured Obligations owing to it. Until such time as any Notice of Actionable Default is given (and after the time when any such Notice has been withdrawn), the pledgor thereof may vote any securities comprising the Collateral. At any time when a Notice of Actionable Default has been given and not withdrawn, the Collateral Trustee may, upon written notice to the Corporation, vote any securities comprising the Collateral.

All of the Collateral will be released (i) upon the consent and direction of the Bank Group or (ii) at such time as the Bank Debt Obligations have been repaid in full. In addition, the Requisite Senior Lenders may instruct the Collateral Trustee to release specified portions of the Collateral (e.g., in the case of asset sales approved by the holders of the Bank Debt Obligations under the Credit Agreement) provided that no Actionable Default has occurred. The holders of the Corporation's Securities do not have any similar rights to authorize release of the Collateral. Under the terms of the Collateral Trust Agreement, the Collateral and proceeds so released revert to the Grantors and are not required to be distributed into the Collateral Account (defined below). For a description of the rights of the holders of the Bank Debt Obligations under the Credit Agreement, see "Description of Credit Agreement."

Following receipt of a Notice of Actionable Default, the Requisite Senior Lenders have the right to direct the Collateral Trustee to exercise, or refrain from exercising, any rights or remedies with respect to the Collateral. The holders of the Securities do not have any similar right to direct the actions of the Collateral Trustee. See "Risk Factors -- Control of Collateral Trust Agreement by Bank Group." In the absence of relevant directions, the Collateral Trustee has the power to act on its own initiative. At any time when a Notice of Actionable Default has been given and not withdrawn, the Collateral Trustee may, and at the direction of the Requisite Senior Lenders shall, sell the Collateral for the benefit of the holders of the Senior Secured Obligations. Funds derived from any sale of Collateral and (at all times after a Notice of Actionable Default has been given and not withdrawn) dividends and distributions received on the Collateral are to be deposited to the collateral account established under the Collateral Trust Agreement (the "Collateral Account"). The Collateral Trustee shall distribute all moneys in the Collateral Account as follows: (i) first, to the Collateral Trustee for unpaid fees; (ii) second, to the holders of the Senior Secured Obligations ratably (on the basis of unpaid amounts) to (a) pay the portion of the Senior Secured Obligations which is then due and payable and (b) provide cash collateral (on a dollar-for-dollar basis) for the portion of the Senior Secured Obligations which is not then due and payable; and (iii) third, to the Grantors.

DESCRIPTION OF CAPITAL STOCK

GENERAL MATTERS

The total number of shares of capital stock that the Corporation has authority to issue is 236,000,000, consisting of 200,000,000 shares of Common Stock, par value $0.10 per share, and 36,000,000 shares of Preferred Stock, par value $1.00 per share. Upon completion of this Offering, 43,158,085 shares of Common Stock will be issued and outstanding, assuming no exercise of the Underwriters' over-allotment option, and no shares of Preferred Stock will be issued or outstanding. The following summary of certain provisions of the Corporation's capital stock describes all material provisions of, but does not purport to be complete and is subject to, and qualified in its entirety by, the Certificate of Incorporation and the By-laws of the Corporation, each of which is included as an exhibit to the Registration Statement of which this Prospectus forms a part.

COMMON STOCK

The issued and outstanding shares of Common Stock are, and the shares of Common Stock being offered will be upon payment therefor, validly issued, fully paid and nonassessable. Subject to the prior rights of the holders of any Preferred Stock, if any, the holders of outstanding shares of Common Stock are entitled to receive dividends out of assets legally available therefor at such times and in such amounts as the Board of Directors may from time to time determine. The Corporation is currently a party to various credit agreements which prohibit the payment of dividends. See "Risk Factors -- Restrictions on Common Stock Dividends." Upon liquidation, dissolution or winding up of the Corporation, the holders of Common Stock are entitled to receive pro rata the assets of the Corporation which are legally available for distribution, after payment of all debts and other liabilities and subject to the prior rights of any holders of Preferred Stock then outstanding, if any. Each outstanding share of Common Stock is entitled to one vote on all matters submitted to a vote of stockholders. There is no cumulative voting.

The Common Stock of the Corporation is traded on the New York Stock Exchange under the symbol "USG." On February 11, 1994, the last reported sales price of the Common Stock, as reported on the New York Stock Exchange Composite Tape, was $32 3/8 per share.

CERTAIN PROVISIONS OF THE CERTIFICATE OF INCORPORATION AND BY-LAWS

The Certificate of Incorporation and By-laws of the Corporation contain certain provisions that are intended to enhance the likelihood of continuity and stability in the composition of the Board and which may have the effect of delaying, deferring or preventing a future takeover or change in control of the Corporation unless such takeover or change in control is approved by the Board. Such provisions may also render the removal of the current Board and of management more difficult.

The Corporation's Certificate of Incorporation provides for three classes of directors, each of which is to be elected on a staggered basis for a term of three years. At present, the Board is composed of 15 directors. Each class of directors is composed of five members. In connection with the Prepackaged Plan, representatives of certain creditors of the Corporation nominated a total of 5 directors. See "Management -- Directors of the Corporation." If the Water Street Directors are removed from office without the consent of Water Street, certain restrictions on the Water Street Entities relating to the purchase, voting and transfer of shares of Common Stock will terminate. See "Certain Relationships and Related Transactions -- Agreement with Water Street Entities."

The affirmative vote or consent of at least 80% of the voting power of all of the stock of the Corporation entitled to vote in the election of directors is required to approve certain types of transactions with another corporation, person or entity which, directly or indirectly, owns 5% or more of the outstanding shares of any class of the Corporation's stock which is entitled to vote in the election of directors. Such transactions include a merger or consolidation of the Corporation or any of its Subsidiaries, sale of all or substantially all of the assets of the Corporation or any of its Subsidiaries or the sale or lease of any assets (except assets having an aggregate fair market value of less than $10 million) in exchange for certain types of securities. The Board may render such super-majority voting requirements inapplicable by (i) approving a memorandum of understanding with such other corporation, person or entity with respect to such a transaction prior to the time that such corporation, person or entity becomes the beneficial owner of 5% or more of any class of voting stock or (ii) approving such a transaction after the time that such other corporation, person or entity becomes the beneficial owner of 5% or more of any class of voting stock if a majority of the members of the Board approving such transaction were duly elected and acting members of the Board prior to the time that such other corporation, person or entity became the beneficial owner of 5% or more of any class of voting stock. This super-majority voting requirement applies to Water Street.

Any action to be taken at any annual or special meeting of stockholders of the Corporation may only be taken without a meeting if a consent in writing is signed by the holders of at least 80% of the voting power of the Corporation entitled to vote with respect to such subject matter.

The provisions in the Certificate of Incorporation described above may only be amended by 80% of the voting power of the Corporation entitled to vote in the election of directors.

PREFERRED STOCK

Upon consummation of the Offering, there will be no shares of Preferred Stock issued or outstanding. The Corporation has no present intention to issue any shares of Preferred Stock. However, the Corporation's Board of Directors may, without further action by the Corporation's stockholders, from time to time, direct the issuance of shares of Preferred Stock in series and may, at the time of issuance, determine the rights, preferences and limitations of each series. Satisfaction of any dividend preferences of outstanding shares of Preferred Stock would reduce the amount of funds available for the payment of dividends on shares of Common Stock. Holders of shares of Preferred Stock may be entitled to receive a preference payment in the event of any liquidation, dissolution or winding-up of the Corporation before any payment is made to the holders of shares of Common Stock. Under certain circumstances, the issuance of shares of Preferred Stock may render more difficult or tend to discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a large block of the Corporation's securities or the removal of incumbent management. The Board of Directors of the Corporation, without stockholder approval, may issue shares of Preferred Stock with voting and conversion rights which could adversely affect the holders of shares of Common Stock.

CERTAIN PROVISIONS OF DELAWARE LAW

The Corporation is governed by the provisions of Section 203 of the Delaware General Corporation Law. In general, the law prohibits a public Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. "Business combination" includes mergers, asset sales and other transactions resulting in a financial benefit to the stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years, did own) 15% or more of the corporation's voting stock.

SHAREHOLDER RIGHTS PLAN

The Corporation's rights agreement (the "Rights Agreement") between the Corporation and Harris Trust (the "Rights Agent") entitles the registered stockholder to purchase from the Corporation one-hundredth share of Junior Series C Preferred Stock at a price of $35 per one-hundredth share (the "Rights Purchase Price"), subject to adjustment.

Until the earlier to occur of (i) 10 days following the date of a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person"), other than the Corporation, any employee benefit plan of the Corporation, any entity holding Common Stock for or pursuant to the terms of any such plan or, except as described below, Water Street or its affiliated or associated persons, has beneficial ownership (as defined in the Rights Agreement) of 20% or more of the then outstanding Common Stock, (ii) 10 days following the date of a public announcement that a person or group of affiliated or associated persons (an "Adverse Person") has beneficial ownership of 10% or more of the then outstanding Common Stock, the acquisition of which has been determined by the Board to present an actual threat of an acquisition of the Corporation that would not be in the best interest of the Corporation's stockholders or (iii) 10 days following the date of commencement of, or public announcement of, a tender offer or exchange offer for 30% or more of the Common Stock (the earliest of such dates being called the "Distribution Date"), the Rights will be evidenced, with respect to the Common Stock, by the certificates which will represent such Common Stock. The Rights Agreement provides that, until the Distribution Date, the Rights will be transferred with and only with the Common Stock certificates. Until the Distribution Date (or earlier redemption or expiration of the Rights), Common Stock certificates issued after May 6, 1993 upon transfer or new issuance of shares of Common Stock (including any shares of Common Stock issued pursuant to the Restructuring) will contain a notation incorporating the Rights Agreement by reference.

The Rights Agreement provides that, until December 31, 1997, Water Street's beneficial ownership of any shares of common Stock (or warrants to purchase Common Stock or securities exchangeable for or convertible into Common Stock or warrants to purchase any such exchangeable or convertible securities) (collectively, "Specified Securities") acquired pursuant to any Permitted Acquisition (as defined in the Water Street Agreement) will not cause any of the following to occur: (a) any Water Street Entity to become an Acquiring Person or an Adverse Person, (b) the Distribution Date, (c) the transfer of Common Stock of the Corporation (or its successor by operation of law or under the terms of the Rights Agreement) no longer constituting the transfer of associated Rights or the distribution of Rights Certificates, (d) the Rights becoming exercisable, non-redeemable or non-amendable, (e) a condition the result of which Rights may be exchanged for Common Stock in the manner described in the Rights Agreement, or (f) the Rights Purchase Price or the amount of securities acquirable upon payment thereof to be adjusted (collectively, the "Specified Events"). The Rights Agreement further provides that, until the tenth anniversary of the Water Street Agreement, (i) from and after any distribution of shares of Common Stock by Water Street to its partners and until the Water Street Entities beneficially own a percentage of the outstanding shares of Common Stock which is less than 10% of the outstanding Common Stock (the "Flip-In Threshold"), the beneficial ownership by the Water Street Entities (other than Water Street) of any Specified Securities acquired pursuant to any Permitted Acquisition or Permitted Acquisitions shall not cause any of the Specified Events to occur, so long as the Water Street Entities shall have voted the shares of Common Stock owned by them in accordance with the terms of the Water

Street Agreement; (ii) until the Water Street Entities beneficially own a percentage of the outstanding shares of Common Stock which is less than the Flip-In Threshold, the acquisition (other than pursuant to any Permitted Acquisition or Permitted Acquisitions) by the Water Street Entities (which acquisition, in the case of persons other than natural persons, is made in the ordinary course of business), including but not limited to acquisitions on behalf of proprietary accounts and accounts with respect to which any of the Water Street Entities has investment discretion, of up to an aggregate of 10% of the outstanding shares of Common Stock at the time of acquisition shall not cause any of the Specified Events to occur; (iii) the acquisition (other than pursuant to any Permitted Acquisition or Permitted Acquisitions) by the Water Street Entities (which acquisition, in the case of persons other than natural persons, is made in the ordinary course of business) of an aggregate of more than 10% of the outstanding shares of Common Stock at the time of acquisition shall not cause any of the Specified Events to occur, provided that, within ten business days after the Corporation notifies Water Street of such ownership, the Water Street Entities sell or otherwise transfer or dispose of Common Stock, so that, after giving effect to those transactions, the number of shares of Common Stock beneficially owned by the Water Street Entities that were acquired other than pursuant to any Permitted Acquisition or Permitted Acquisitions is not greater than an aggregate of 10% of the then outstanding shares of Common Stock; and (iv) any percentage increase in any Water Street Entity's beneficial ownership of outstanding shares of Common Stock that results from the acquisition of shares of Common Stock by the Corporation or its Subsidiaries shall not cause any Specified Event to occur.

Until the Distribution Date (or earlier redemption or expiration of the Rights), the surrender for transfer of any Common Stock certificate also will constitute the transfer of the Rights associated with the Common Stock represented by such certificate. As soon as practicable following the Distribution Date, separate certificates evidencing the Rights (the "Rights Certificates") will be mailed to holders of record of the Common Stock as of the close of business on the Distribution Date and such separate Rights Certificates alone will evidence the Rights. The Rights are not exercisable until the Distribution Date. The Rights will expire on May 6, 2003 (the "Final Expiration Date"), unless earlier redeemed by the Corporation as described below. Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Corporation, including, without limitation, the right to vote or to receive dividends.

In the event that, at any time after the first public announcement that an Acquiring Person or an Adverse Person has become such, the Corporation is involved in a merger or other business combination where the Corporation is not the surviving corporation or where Common Stock is changed or exchanged or in a transaction where 50% or more of its consolidated assets or earning power are sold, proper provision will be made so that each holder of a Right (other than such Acquiring Person or Adverse Person) will thereafter have the right to receive, upon the exercise thereof at the then-current exercise price of the Right, that number of shares of common stock of the acquiring company which at the time of such transaction would have a market value of two times the exercise price of the Right.

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

The Rights Agreement also provides that, at any time prior to the public announcement that an Acquiring Person or an Adverse Person has become such, the Board may (i) redeem the Rights in whole, but not in part, at a price of $.01 per Right (the "Redemption Price") or (ii) amend the New Rights Agreement in any respect other than any amendment which would reduce the Redemption Price, shorten the Final Expiration Date or increase the Rights Purchase Price. At any time after the public announcement that an Acquiring Person or Adverse Person has become such, the Corporation may amend the Rights Agreement only in a manner which would not adversely affect the holders of the Rights. Immediately upon the action of the Board electing to redeem the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

The Purchase Price payable, and the number of shares of Series C Preferred Stock or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution as described in the Rights Agreement. With certain exceptions, no adjustment in the Rights Purchase Price will be required until cumulative adjustments require an adjustment of at least 1% in such Rights Purchase Price. No fractional shares will be issued (other than fractions which are integral multiples of one hundredth of a share, which may, at the election of the Corporation, be evidenced by depositary receipts), and in lieu thereof, an adjustment in cash will be made based on the market price of the Series C Preferred Stock on the last trading date prior to the date of exercise.

The Series C Preferred Stock purchasable upon exercise of the Rights will be nonredeemable and junior to any outstanding shares of preferred stock of the Corporation. Each share of Series C Preferred Stock will have a minimum preferential quarterly dividend rate of $25 per share, but will be entitled to receive, in the aggregate, a dividend of 100 times the dividend declared on the shares of Common Stock. In the event of liquidation, the holders of the Series C Preferred Stock will receive a minimum preferential liquidation payment of $100 per share, but will be entitled to receive an aggregate liquidation payment equal to 100 times the payment made per share of Common Stock. Each share of Series C Preferred Stock will have 100 votes, voting together with the Common Stock. In the event of any merger, consolidation, or other transaction in which shares of Common Stock are exchanged, each share of Series C Preferred Stock will be entitled to receive 100 times the amount and the same type of consideration received per share of Common Stock. The rights of the Series C Preferred Stock as to dividends, liquidation and voting, and in the event of mergers and consolidations, are protected by customary anti-dilution provisions. Because of the nature of the Series C Preferred Stock's dividend, liquidation and voting rights, the value of the interest in a share of Series C Preferred Stock should approximate the value of one share of Common Stock.

The Rights have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group that attempts to acquire the Corporation on terms not approved by the Board, except pursuant to an offer conditioned on a substantial number of Rights being acquired. The Rights should not interfere with any merger or other business combination approved by the Board since the Rights may be redeemed by the Corporation at $.01 per Right prior to the public announcement that a person has become an Acquiring Person or an Adverse Person.

In connection with the settlement of certain litigation at the time of the 1988 Recapitalization, the Corporation agreed, subject to certain conditions, to submit the question of whether to redeem the Rights to a stockholder vote three years after consummation of the 1988 Recapitalization. At the stockholder meeting held on May 8, 1991, the Corporation submitted such question to the stockholders. There were 4,797,682 votes cast in favor of redemption, 30,443,533 votes cast against redemption and 1,863,275 abstentions. The proposal to redeem the Rights accordingly was not adopted.

LIMITATIONS ON LIABILITY AND INDEMNIFICATION OF OFFICERS AND DIRECTORS

The Certificate of Incorporation limits the liability of directors to the fullest extent permitted by the Delaware General Corporation Law. In addition, the Certificate of Incorporation provides that the Corporation shall indemnify directors and officers of the Corporation to the fullest extent permitted by such law.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Common Stock is Harris Trust and Savings Bank.

CERTAIN UNITED STATES FEDERAL TAX CONSEQUENCES FOR NON-U.S. STOCKHOLDERS

THE FOLLOWING DISCUSSION IS PROVIDED FOR GENERAL INFORMATION ONLY; IT DOES NOT CONSIDER ALL U.S. FEDERAL TAX CONSEQUENCES THAT MAY BE RELEVANT TO A PARTICULAR NON-U.S. STOCKHOLDER IN LIGHT OF SUCH STOCKHOLDER'S PARTICULAR TAX POSITION AND DOES NOT DEAL WITH STATE, LOCAL OR FOREIGN TAX CONSEQUENCES. THIS DISCUSSION IS BASED ON THE INTERNAL REVENUE CODE, EXISTING AND PROPOSED TREASURY REGULATIONS, AND JUDICIAL AND ADMINISTRATIVE INTERPRETATIONS AS OF THE DATE HEREOF, ALL OF WHICH ARE SUBJECT TO CHANGE. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE U.S. FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF OWNING AND DISPOSING OF SHARES OF COMMON STOCK, AS WELL AS ANY TAX CONSEQUENCES RESULTING FROM THE LAWS OF ANY OTHER TAXING JURISDICTION.

GENERAL

This is a general discussion of certain U.S. federal income and estate tax consequences of the ownership and disposition of shares of Common Stock by a person that is a Non-U.S. Stockholder. For purposes of this discussion, a "Non-U.S. Stockholder" means any person other than (i) an individual who is a citizen or resident of the United States, (ii) a corporation, partnership, or other entity created or organized in or under the laws of the United States or any political subdivision thereof, or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

DIVIDENDS

In the event that dividends are paid on the Common Stock, any such dividends paid to a Non-U.S. Stockholder will be subject to U.S. federal income tax withholding at a rate of 30% of the amount of the dividend (or such lower rate as may be prescribed by an applicable income tax treaty). However, if the dividend is effectively connected with the conduct of a U.S. trade or business by the Non-U.S. Stockholder and the Non-U.S. Stockholder properly files Internal Revenue Service ("IRS") Form 4224 (or other applicable form required by the IRS) with the Corporation or its dividend-paying agent, then the dividend (i) will not be subject to income tax withholding, and (ii) except to the extent that an applicable income tax treaty provides otherwise, will be subject to U.S. federal income tax at the regular graduated rates. In the case of a Non-U.S. Stockholder that is a corporation, such effectively connected dividend income may also be subject to the branch profits tax (which generally is imposed on a foreign corporation on the repatriation from the United States of effectively connected earnings and profits) at a 30% rate (or such lower rate as may be prescribed by an applicable income tax treaty).

To determine the applicability of an income tax treaty providing for a lower rate of income tax withholding, dividends paid to an address in a foreign country are presumed under current Treasury regulations to be paid to a resident of that country. The Corporation or its dividend-paying agent may generally rely on the Non-U.S. Stockholder's foreign address of record as the basis for allowing the benefit of a reduced treaty rate with respect to the dividends being paid. However, proposed Treasury regulations which have not been finally adopted would require Non-U.S. Stockholders to satisfy certain certification and other requirements to obtain the benefit of any applicable income tax treaty providing for a lower rate of withholding tax on dividends.

A Non-U.S. Stockholder that is eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts currently withheld by filing an appropriate claim for refund with the IRS.

The Corporation is required to report annually to the IRS and to each Non-U.S. Stockholder the amount of dividends paid to, and the income tax withheld with respect to, such stockholder. Such information may also be made available by the IRS to the tax authorities of the country in which the Non-U.S. Stockholder resides.

DISPOSITION OF COMMON STOCK

Generally, a Non-U.S. Stockholder will not be subject to U.S. federal income tax on any gain recognized upon the disposition of such stockholder's shares of Common Stock unless (i) the Corporation is or has been a "U.S. real property holding corporation" for federal income tax purposes (which the Corporation does not believe that it is or is likely to become) and, since the Common Stock is regularly traded on an established securities market, the Non-U.S. Stockholder held, directly or indirectly, at any time during the five-year period ending on the date of disposition, more than 5% of the Common Stock, (ii) the gain is effectively connected with a U.S. trade or business carried on by the Non-U.S. Stockholder or, if an income tax treaty applies, is attributable to a U.S. permanent establishment maintained by the Non-U.S. Stockholder, (iii) the Non-U.S. Stockholder is an individual who holds the Common Stock as a capital asset, such stockholder is present in the United States for 183 days or more in the taxable year of the disposition and either the Non-U.S. Stockholder has a "tax home" in the United States for U.S. federal income tax purposes or the sale is attributable to an office or other fixed place of business maintained by the Non-U.S. Stockholder in the United States, or (iv) the Non-U.S. Stockholder is subject to tax pursuant to the provisions of U.S. tax law applicable to certain U.S. expatriates.

ESTATE TAX

Shares of Common Stock owned or treated as owned by an individual who is not a citizen or resident (as specifically defined for U.S. federal estate tax purposes) of the United States at the time of his or her death will be includible in the individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise. Such individual's estate may be subject to U.S. federal estate tax on property includible in the estate for U.S. federal tax purposes.

U.S. INFORMATION REPORTING REQUIREMENTS AND BACKUP WITHHOLDING

United States backup withholding (which generally is imposed at the rate of 31% on certain payments to persons that fail to furnish the information required under the United States information reporting requirements) will generally not apply to dividends paid on Common Stock to a non-U.S. holder at an address outside the United States.

The payment of the proceeds from the disposition of Common Stock to or through the United States office of a broker will be subject to information reporting and backup withholding unless the holder, under penalties of perjury, certifies, among other things, its status as a Non-U.S. Stockholder or otherwise establishes an exemption. The payment of the proceeds from the disposition of Common Stock to or through a non-U.S. office of a broker will generally, except as noted below, not be subject to backup withholding and information reporting. In the case of proceeds from a disposition of Common Stock paid to or through a non-U.S. office of a broker that is (i) a U.S. person, (ii) a "controlled foreign corporation" for United States federal income tax purposes or (iii) a foreign person 50% or more of whose gross income from all sources for certain periods was effectively connected with a United States trade or business, information reporting (but not backup withholding) will apply unless the broker has documentary evidence in its files that the owner is a Non-U.S. Stockholder (unless the broker has actual knowledge to the contrary).

Any amounts withheld under the backup withholding rules from a payment to a Non-U.S. Stockholder will be refunded (or credited against the Non-U.S. Stockholder's United States federal income tax liability, if any), provided that the required information is furnished to the IRS.

The backup withholding and information reporting rules are currently under review by the Treasury Department and their application to the Common Stock is subject to change.

UNDERWRITING

Subject to the terms and conditions set forth in an agreement among the Corporation, the Selling Stockholder and the U.S. Underwriters (the "U.S. Underwriting Agreement"), the Corporation and the Selling Stockholder have agreed to sell to each of the U.S. Underwriters named below (the "U.S. Underwriters"), and each of the U.S. Underwriters, for whom Salomon Brothers Inc, Lazard Freres & Co. and Smith Barney Shearson Inc. are acting as representatives (the "U.S. Representatives"), has severally agreed to purchase from the Corporation and the Selling Stockholder the number of shares of Common Stock set forth opposite its name below:

U.S. UNDERWRITER	NUMBER OF SHARES
Salomon Brothers Inc	
Lazard Freres & Co.	
Smith Barney Shearson Inc	
Total	

In the U.S. Underwriting Agreement, the several U.S. Underwriters have agreed, subject to the terms and conditions set forth therein, to purchase all 8,500,000 shares of Common Stock offered hereby in the U.S. Offering (other than the shares of Common Stock covered by the over-allotment options described below) if any such shares are purchased. In the event of a default by any U.S. Underwriter, the U.S. Underwriting Agreement provides that, in certain circumstances, purchase commitments of the nondefaulting U.S. Underwriters may be increased or the U.S. Underwriting Agreement may be terminated. The Corporation has been advised by the U.S. Representatives that the several U.S. Underwriters propose initially to offer such shares at the public offering price set forth on the cover page of this Prospectus, and to certain dealers at such price, less a concession not in excess of $ per share. The U.S. Underwriters may allow, and such dealers may reallow, a concession not in excess of $ per share to other dealers. After this public offering, the public offering price and such concessions may be changed.

The Corporation and the Selling Stockholder have entered into an International Underwriting Agreement with the International Underwriters named therein (the "International Underwriters," and together with the U.S. Underwriters, the "Underwriters"), for whom Salomon Brothers International Limited, Lazard Brothers & Co., Limited and Smith Barney Shearson Inc., are acting as representatives (the "International Representatives"), providing for the concurrent offer and sale of 1,500,000 shares of Common Stock outside of the United States and Canada. Both the U.S. Underwriting Agreement and the International Underwriting Agreement provide that the obligations of the U.S. Underwriters and the International Underwriters are such that if any of the shares of Common Stock are purchased by the U.S. Underwriters pursuant to the U.S. Underwriting Agreement or by the International Underwriters pursuant to the International Underwriting Agreement, all the shares of Common Stock agreed to be purchased by either the U.S. Underwriters or the International Underwriters, as the case may be, pursuant to their respective agreements must be so purchased. The initial offering price and underwriting discounts for the U.S. Offering and the International Offering will be identical. The closing of the U.S. Offering is conditioned upon the closing of the International Offering, and the closing of the International Offering is conditioned upon the closing of the U.S. Offering.

Each U.S. Underwriter has severally agreed that, as part of the distribution of the 8,500,000 shares of Common Stock offered by the U.S. Underwriters, (i) it is not purchasing any shares of Common Stock for the account of anyone other than a United States or Canadian Person and (ii) it has not offered or sold, and will not offer or sell, directly or indirectly, any shares of Common Stock or distribute this Prospectus to any person outside the United States or Canada or to anyone other than a United States or Canadian Person. Each International Underwriter has severally agreed that, as part of the distribution of the 1,500,000 shares of Common Stock by the International Underwriters, (i) it is not purchasing any shares of Common Stock for the account of any United States or Canadian Person and (ii) it has not offered or sold, and will not offer or sell, directly or indirectly, any shares of Common Stock or distribute

any Prospectus relating to the International Offering to any person within the United States or Canada or to any United States or Canadian Person. The foregoing limitations do not apply to stabilization transactions or to certain other transactions specified in the Agreement between U.S. Underwriters and International Underwriters. "United States or Canadian Person" means any person who is a national or resident of the United States or Canada, any corporation, partnership or other entity created or organized in or under the laws of the United States or Canada, or any political subdivision thereof, any estate or trust the income of which is subject to United States or Canadian federal income taxation, regardless of the source of its income (other than a foreign branch of any United States or Canadian Person), and includes any United States or Canadian branch of a person other than a United States or Canadian Person.

Any offer of the Common Stock in Canada will be made only pursuant to an exemption from the prospectus requirements in any jurisdiction in Canada in which such offer is made.

The Corporation and the Selling Stockholder have each granted to the U.S. Underwriters and the International Underwriters options, exercisable during the 30-day period after the date of this Prospectus, to purchase up to 637,500 and 112,500 additional shares of Common Stock, respectively, at the same price per share, less underwriting discount as the initial 8,500,000 shares of Common Stock to be purchased by the U.S. Underwriters. The Underwriters may exercise such options only to cover over-allotments, if any, made in connection with the Offering. Either or both options may be exercised at any time up to 30 days after the date of this Prospectus. To the extent that the Underwriters exercise such options, each Underwriter will have a firm commitment, subject to certain conditions, to purchase a number of option shares proportionate to such Underwriter's initial commitment.

Pursuant to the Agreement between U.S. Underwriters and International Underwriters, sales may be made between the U.S. Underwriters and the International Underwriters of such number of shares of Common Stock as may be mutually agreed. The price of any shares of Common Stock so sold shall be the initial public offering price, less an amount not greater than the concession to securities dealers. To the extent that there are sales between the U.S. Underwriters and the International Underwriters pursuant to the Agreement between U.S. Underwriters and International Underwriters, the number of shares initially available for sale by the U.S. Underwriters or by the International Underwriters may be more or less than the amount appearing on the cover page of this Prospectus.

The U.S. and International Underwriting Agreements provide that the Corporation and the Selling Stockholder will indemnify the several U.S. Underwriters and International Underwriters against certain liabilities, including liabilities under the Securities Act, or contribute to payments the U.S. Underwriters and the International Underwriters may be required to make in respect thereof.

Because Goldman, Sachs & Co., the sole general partner of Water Street, may be viewed as an affiliate of the Corporation, as defined under Schedule E ("Schedule E") to the By-Laws of the National Association of Securities Dealers, Inc. ("NASD"), and because more than 10% of the net offering proceeds of the sale of the Common Stock will be paid to Water Street, which may be deemed to be an affiliate of Goldman, Sachs & Co., this offering is being made in compliance with the requirements of Schedule E and as set forth in Article III, Section 44(c)(8) of the NASD's Rules of Fair Practice, as the case may be, which requires the participation of a "qualified independent underwriter" as defined in Section 2(1) of Schedule E. Salomon Brothers Inc is acting as the qualified independent underwriter with respect to the Offering.

The Corporation has agreed not to sell, or otherwise dispose of, or announce the offering of, any shares of Common Stock, or any securities convertible into, or exchangeable for, or exercisable into, shares of Common Stock, except the shares of Common Stock offered in the Offering, for a period of 120 days from the date hereof without the prior written consent of the U.S. Representatives and the International Representatives; provided, however, the Corporation may issue and sell Common Stock (or options exercisable for Common Stock) pursuant to any employee or non-employee director stock option plan or stock ownership plan of the Corporation in effect on the date hereof and the Corporation

may issue Common Stock or any securities convertible into, or exchangeable for, or exercisable into shares of Common Stock pursuant to the terms of any securities outstanding on the date hereof or other obligations binding upon the Corporation and in effect on the date hereof.

The Selling Stockholder has agreed not to sell, or otherwise dispose of, or announce the offering of, any shares of Common Stock, or any securities convertible into, or exchangeable for, or exercisable into, shares of Common Stock, for a period of 120 days from the date hereof, without the prior written consent of the U.S. Representatives and the International Representatives, except for the shares of Common Stock offered in the Offering and except that at any time after 90 days after the date hereof, Water Street may distribute any such shares and securities to the partners in Water Street. In the event of any such distribution by Water Street, the partners (other than Goldman, Sachs & Co.) would not be subject to the restriction on selling shares of Common Stock during the remainder of the 120-day period. The partners in Water Street shall not request a demand registration of such shares or securities for a period of 120 days from the date hereof without the prior written consent of the U.S. Representatives and the International Representatives. See "Certain Relationships and Related Transactions -- Agreement with Water Street Entities."

From April 1991 to May 1993, Salomon Brothers Inc ("Salomon") and Lazard Freres & Co.
("Lazard") advised the Corporation in connection with the development and implementation of the Restructuring for which they received customary fees and reimbursement of expenses. Salomon has also provided other financial advisory and investment banking services to the Corporation from time to time including, during the past two years, with respect to the divestiture of DAP and certain business strategy issues for which it received customary fees and reimbursement of expenses. In addition, Smith Barney Shearson Inc. acted as financial advisor to certain holders of the Company's subordinated debt in connection with the Restructuring and received customary fees and reimbursement of expenses.

LEGAL MATTERS

The validity of the shares of Common Stock offered hereby will be passed upon for the Corporation by Kirkland & Ellis, Chicago, Illinois. Certain legal matters will be passed upon for the Underwriters by Wachtell, Lipton, Rosen & Katz, New York, New York.

EXPERTS

The financial statements and schedules included in this Prospectus and elsewhere in the registration statement have been audited by Arthur Andersen & Co., independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports. Reference is made to said reports, which (1) for the Restructured Company, includes an explanatory paragraph with respect to the asbestos litigation as discussed in Notes to the Financial Statements - --"Litigation" note; and (2) for the Predecessor Company, includes an explanatory paragraph with respect to the asbestos litigation as discussed in Notes to the Financial Statements -- "Litigation" note and an explanatory paragraph with respect to the changes in the methods of accounting for post retirement benefits other than pensions and accounting for income taxes as discussed in Notes to Financial Statements -- "Cumulative Effect of Changes in Accounting Principles" note.

ADDITIONAL INFORMATION

The Corporation has filed with the Securities and Exchange Commission (the "Commission" or the "SEC") a Registration Statement on Form S-1 (the "Registration Statement") (which term shall encompass all amendments, exhibits and schedules thereto) under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the Common Stock being offered hereby. This Prospectus does not contain all the information set forth in the Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the Commission, and to which reference is hereby made. Such additional information can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the following regional offices of the Commission: 500 W. Madison Street, Suite 1400, Chicago, Illinois 60661; and Seven World Trade Center, New York, New York 10048. Copies of such material can be obtained by mail from the public reference section of the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Statements made in this Prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete. With respect to each such contract, agreement or other document filed as an exhibit to the Registration Statement, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference.

The Corporation is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith, files periodic reports and other information with the Commission. Such reports and other information filed with the Commission, as well as the Registration Statement, can be inspected and copied at the public reference facilities of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices located at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511, and Seven World Trade Center, New York, New York 10048. Copies of such material can also be obtained by mail from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Such reports and other information with respect to the Corporation are available for inspection at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005 and the Chicago Stock Exchange, Inc., One Financial Place, 440 South LaSalle Street, Chicago, Illinois 60605.

USG CORPORATION

INDEX TO FINANCIAL STATEMENTS

On May 6, 1993, the Corporation completed the Restructuring through implementation of the Prepackaged Plan as described elsewhere in this Prospectus. See "Prospectus Summary" and "The Restructuring." The consolidated financial statements, notes to financial statements and supplementary financial data for the period of May 7 through December 31, 1993, presented on pages F-1 through F-36, report the financial results for the restructured USG Corporation. As a result of the Restructuring and implementation of fresh start accounting, these restructured company financial results are not comparable to results reported in the periods prior to May 7, 1993 for the predecessor USG Corporation which are presented separately on pages F-37 through F-80. Because the Restructuring was implemented on May 6, 1993, the Restructuring transaction and accounting adjustments associated with the implementation of fresh start accounting are reflected in the results of the predecessor company. All historical financial information presented on pages F-1 through F-82 should be read in conjunction with the information included in this Prospectus under "Capitalization," "Pro Forma Condensed Consolidated Financial Statements," and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

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

	MAY 7 THROUGH DECEMBER 31, 1993
Net Sales	$ 1,325
Cost of products sold	1,062
Gross Profit	263
Selling and administrative expenses	149
Amortization of Excess Reorganization Value	113
Operating Profit	1
Interest expense	92
Interest income	(4)
Other income, net	(8)
Loss Before Taxes on Income and Extraordinary Loss	(79)
Taxes on income	29
Loss Before Extraordinary Loss	(108)
Extraordinary loss, net of taxes	(21)
Net Loss	(129)
Loss Per Common Share:	
Before extraordinary loss	$ (2.90)
Extraordinary loss	(0.56)
Net Loss Per Common Share	(3.46)

THE NOTES TO FINANCIAL STATEMENTS ON PAGES F-4 THROUGH F-27 ARE AN INTEGRAL PART OF THIS STATEMENT.

USG CORPORATION

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

ASSETS

	AS OF DECEMBER 31, 1993
Current Assets:	
Cash and cash equivalents (primarily time deposits)	$ 211
Receivables (net of reserves of $13)	264
Inventories	145
Total current assets	620
Property, Plant and Equipment, Net	754
Excess Reorganization Value (net of accumulated amortization of $113)	735
Other Assets	54
Total assets	2,163
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	$ 104
Accrued expenses	208
Notes payable	2
Long-term debt maturing within one year	165
Taxes on income	20
Total current liabilities	499
Long-Term Debt	1,309
Deferred Income Taxes	180
Other Liabilities	309
Stockholders' Equity/(Deficit):	
Preferred stock -- $1 par value; authorized 36,000,000 shares; $1.80 convertible preferred stock (initial series); outstanding -- none	--
Common stock -- $0.10 par value; authorized 200,000,000 shares; outstanding 37,158,085 (after deducting 27,876 shares held in treasury)	4
Capital received in excess of par value	--
Deferred currency translation	(9)
Reinvested earnings/(deficit)	(129)
Total stockholders' equity/(deficit)	(134)
Total liabilities and stockholders' equity	2,163

THE NOTES TO FINANCIAL STATEMENTS ON PAGES F-4 THROUGH F-27 ARE AN INTEGRAL PART OF THIS STATEMENT.

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

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

THE NOTES TO FINANCIAL STATEMENTS ON PAGES F-4 THROUGH F-27 ARE AN INTEGRAL PART OF THIS STATEMENT.

USG CORPORATION
(RESTRUCTURED COMPANY)
NOTES TO FINANCIAL STATEMENTS
(TERMS IN INITIAL CAPITAL LETTERS ARE DEFINED ELSEWHERE IN THIS PROSPECTUS)

PRINCIPLES OF CONSOLIDATION

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

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

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

FINANCIAL RESTRUCTURING

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

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS

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

USG CORPORATION
(RESTRUCTURED COMPANY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

EXTRAORDINARY LOSS

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

RESEARCH AND DEVELOPMENT

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

TAXES ON INCOME AND DEFERRED INCOME TAXES

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

	May 7 through December 31, 1993
U.S.	$ (72)
Foreign	(7)
Total	(79)

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

	May 7 through December 31, 1993
Current:	
U.S. Federal	$ 12
Foreign	5
State	1
	18
Deferred:	
U.S. Federal	11
Foreign	--
State	--
	11
Total	29

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

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

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

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

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

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

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

INVENTORIES

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

average production cost methods. The remaining inventories are stated at the lower of cost or market, under the FIFO or average production cost methods. Inventories include material, labor and applicable factory overhead costs. Inventory classifications were as follows (dollars in millions):

	As of December 31, 1993
Finished goods and work-in-process	$ 84
Raw materials	53
Supplies	8
Total	145

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

PROPERTY, PLANT AND EQUIPMENT

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

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

LEASES

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

	Minimum Lease Payments
1994	$ 24
1995	21
1996	16
1997	12
1998	11
Thereafter	35
Aggregate minimum payments	119

INDEBTEDNESS

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

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

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

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

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

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

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

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

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

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

PENSION PLANS

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

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

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

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

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

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

POSTRETIREMENT BENEFITS

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

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

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

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

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

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

COMMITMENTS AND CONTINGENCIES

The Corporation employs a variety of off-balance sheet financial instruments to reduce its exposure to fluctuations in interest rates, foreign currency exchange rates and energy costs. These instruments consists primarily of interest rate caps and swaps, foreign currency forward exchange contracts and energy price swaps and option agreements. The Corporation designates interest rate swaps as hedges of LIBOR-based bank debt, and accrues as interest expense the differential to be paid or received under the agreements as rates change over the life of the contracts. Gains and losses arising from foreign currency forward contracts offset gains and losses resulting from the underlying hedged transactions. Upon settlement of energy price contracts, the resulting gain or loss is included in related manufacturing

cost. The Corporation continually monitors its positions with, and the credit quality of, the financial institutions which are counterparties to its off-balance sheet financial instruments and does not anticipate non-performance by the counterparties.

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

MANAGEMENT PERFORMANCE PLAN

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

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

PREFERRED SHARE PURCHASE RIGHTS

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

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

Under the terms of the Rights Agreement and subject to certain exceptions for Water Street and its affiliates, generally the Rights become exercisable (i) 10 days following the date of a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person"), other than the Corporation, any employee benefit plan of the Corporation, any entity holding Common Stock for or pursuant to the terms of any such plan, has beneficial ownership (as defined in the Rights Agreement) of 20% or more of the then outstanding Common Stock, (ii) 10 days following the date of a public announcement that a person or group of affiliated or associated persons (an "Adverse Person") has beneficial ownership of 10% or more of the then outstanding Common Stock, the acquisition of which has been determined by the Board to present an actual threat of an acquisition of the Corporation that would not be in the best interest of the Corporation's stockholders or (iii) 10 days following the date of commencement of, or public announcement of, a tender offer or exchange offer for 30% or more of the

Common Stock. When exercisable, each of the Rights entitles the registered holder to purchase one-hundredth of a share of a junior participating preferred stock, series C, $1.00 par value per share, at a price of $35.00 per one-hundredth of a preferred share, subject to adjustment.

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

WARRANTS

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

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

STOCKHOLDERS' EQUITY

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

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

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

LITIGATION

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

As discussed below, U.S. Gypsum has substantial personal injury and property damage insurance for the years involved in the asbestos litigation. Prior to 1985, when an asbestos exclusion was added to U.S. Gypsum's policies, U.S. Gypsum purchased comprehensive general liability insurance policies covering personal injury and property damage in an aggregate face amount of approximately $850 million. Insurers that issued approximately $106 million of these policies are presently insolvent. After deducting insolvencies and exhaustion of policies, approximately $625 million of insurance remains potentially available. Because U.S. Gypsum's insurance carriers initially responded to its claims for defense and indemnification with various theories denying or limiting coverage and the applicability of

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

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

PROPERTY DAMAGE CASES

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

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

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

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

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

PERSONAL INJURY CASES

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

U.S. Gypsum is a member, together with 19 other former producers of asbestos-containing products, of the Center for Claims Resolution (the "Center"). The Center has assumed the handling, including the defense and settlement, of all Personal Injury Cases pending against U.S. Gypsum and the other members of the Center. Each member of the Center is assessed a portion of the liability and defense costs of the Center for the Personal Injury Cases handled by the Center, according to predetermined allocation formulas. Five of U.S. Gypsum's insurance carriers that in 1985 signed an Agreement

Concerning Asbestos-Related Claims (the "Wellington Agreement") are supporting insurers (the "Supporting Insurers") of the Center. The Supporting Insurers are obligated to provide coverage for the defense and indemnity costs of the Center's members pursuant to the coverage provisions in the Wellington Agreement. Claims for punitive damages are defended but not paid by the Center; if punitive damages are recovered, insurance coverage may be available under the Wellington Agreement depending on the terms of particular policies and applicable state law. Punitive damages have not been awarded against U.S. Gypsum in any of the Personal Injury Cases. Virtually all of U.S. Gypsum's personal injury liability and defense costs are paid by those of its insurance carriers that are Supporting Insurers. The Supporting Insurers provided approximately $350 million of the total coverage referred to above, of which approximately $262 million remains unexhausted.

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

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

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

During 1991, approximately 13,100 Personal Injury Cases were filed against U.S. Gypsum and approximately 6,300 were settled or dismissed. U.S. Gypsum incurred expenses of $15.1 million in 1991 with respect to Personal Injury Cases of which $15.0 million was paid by insurance. During 1992,

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

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

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

COVERAGE ACTION

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

On January 7, 1991, the trial court in the Coverage Action ruled on the applicability of U.S. Gypsum's insurance policies to settlements and one adverse judgment in eight Property Damage Cases. The court ruled that the eight cases were generally covered, and imposed coverage obligations on particular policy years based upon the dates when the presence of asbestos-containing material was "first discovered" by the plaintiff in each case. The court awarded reimbursement of approximately $6.2

million spent by U.S. Gypsum to resolve the eight cases. U.S. Gypsum has appealed the court's ruling with respect to the policy years available to cover particular claims, and the carriers have appealed most other aspects of the court's ruling. The appeal process is likely to take up to a year or more from the date of this report.

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

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

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

It is not possible to predict the number of additional lawsuits alleging asbestos-related claims that may be filed against U.S. Gypsum. The number of Personal Injury Cases pending against U.S. Gypsum has increased in each of the last several years. In addition, many Property Damage Cases are still at an

early stage and the potential liability therefrom is consequently uncertain. In view of the limited insurance funding currently available for the Property Damage Cases resulting from the continued resistance by a number of U.S. Gypsum's insurers to providing coverage, the effect of the asbestos litigation on the Corporation will depend upon a variety of factors, including the damages sought in the Property Damage Cases that reach trial prior to the completion of the Coverage Action, U.S. Gypsum's ability to successfully defend or settle such cases, and the resolution of the Coverage Action. As a result, management is unable to determine whether an adverse outcome in the asbestos litigation will have a material adverse effect on the results of operations or the consolidated financial position of the Corporation.

ACCOUNTING CHANGE

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

ENVIRONMENTAL LITIGATION

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

SUBSEQUENT EVENT

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

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

USG CORPORATION
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 1993
(UNAUDITED)
(DOLLARS IN MILLIONS)

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

GEOGRAPHIC AND INDUSTRY SEGMENTS

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

Intrasegment and intersegment eliminations largely reflect intercompany sales from U.S. Gypsum to L&W Supply. Segment operating profit/(loss) includes all costs and expenses directly related to the

segment involved and an allocation of expenses which benefit more than one segment. Segment operating profit/(loss) also includes the non-cash amortization of Excess Reorganization Value which had the impact of reducing operating profit.

MAY 7 THROUGH DECEMBER 31, 1993 GEOGRAPHIC SEGMENTS	NET SALES	OPERATING PROFIT/ (LOSS)	AMORTIZATION OF EXCESS REORGANIZATION VALUE	DEPRECIATION DEPLETION AND AMORTIZATION	CAPITAL EXPENDITURES	IDENTIFIABLE ASSETS
	(DOLLARS IN MILLIONS)					
United States:						
Gypsum Products	$ 683	$ 47	$ 41	$ 20	$ 17	$ 904
Interior Systems	255	(22)	47	5	2	510
Building Products Distribution	372	4	2	1	1	121
Intrasegment eliminations	(163)	--	--	--	--	--
Corporate	--	(26)	--	10	--	254
Total	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
INDUSTRY SEGMENTS						
Gypsum Products	$ 806	$ 53	$ 51	$ 25	$ 23	$ 1,093
Interior Systems	373	(30)	60	8	5	695
Building Products Distribution	372	4	2	1	1	121
Intersegment eliminations	(226)	--	--	--	--	--
Corporate	--	(26)	--	10	--	254
Total	1,325	1	113	44	29	2,163

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

SUBSIDIARY DEBT GUARANTEES

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

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

The following condensed consolidating information presents:

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

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

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

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

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
Net sales	$ --	$ 1,153	$ 238	$ (66)	$ 1,325
Gross profit	--	216	47	--	263
Operating profit/(loss)	(27)	30	(2)	--	1
Equity in net loss of the Subsidiaries	291	11	--	(302)	--
Interest expense, net	84	2	2	--	88
Corporate service charge	(106)	106	--	--	--
Other expense/(income)	(197)	188	1	--	(8)
Loss before taxes on income and extraordinary loss	(99)	(277)	(5)	302	(79)
Taxes on income	9	14	6	--	29
Loss before extraordinary loss	(108)	(291)	(11)	302	(108)
Extraordinary loss, net of taxes	(21)	--	--	--	(21)
Net loss	(129)	(291)	(11)	302	(129)

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

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 187	$ (8)	$ 32	$ --	$ 211
Receivables, net	8	240	44	(28)	264
Inventories	--	114	34	(3)	145
Total current assets	195	346	110	(31)	620
Property, plant and equipment, net	21	620	113	--	754
Investment in Subsidiaries	1,511	277	--	(1,788)	--
Excess Reorganization Value, net	--	582	153	--	735
Other assets	(35)	91	3	(5)	54
Total assets	1,692	1,916	379	(1,824)	2,163
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities:					
Accounts payable and accrued expenses	$ 100	$ 207	$ 52	$ (27)	$ 332
Notes payable and long-term debt maturing within one year	158	3	6	--	167
Total current liabilities	258	210	58	(27)	499
Long-term debt	1,249	36	24	--	1,309
Deferred income taxes	14	151	15	--	180
Other liabilities	296	8	5	--	309
Stockholders' Equity/(Deficit):					
Common stock	4	1	6	(7)	4
Capital received in excess of par value	--	1,472	310	(1,782)	--
Deferred currency translation	--	--	(9)	--	(9)
Reinvested earnings/(deficit)	(129)	38	(30)	(8)	(129)
Total stockholders' equity/(deficit)	(125)	1,511	277	(1,797)	(134)
Total liabilities and stockholders' equity	1,692	1,916	379	(1,824)	2,163

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

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

USG CORPORATION
MANAGEMENT REPORT

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

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

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board
of Directors of USG Corporation:

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

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

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

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

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

ARTHUR ANDERSEN & CO.

Chicago, Illinois
January 31, 1994

USG CORPORATION
(RESTRUCTURED COMPANY)

SCHEDULE V
PROPERTY, PLANT AND EQUIPMENT
(DOLLARS IN MILLIONS)

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

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

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

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

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

USG CORPORATION
(RESTRUCTURED COMPANY)

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

Classification	Beginning Balance	Ending Balance
MAY 7 THROUGH DECEMBER 31, 1993		
Land and mineral deposits	$ --	$ --
Buildings and realty improvements	--	8
Machinery and equipment	--	28
Total	--	36

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

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

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

USG CORPORATION
(RESTRUCTURED COMPANY)

SCHEDULE VIII
VALUATION AND QUALIFYING ACCOUNTS
(DOLLARS IN MILLIONS)

Account	Beginning Balance	Provision Charged to Costs and Expenses	Receivables Written Off and Discounts Allowed	Ending Balance
MAY 7 THROUGH DECEMBER 31, 1993				
Doubtful accounts	$ 11	$ 4	$ (4)	$ 11
Cash discounts	2	15	(15)	2

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

Category of Aggregate Short-Term Borrowings	Ending Balance	Weighted Average Interest Rate	Maximum Amount Outstanding During the Period	Average Amount Outstanding During the Period (a)	Weighted Average Interest Rate During the Period (b)
MAY 7 THROUGH DECEMBER 31, 1993					
Notes payable (c)....................	$ 2	6.6%	$ 9	$ 7	6.6%
Revolving Credit Facility (d)........	--	--	--	--	--

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

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

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

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

USG CORPORATION
(RESTRUCTURED COMPANY)

SCHEDULE X
SUPPLEMENTAL STATEMENT OF EARNINGS INFORMATION
(DOLLARS IN MILLIONS)

The following amounts were charged to costs and expenses:

	May 7 through December 31, 1993
Maintenance and repairs	$ 84
Depreciation, depletion and amortization	$ 44
Amortization of Excess Reorganization Value	113
Total depreciation, depletion and amortization	157

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

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

USG CORPORATION
(RESTRUCTURED COMPANY)

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

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

SUMMARY STATEMENT OF EARNINGS

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

SUMMARY BALANCE SHEET

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

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

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of USG Corporation (Restructured Company) included in this Form S-1, and have issued our report thereon dated January 31, 1994. Our report on the consolidated financial statements includes an explanatory paragraph with respect to the asbestos litigation as discussed in Notes to Financial Statements -- "Litigation" note. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental note and financial statement schedules on pages F-30 through F-35 are the responsibility of the Corporation's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. The supplemental note and financial statement schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
January 31, 1994

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

	JANUARY 1 THROUGH MAY 6, 1993	YEARS ENDED DECEMBER 31, 1992	1991
Net Sales	$ 591	$ 1,777	$ 1,712
Cost of products sold	482	1,460	1,385
Gross Profit	109	317	327
Selling and administrative expenses	71	218	194
Operating Profit	38	99	133
Interest expense	86	334	333
Interest income	(2)	(12)	(11)
Other expense, net	6	1	5
Reorganization items	(709)	--	--
Earnings/(Loss) from Continuing Operations Before Taxes on Income, Extraordinary Gain and Changes in Accounting Principles	657	(224)	(194)
Taxes on income/(income tax benefit)	17	(33)	(53)
Earnings/(Loss) from Continuing Operations Before Extraordinary Gain and Changes in Accounting Principles	640	(191)	(141)
Extraordinary gain, net of taxes	944	--	--
Cumulative effect of changes in accounting principles, net	(150)	--	--
Earnings/(Loss) from Continuing Operations	1,434	(191)	(141)
Reserve for DAP divestiture, net of taxes	--	--	(20)
Net Earnings/(Loss)	1,434	(191)	(161)

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

THE NOTES TO FINANCIAL STATEMENTS ON PAGES F-40 THROUGH F-71 ARE AN INTEGRAL PART OF THIS STATEMENT.

USG CORPORATION

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

ASSETS

	AS OF MAY 6, 1993	AS OF DECEMBER 31, 1992
Current Assets:		
Cash and cash equivalents (primarily time deposits)	$ 49	$ 180
Receivables (net of reserves of $13 and $11)	315	299
Inventories	148	113
Restricted cash	--	88
Total current assets	512	680
Property, Plant and Equipment, Net	767	800
Purchased Goodwill, Net	--	69
Excess Reorganization Value	851	--
Other Assets	64	110
Total assets	2,194	1,659

LIABILITIES AND STOCKHOLDERS' EQUITY

	AS OF MAY 6, 1993	AS OF DECEMBER 31, 1992
Current Liabilities:		
Accounts payable	$ 96	$ 91
Accrued interest expense	9	386
Other accrued expenses	162	167
Notes payable	6	2
Revolving Credit Facility	--	140
Long-term debt maturing within one year	9	576
Long-term debt classified as current	--	1,926
Taxes on income	13	--
Total current liabilities	295	3,288
Long-Term Debt	1,446	67
Deferred Income Taxes	170	175
Other Liabilities	279	9
Stockholders' Equity/(Deficit):		
Preferred stock -- $1 par value; $1.80 convertible preferred stock (initial series); outstanding -- none	--	--
Common stock -- $0.10 par value; outstanding 37,157,458 and 55,757,394 shares (after deducting 27,556 and 368,409 shares held in treasury)	4	5
Capital received in excess of par value	--	23
Deferred currency translation	--	(8)
Reinvested earnings/(deficit)	--	(1,900)
Total stockholders' equity/(deficit)	4	(1,880)
Total liabilities and stockholders' equity	2,194	1,659

THE NOTES TO FINANCIAL STATEMENTS ON PAGES F-40 THROUGH F-71 ARE AN INTEGRAL PART OF THIS STATEMENT.

USG CORPORATION

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

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

THE NOTES TO FINANCIAL STATEMENTS ON PAGES F-40 THROUGH F-71 ARE AN INTEGRAL PART OF THIS STATEMENT.

USG CORPORATION
(PREDECESSOR COMPANY)
NOTES TO FINANCIAL STATEMENTS

(TERMS IN INITIAL CAPITAL LETTERS ARE DEFINED ELSEWHERE IN THIS PROSPECTUS)

PRINCIPLES OF CONSOLIDATION

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

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

FINANCIAL RESTRUCTURING

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

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

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

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

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

Stockholders existing prior to the distribution of New Common Stock retained their shares of common stock, subject to the Reverse Stock Split. After giving effect to the Reverse Stock Split and distribution of New Common Stock, there were 37,157,458 shares of common stock outstanding on

May 6, 1993, of which the shares held by stockholders existing prior to such distribution represented 3% of the total number of outstanding shares. If all Warrants were exercised, the aggregate holdings of Old Senior Subordinated Debenture holders, Old Junior Subordinated Debenture holders and previously existing stockholders would represent 76.7%, 20.6% and 2.7%, respectively, of the total number of outstanding shares.

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

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

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

FRESH START ACCOUNTING

The Corporation accounted for the Restructuring using the principles of fresh start accounting as required by SOP 90-7. Pursuant to such principles, in general, the Corporation's assets and liabilities were revalued. Total assets were stated at the reorganization value of the Corporation following the Restructuring. The Corporation primarily used "net present value" and "comparable companies" approaches to determine reorganization value (the "Reorganization Value"). In the net present value approach, projected, unleveraged after-tax cash flows of the Subsidiaries and corporate operations

through 1995 were discounted at rates approximating the Corporation's adjusted weighted average cost of capital. Terminal value was determined by capitalizing the 1995 projected results. Liabilities were stated at fair market value. The difference between the Reorganization Value of the assets and the fair market value of the liabilities was recorded as stockholders' equity with retained earnings restated to zero.

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

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

CONSOLIDATED BALANCE SHEET

AS OF MAY 6, 1993
(DOLLARS IN MILLIONS)

ASSETS

	PRE-RESTRUCTURING AND FRESH START	(A) RESTRUCTURING ADJUSTMENTS	(B) FRESH START ADJUSTMENTS	POST-RESTRUCTURING AND FRESH START
Current Assets:				
Cash and cash equivalents	$ 153	$ (104)	$ --	$ 49
Receivables, net	281	35	(1)	315
Inventories	122	--	26	148
Restricted cash	99	(99)	--	--
Total current assets	655	(168)	25	512
Property, Plant and Equipment, Net	792	--	(25)	767
Purchased Goodwill, Net	69	--	(69)	--
Excess Reorganization Value	--	--	851	851
Other Assets	65	(1)	--	64
Total assets	1,581	(169)	782	2,194
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	$ 96	$ --	$ --	$ 96
Accrued expenses	203	(28)	(4)	171
Notes payable	6	--	--	6
Revolving Credit Facility	140	(140)	--	--
Long-term debt maturing within one year	9	--	--	9
Long-term debt classified as current	427	(427)	--	--
Taxes on income	17	--	(4)	13
Total current liabilities	898	(595)	(8)	295
Long-Term Debt	67	1,473	(94)	1,446
Deferred Income Taxes	111	24	35	170
Other Liabilities	194	--	85	279
Liabilities Subject to Compromise	2,458	(2,458)	--	--
Stockholders' Equity/(Deficit):				
Preferred stock	--	--	--	--
Common stock	5	(1)	--	4
Capital received in excess of par value	23	444	(467)	--
Deferred currency translation	(7)	--	7	--
Reinvested earnings/(deficit)	(2,168)	944	1,224	--
Total stockholders' equity/(deficit)	(2,147)	1,387	764	4
Total liabilities and stockholders' equity	1,581	(169)	782	2,194

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

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

REORGANIZATION ITEMS

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

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

EXTRAORDINARY GAIN

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

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

CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

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

DISCONTINUED OPERATIONS

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

In the second quarter of 1991, the Corporation absorbed an expense provision of $20 million related to the disposition of DAP, net of related income tax expense of $8 million. An expense provision of $41 million, net of a related income tax benefit of $2 million, was previously recorded in the fourth quarter of

1990. Net proceeds from the transaction amounted to approximately $84 million. In connection with the execution of the DAP sale agreement, the Banks consented to the sale as required under the Old Credit Agreement subject to an agreement by the Corporation and DAP to deposit the proceeds in a bank account to be held exclusively for use in the Restructuring. As a result, these funds, and interest earned on these funds, were maintained on an interim basis in a restricted bank account and were classified as restricted cash in the Consolidated Balance Sheet until their release in connection with the Restructuring.

RESEARCH AND DEVELOPMENT

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

TAXES ON INCOME AND DEFERRED INCOME TAXES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

INVENTORIES

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

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

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment were stated at fair market value as of May 6, 1993 in accordance with fresh start accounting and at cost as of December 31, 1992. Provisions for depreciation are determined principally on a straight-line basis over the expected average useful lives of composite asset groups. Depletion is computed on a basis calculated to spread the cost of gypsum and other applicable

resources over the estimated quantities of material recoverable. Interest during construction is capitalized on major property additions. Property, plant and equipment classifications were as follows (dollars in millions):

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

LEASES

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

INDEBTEDNESS

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

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

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

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

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

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

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

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

PENSION PLANS

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

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

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

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

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

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

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

POSTRETIREMENT BENEFITS

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

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

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

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

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

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

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

MANAGEMENT PERFORMANCE PLAN

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

In accordance with the Prepackaged Plan, all outstanding stock options (for 3,786,575 shares) were cancelled without consideration, 1,016,090 shares of restricted and deferred stock were cashed-out pursuant to "change in control" provisions contained in the Performance Plan, and 25,580 shares (after

giving effect to the Reverse Stock Split) of restricted stock and awards for deferred stock yet to be issued remained outstanding as a consequence of certain waivers of the change in control event by senior members of management.

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

PREFERRED SHARE PURCHASE RIGHTS

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

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

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

In the event that the Corporation is the surviving corporation in a merger or other business combination involving an Acquiring Person or an Adverse Person and the Common Stock remains outstanding and unchanged or in the event that an Acquiring Person or an Adverse Person engages in one of a number of self-dealing transactions specified in the Rights Agreement, proper provision will be made so that each holder of a Right, other than Rights that are or were beneficially owned (as defined in the Rights

Agreement) by the Acquiring Person or the Adverse Person, as the case may be, on the earliest of the Distribution Date, the date the Acquiring Person acquires 20% or more of the outstanding Common Stock or the date the Adverse Person becomes such (which will thereafter be void), will thereafter have the right to receive upon exercise thereof that number of shares of Common Stock having a market value at the time of such transaction of two times the exercise price of the Right. In addition, under certain circumstances the Board has the option of exchanging all or part of the Rights (excluding void Rights) for Common Stock in the manner described in the Rights Agreement. The Rights Agreement also contains a so-called "flip-in" feature which provides that if any person or group of affiliated or associated persons becomes an Adverse Person, then the provisions of the preceding two sentences shall apply.

WARRANTS

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

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

STOCKHOLDERS' EQUITY

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

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

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

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

LITIGATION

One of the Corporation's subsidiaries, U.S. Gypsum, is among numerous defendants in lawsuits arising out of the manufacture and sale of asbestos-containing building materials. U.S. Gypsum sold certain asbestos-containing products beginning in the 1930's; in most cases the products were discontinued or asbestos was removed from the product formula by 1972, and no asbestos-containing

products were sold after 1977. Some of these lawsuits seek to recover compensatory and in many cases punitive damages for costs associated with maintenance or removal and replacement of products containing asbestos (the "Property Damage Cases"). Others of these suits (the "Personal Injury Cases") seek to recover compensatory and in many cases punitive damages for personal injury allegedly resulting from exposure to asbestos and asbestos-containing products. It is anticipated that additional personal injury and property damage cases containing similar allegations will be filed.

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

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

PROPERTY DAMAGE CASES

The Property Damage Cases have been brought against U.S. Gypsum by a variety of plaintiffs, including school districts, state and local governments, colleges and universities, hospitals, and private property owners. U.S. Gypsum is one of many defendants in four cases that have been certified as class actions and others that request such certification. One class action suit is brought on behalf of owners and operators of all elementary and secondary schools in the United States that contain or contained friable asbestos-containing material. (IN RE ASBESTOS SCHOOL LITIGATION, U.S.D.C., E.D. Pa.) Approximately 1,350 school districts opted out of the class, some of which have filed or may file separate lawsuits or are participants in a state court class action involving approximately 333 school districts in Michigan. (BOARD OF EDUCATION OF THE CITY OF DETROIT, ET AL. V. THE CELOTEX CORP., ET AL., Cir. Ct. for Wayne County, Mich.) On April 10, 1992, a state court in Philadelphia certified a class consisting of all owners of buildings leased to the federal government. (PRINCE GEORGE CENTER, INC. V. U.S. GYPSUM CO., ET AL., Ct. of Common Pleas, Philadelphia, Pa.) On September 4, 1992, a Federal district court in South Carolina conditionally certified a class comprised of all colleges and universities in the United States, which certification is presently limited to the resolution of certain allegedly "common" liability issues. (CENTRAL WESLEYAN COLLEGE, V. W.R. GRACE & CO., ET AL., U.S.D.C., S.C.). On December 23, 1992, a case was filed in state court in South Carolina purporting to be a "voluntary" class action on behalf of owners of all buildings containing certain types of asbestos-containing products manufactured by the nine named defendants, including U.S. Gypsum, other than buildings owned by the federal or state governments, single family residences, or buildings at issue in the four above described class actions (ANDERSON COUNTY HOSPITAL V. W.R. GRACE & CO., ET AL., Court of Common Pleas, Hampton Co., S.C. (the "Anderson Case"). On January 14, 1993, the plaintiff filed an amended complaint that added a number of defendants, including the Corporation. The

amended complaint alleges, among other things, that the guarantees executed by U.S. Gypsum in connection with the 1988 Recapitalization, as well as subsequent distributions of cash from U.S. Gypsum to the Corporation, rendered U.S. Gypsum insolvent and constitute a fraudulent conveyance. The suit seeks to set aside the guarantees and recover the value of the cash flow "diverted" from U.S. Gypsum to the Corporation in an amount to be determined. This case has not been certified as a class action and no other threshold issues, including whether the South Carolina Courts have personal jurisdiction over the Corporation, have been decided. The damages claimed against U.S. Gypsum in the class action cases are unspecified. U.S. Gypsum has denied the substantive allegations of each of the Property Damage Cases and intends to defend them vigorously except when advantageous settlements are possible.

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

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

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

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

PERSONAL INJURY CASES

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

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

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

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

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

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

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

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

COVERAGE ACTION

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

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

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

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

Insolvency proceedings have been instituted against four of U.S. Gypsum's insurance carriers. Midland Insurance Company, declared insolvent in 1986, provided excess insurance ($4 million excess of $1 million excess of $500,000 primary in each policy year) from February 15, 1975 to February 15, 1978; Transit Casualty Company, declared insolvent in 1985, provided excess insurance ($15 million excess of $1 million primary in each policy year) from August 1, 1980 to December 31, 1985; Integrity

Insurance Company, declared insolvent in 1986, provided excess insurance ($10 million quota share of $25 million excess of $90 million) from August 1, 1983 to July 31, 1984; and American Mutual Insurance Company, declared insolvent in 1989, provided the primary layer of insurance ($500,000 per year) from February 1, 1963 to April 15, 1971. It is possible that U.S. Gypsum will be required to pay a presently indeterminable portion of the costs that would otherwise have been covered by these policies.

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

ENVIRONMENTAL LITIGATION

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

GEOGRAPHIC AND INDUSTRY SEGMENTS

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

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

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

JANUARY 1 THROUGH MAY 6, 1993 GEOGRAPHIC SEGMENTS	NET SALES	OPERATING PROFIT/ (LOSS)	DEPLETION DEPRECIATION AND AMORTIZATION	CAPITAL EXPENDITURES	IDENTIFIABLE ASSETS
			(DOLLARS IN MILLIONS)		
United States:					
Gypsum Products	$ 303	$ 30	$ 10	$ 6	$ 956
Interior Systems	121	10	5	2	562
Building Products Distribution	156	(1)	1	1	116
Intrasegment eliminations	(73)	--	--	--	--
Corporate	--	(11)	2	--	142
Total	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

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

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

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

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

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

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

SUBSIDIARY DEBT GUARANTEES

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

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

The following condensed consolidating information presents:

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

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

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

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

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
Net sales	$ --	$ 501	$ 113	$ (23)	$ 591
Gross profit	1	84	24	--	109
Operating profit/(loss)	(11)	39	10	--	38
Equity in net earnings of the Subsidiaries	(751)	(169)	--	920	--
Interest expense, net	80	3	1	--	84
Corporate service charge	(92)	92	--	--	--
Other expense	1	5	--	--	6
Reorganization items	53	(597)	(165)	--	(709)
Earnings before taxes on income, extraordinary gain and changes in accounting principles	698	705	174	(920)	657
Taxes on income/(income tax benefit)	37	(24)	4	--	17
Earnings before extraordinary gain and changes in accounting principles	661	729	170	(920)	640
Extraordinary gain, net of taxes	944	--	--	--	944
Cumulative effect of changes in accounting principles	(171)	22	(1)	--	(150)
Net earnings	1,434	751	169	(920)	1,434

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

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
Net sales	$ --	$ 1,503	$ 359	$ (85)	$ 1,777
Gross profit/(loss)	(2)	251	68	--	317
Operating profit/(loss)	(30)	105	24	--	99
Equity in net (earnings)/loss of the Subsidiaries	230	(17)	--	(213)	--
Interest expense, net	310	10	2	--	322
Corporate service charge	(340)	340	--	--	--
Other expense/(income)	(73)	75	(1)	--	1
Earnings/(loss) before taxes on income	(157)	(303)	23	213	(224)
Taxes on income/(income tax benefit)	34	(73)	6	--	(33)
Net earnings/(loss)	(191)	(230)	17	213	(191)

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

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
Net sales	$ --	$ 1,452	$ 366	$ (106)	$ 1,712
Gross profit	1	241	85	--	327
Operating profit/(loss)	(22)	110	45	--	133
Equity in net (earnings)/loss of the Subsidiaries	185	(30)	--	(155)	--
Interest expense, net	305	15	2	--	322
Corporate service charge	(331)	331	--	--	--
Other expense/(income)	6	(2)	1	--	5
Earnings/(loss) from continuing operations before taxes on income	(187)	(204)	42	155	(194)
Taxes on income/(income tax benefit)	15	(80)	12	--	(53)
Earnings/(loss) from continuing operations	(202)	(124)	30	155	(141)
Discontinued operations	41	(61)	--	--	(20)
Net earnings/(loss)	(161)	(185)	30	155	(161)

USG CORPORATION
(PREDECESSOR COMPANY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 24	$ (7)	$ 32	$ --	$ 49
Receivables, net	55	236	49	(25)	315
Inventories	--	111	39	(2)	148
Total current assets	79	340	120	(27)	512
Property, plant and equipment, net	22	628	117	--	767
Investment in Subsidiaries	1,823	312	--	(2,135)	--
Excess Reorganization Value	--	671	180	--	851
Other assets	(103)	159	5	3	64
Total assets	1,821	2,110	422	(2,159)	2,194
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities:					
Accounts payable and accrued expenses	$ 176	$ 76	$ 52	$ (24)	$ 280
Notes payable and long-term debt maturing within one year	3	1	11	--	15
Total current liabilities	179	77	63	(24)	295
Long-term debt	1,371	47	28	--	1,446
Deferred income taxes	--	155	15	--	170
Other liabilities	267	8	4	--	279
Stockholders' Equity:					
Common stock	4	1	6	(7)	4
Capital received in excess of par value	--	1,678	306	(1,984)	--
Deferred currency translation	--	--	--	--	--
Reinvested earnings	--	144	--	(144)	--
Total stockholders' equity	4	1,823	312	(2,135)	4
Total liabilities and stockholders' equity	1,821	2,110	422	(2,159)	2,194

USG CORPORATION
(PREDECESSOR COMPANY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

USG CORPORATION
(PREDECESSOR COMPANY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

USG CORPORATION
(PREDECESSOR COMPANY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

USG CORPORATION
(PREDECESSOR COMPANY)
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

USG CORPORATION
(PREDECESSOR COMPANY)

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

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

USG CORPORATION
MANAGEMENT REPORT

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

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

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board
of Directors of USG Corporation:

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

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

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

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

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

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

ARTHUR ANDERSEN & CO.

Chicago, Illinois
January 31, 1994

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) The average of month-end principal balances.
(b) Computed by dividing average monthly interest expense for the period by the average amount of short-term borrowings outstanding.
(c) Represents borrowings from several foreign banks by USG International and CGC which are generally not subject to the provisions of the Credit Agreement.
(d) The Old Credit Agreement, effective up to May 6, 1993, included a $200 million Revolving Credit Facility, of which $70 million was established as a letter of credit subfacility. Effective May 6, 1993, these amounts were $175 million and $110 million, respectively.

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

The following amounts were charged to costs and expenses:

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

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

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

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

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

SUMMARY STATEMENT OF EARNINGS

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

SUMMARY BALANCE SHEET

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

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

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of USG Corporation (Predecessor Company) included in this Form S-1, and have issued our report thereon dated January 31, 1994. Our report on the consolidated financial statements includes an explanatory paragraph with respect to the asbestos litigation as discussed in Notes to Financial Statements -- "Litigation" note. Our report on the consolidated financial statements also includes an explanatory paragraph with respect to the changes in the methods of accounting for postretirement benefits other than pensions and accounting for income taxes as discussed in Notes to Financial Statements -- "Cumulative Effect on Changes on Accounting Principles" note. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental note and financial statement schedules on pages F-74 through F-79 are the responsibility of the Corporation's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. The supplemental note and financial statement schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
January 31, 1994

USG CORPORATION

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

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

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

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

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

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

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

(e) Stock price ranges are for transactions on the New York Stock Exchange (trading symbol USG), which is the principal market for these securities. Stockholders of record as of December 31, 1993: Common -- 13,898; Preferred -- none.

USG CORPORATION

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

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

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(a) Results reflect DAP (sold in 1991), the Marlite Division of USG Interiors (sold in 1989) and Wiss, Janney, Elstner Associates, Inc. (sold in 1989) as discontinued operations.

(b) Due to the Restructuring and implementation of fresh start accounting, the financial statements effective May 7, 1993 for the restructured company are not comparable to financial statements prior to that date. See Predecessor Company -- Notes to Financial Statements -- "Financial Restructuring" and "Fresh Start Accounting" notes for more information on the Restructuring and implementation of fresh start accounting.

(c) Per-share information for periods prior to May 7, 1993 is omitted because, due to the Restructuring and implementation of fresh start accounting, it is not meaningful. Market value per common share of $29 1/4 was the closing stock price on December 31, 1993.

(d) Total debt is shown at principal amounts for all periods presented. The carrying amounts of total debt (net of unamortized reorganization discount) as reflected on the Corporation's balance sheets as of December 31, 1993 and May 6, 1993 are $1,476 million and $1,461 million, respectively.

NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE CORPORATION, THE SELLING STOCKHOLDER OR BY ANY OF THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OR SOLICITATION BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH SOLICITATION.

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10,000,000 SHARES
USG CORPORATION

COMMON STOCK
($.10 PAR VALUE)

[LOGO]

SALOMON BROTHERS INC
LAZARD FRERES & CO.
SMITH BARNEY SHEARSON INC.

PROSPECTUS
DATED , 1994

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INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

[ALTERNATIVE PAGE FOR INTERNATIONAL PROSPECTUS]

PROSPECTUS SUBJECT TO COMPLETION [LOGO]
10,000,000 SHARES MARCH 3, 1994
USG CORPORATION
COMMON STOCK
($.10 PAR VALUE)

Of the 10,000,000 shares of common stock ("Common Stock") of USG Corporation ("USG" or the "Corporation") being offered, 6,000,000 shares are being sold by the Corporation and 4,000,000 shares are being sold by Water Street Corporate Recovery Fund I, L.P. (the "Selling Stockholder" or "Water Street"). See "Ownership of Common Stock -- Selling Stockholder and its Affiliates." The Corporation will not receive any of the proceeds from the sale of Common Stock by the Selling Stockholder.

Of the 10,000,000 shares of Common Stock being offered, 1,500,000 shares are being offered hereby outside the United States and Canada (the "International Offering") and 8,500,000 shares are being offered in a concurrent offering in the United States and Canada (the "U.S. Offering" and, collectively with the International Offering, the "Offering"), subject to transfers between the U.S. Underwriters (as defined herein) and the International Underwriters (as defined herein). The offering price and underwriting discounts for the U.S. Offering and the International Offering will be identical. The closing of the U.S. Offering is conditioned upon the closing of the International Offering, and the closing of the International Offering is conditioned upon the closing of the U.S. Offering. See "Underwriting."

The Common Stock is traded on the New York Stock Exchange (the "NYSE") under the symbol "USG." On February 11, 1994, the last reported sale price of the Common Stock as reported on the NYSE Composite Tape was $32.375 per share. See "Price Range of Common Stock." Potential investors are encouraged to obtain current trading price information.

PROSPECTIVE INVESTORS SHOULD CONSIDER CAREFULLY THE MATTERS DISCUSSED UNDER THE CAPTION "RISK FACTORS."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT	PROCEEDS TO CORPORATION (1)	PROCEEDS TO SELLING STOCKHOLDER
Per Share..................	$	$	$	$
Total (2)..................	$	$	$	$

(1) Before deduction of expenses payable by the Corporation, estimated to be $1,300,000.
(2) The Corporation and the Selling Stockholder have each granted to the International Underwriters a 30-day option to purchase up to 112,500 additional shares of Common Stock at the Price to Public, less the Underwriting Discount, solely to cover over-allotments, if any. Additionally, the Corporation and the Selling Stockholder have each granted to the U.S. Underwriters a 30-day option to purchase up to 637,500 additional shares of Common Stock at the Price to Public, less the Underwriting Discount, solely to cover over-allotments, if any. If the Underwriters exercise such options in full, the total Price to Public, Underwriting Discount, Proceeds to Corporation and Proceeds to Selling Stockholder will be , , , and , respectively. See "Underwriting."

The shares of Common Stock are offered subject to receipt and acceptance by the International Underwriters, to prior sale and to the International Underwriters' right to reject any order in whole or in part and to withdraw, cancel or modify the offer without notice. It is expected that delivery of the shares will be made at the office of Salomon Brothers Inc, Seven World Trade Center, New York, New York, or through the facilities of The Depository Trust Company, on or about , 1994.

SALOMON BROTHERS INTERNATIONAL LIMITED LAZARD BROTHERS & CO., LIMITED
SMITH BARNEY SHEARSON INC.

The date of this Prospectus is , 1994.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

UNDERWRITING

Subject to the terms and the conditions set forth in an agreement among the Corporation, the Selling Stockholder and the International Underwriters ("the International Underwriting Agreement"), the Corporation and the Selling Stockholder have agreed to sell to each of the International Underwriters named below (the "International Underwriters"), and each of the International Underwriters, for whom Salomon Brothers International Limited, Lazard Brothers & Co., Limited and Smith Barney Shearson Inc. are acting as representatives (the "International Representatives"), has severally agreed to purchase from the Corporation and the Selling Stockholder the respective number of shares of Common Stock set forth opposite its name below:

INTERNATIONAL UNDERWRITER	NUMBER OF SHARES TO BE PURCHASED
Salomon Brothers International Limited	
Lazard Brothers & Co., Limited	
Smith Barney Shearson Inc	
Total	

In the International Underwriting Agreement, the several International Underwriters have agreed, subject to the terms and conditions set forth therein, to purchase all 1,500,000 shares of Common Stock offered hereby (other than the shares of Common Stock covered by the over-allotment options described below) if any such shares are purchased. In the event of a default by any International Underwriter, the International Underwriting Agreement provides that, in certain circumstances, purchase commitments of the non-defaulting International Underwriters may be increased or the International Underwriting Agreement may be terminated. The Corporation and the Selling Stockholder have been advised by the International Representatives that the several International Underwriters propose initially to offer such shares of Common Stock to the public at the price to public set forth on the cover page of this Prospectus, and to certain dealers at such price less a concession not in excess of $ per share. The International Underwriters may allow and such dealers may reallow a concession not in excess of $ per share to other dealers. After the initial public offering, the public offering price and such concessions may be changed.

The Corporation and the Selling Stockholder have entered into a U.S. Underwriting Agreement with the U.S. Underwriters named therein (the "U.S. Underwriters," and together with the International Underwriters, the "Underwriters"), for whom Salomon Brothers Inc, Lazard Freres & Co., and Smith Barney Shearson Inc., are acting as the representatives (the "U.S. Representatives"), providing for the concurrent offer and sale of 8,500,000 shares of Common Stock in the United States and Canada. Both the International Underwriting Agreement and the U.S. Underwriting Agreement provide that the obligations of the International Underwriters and the U.S. Underwriters are such that if any of the shares of Common Stock are purchased by the International Underwriters pursuant to the International Underwriting Agreement or by the U.S. Underwriters pursuant to the U.S. Underwriting Agreement, all the shares of Common Stock agreed to be purchased by either the International Underwriters or the U.S. Underwriters, as the case may be, pursuant to their respective agreements must be so purchased. The initial public offering price and underwriting discount per share for the International Offering and the U.S. Offering will be identical. The closing of the U.S. Offering is a condition to the closing of the International Offering, and the closing of the International Offering is conditioned upon the closing of the U.S. Offering.

Each International Underwriter has severally agreed that, as part of the distribution of the 1,500,000 shares of Common Stock offered by the International Underwriters, (i) it is not purchasing any shares of Common Stock for the account of any United States or Canadian Person and (ii) it has not offered or sold, and will not offer or sell, directly or indirectly, any shares of Common Stock or distribute this Prospectus to any person within the United States or Canada or to any United States or Canadian

Person. Each U.S. Underwriter has severally agreed that, as part of the distribution of the 8,500,000 shares of Common Stock by the U.S. Underwriters, (i) it is not purchasing any shares of Common Stock for the account of anyone other than a United States or Canadian Person, and (ii) it has not offered or sold, and will not offer or sell, directly or indirectly, any shares of Common Stock or distribute any Prospectus relating to the U.S. Offering to any person outside the United States or Canada or to anyone other than a United States or Canadian Person. The foregoing limitations do not apply to stabilization transactions or to certain other transactions specified in the Agreement Between U.S. Underwriters and International Underwriters. "United States or Canadian Person" means any person who is a national or resident of the United States or Canada, any corporation, partnership or other entity created or organized in or under the laws of the United States or Canada or any political subdivision thereof and any estate or trust which is subject to United States or Canadian federal income taxation, regardless of the source of its income (other than a foreign branch of any United States or Canadian Person), and includes any United States or Canadian branch of a person other than a United States or Canadian Person.

The Corporation and the Selling Stockholder have each granted to the International Underwriters and the U.S. Underwriters options to purchase up to an additional 112,500 and 637,500 additional shares of Common Stock, respectively, at the price to public set forth on the cover page of this Prospectus, less underwriting discount. The Underwriters may exercise such options solely to cover over-allotments, if any, made in connection with the Offering. Either or both options may be exercised at any time up to 30 days after the date of this Prospectus. To the extent that the Underwriters exercise such options, each of the Underwriters will have a firm commitment, subject to certain conditions, to purchase a number of option shares proportionate to such Underwriter's initial commitment.

Pursuant to the Agreement Between U.S. Underwriters and International Underwriters, sales may be made between the International Underwriters and the U.S. Underwriters of such number of shares of Common Stock as may be mutually agreed. The price of any shares of Common Stock so sold shall be the initial public offering price, less an amount not greater than the concession to securities dealers. To the extent that there are sales between the International Underwriters and the U.S. Underwriters pursuant to the Agreement Between U.S. Underwriters and International Underwriters, the number of shares of Common Stock initially available for sale by the International Underwriters or by the U.S. Underwriters may be more or less than the amount specified on the cover page of this Prospectus.

Each International Underwriter has severally represented and agreed that: (i) it has not offered or sold and will not offer or sell any shares of Common Stock in the United Kingdom by means of any document other than to persons whose ordinary business it is to buy and sell shares or debentures (whether as principal or agent) in circumstances which do not constitute an offer to the public within the meaning of the Companies Act 1985; (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the shares of Common Stock in, from or otherwise involving the United Kingdom; and (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the shares of Common Stock to any person who is of a kind described in Article 9(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1988 or is a person to whom the document may otherwise lawfully be issued or passed on.

Purchasers of the shares of Common Stock offered hereby may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page hereof.

The U.S. and International Underwriting Agreements provide that the Corporation and the Selling Stockholder will indemnify the several U.S. Underwriters and International Underwriters against certain liabilities, including liabilities under the Securities Act, or contribute to payments the U.S. Underwriters and the International Underwriters may be required to make in respect thereof.

The Corporation has agreed not to sell, or otherwise dispose of, or announce the offering of, any shares of Common Stock, or any securities convertible into, or exchangeable for, or exercisable into, shares of Common Stock, except the shares of Common Stock offered in the Offering, for a period of 120 days from the date hereof without the prior written consent of the U.S. Representatives and the International Representatives; provided, however, the Corporation may issue and sell Common Stock (or options exercisable for Common Stock) pursuant to any employee or non-employee director stock option plan or stock ownership plan of the Corporation in effect on the date hereof and the Corporation may issue Common Stock or any securities convertible into, or exchangeable for, or exercisable into shares of Common Stock pursuant to the terms of any securities outstanding on the date hereof or other obligations binding upon the Corporation and in effect on the date hereof.

The Selling Stockholder has agreed not to sell, or otherwise dispose of, or announce the offering of, any shares of Common Stock, or any securities convertible into, or exchangeable for, or exercisable into, shares of Common Stock, for a period of 120 days from the date hereof, without the prior written consent of the U.S. Representatives and the International Representatives, except for the shares of Common Stock offered in the Offering and except that at any time after 90 days after the date hereof, Water Street may distribute any such shares and securities to the partners in Water Street. In the event of any such distribution by Water Street, the partners (other than Goldman, Sachs & Co.) would not be subject to the restriction on selling shares of Common Stock during the remainder of the 120-day period. The partners in Water Street shall not request a demand registration of such shares or securities for a period of 120 days from the date hereof without the prior written consent of the U.S. Representatives and the International Representatives. See "Certain Relationships and Related Transactions -- Agreement with Water Street Entities."

From April 1991 to May 1993, Salomon Brothers Inc ("Salomon") and Lazard Freres & Co. ("Lazard") advised the Corporation in connection with the development and implementation of the Restructuring for which they received customary fees and reimbursement of expenses. Salomon has also provided other financial advisory and investment banking services to the Corporation from time to time including, during the past two years, with respect to the divestiture of DAP and certain business strategy issues for which it received customary fees and reimbursement of expenses. In addition, Smith Barney Shearson Inc. acted as financial advisor to certain holders of the Company's subordinated debt in connection with the Restructuring and received customary fees and reimbursement of expenses.

LEGAL MATTERS

The validity of the shares of Common Stock offered hereby will be passed upon for the Corporation by Kirkland & Ellis, Chicago, Illinois. Certain legal matters will be passed upon for the Underwriters by Wachtell, Lipton, Rosen & Katz, New York, New York.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE CORPORATION, THE SELLING STOCKHOLDER OR BY ANY OF THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OR SOLICITATION BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH SOLICITATION.

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10,000,000 SHARES
USG CORPORATION

COMMON STOCK
($.10 PAR VALUE)

[LOGO]

SALOMON BROTHERS
INTERNATIONAL LIMITED
LAZARD BROTHERS & CO., LIMITED
SMITH BARNEY SHEARSON INC.

PROSPECTUS
DATED , 1994

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following are the estimated expenses of the issuance and distribution of the Common Stock being registered, including fees and expenses previously incurred by the Corporation, other than any underwriting compensation.

ITEM	AMOUNT (DOLLARS IN THOUSANDS)
Securities and Exchange Commission Registration Fees.................	$ 120
Stock Exchange Filing Fees..	30
NASD Filing Fee...	30
Blue Sky Fees and Expenses (including attorneys' fees and expenses)...	30
Printing and Engraving Expenses.....................................	400
Transfer Agent's Fees and Expenses..................................	30
Accounting Fees and Expenses..	100
Legal Fees and Expenses...	400
Miscellaneous Expenses..	160
Total...	$ 1,300

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law ("SECTION 145") (a) gives Delaware corporations broad powers to indemnify their present and former directors and officers and those of affiliated corporations against expenses incurred in the defense of any lawsuit to which they are made parties by reason of being or having been such directors or officers, subject to specified conditions and exclusions, (b) gives a director or officer who successfully defends an action the right to be so indemnified and (c) authorizes the corporation to buy directors' and officers' liability insurance. Such indemnification is not exclusive of any other right to which those indemnified may be entitled under any bylaw, agreement, vote of stockholders or otherwise.

A bylaw provides that the Corporation (a) shall indemnify every person who is or was a director or officer of the Corporation or is or was serving at the Corporation's request as a director or officer of another corporation, partnership, joint venture, trust or other enterprise and (b) shall, if the board of directors so directs, indemnify any person who is or was an employee or agent of the Corporation or is or was serving at the Corporation's request as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, to the extent, in the manner, and subject to compliance with the applicable standards of conduct, provided by Section 145 as the same (or any substitute provision therefor) may be in effect from time to time.

Any such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

The Corporation has procured insurance for the purpose of substantially covering its future potential liability for indemnification under Section 145 as discussed above and certain future potential liability of individual officers or directors incurred in their capacity as such which is not subject to indemnification.

The Corporation has entered into Indemnification Agreements with each of its officers and directors. The Indemnification Agreements provide that the Corporation shall indemnify and keep indemnified the indemnitee to the fullest extent authorized by Section 145 as it may be in effect from time to time from and against any expenses (including expenses of investigation and preparation and reasonable fees and disbursements of legal counsel, accountants and other experts), judgments, fines and amounts paid in settlement by the indemnitee in connection with any threatened, pending or completed action,

suit or proceeding, whether civil, criminal, administrative or investigative, and whether or not the cause of action, suit or proceeding incurred before or after the date of the Indemnification Agreement. The Indemnification Agreements further provide for advancement of amounts to cover expenses incurred by the indemnitee in defending any such action, suit or proceeding subject to an undertaking by the indemnitee to repay any expenses advanced which it is later determined he or she was not entitled to receive.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

During the past three years, the Corporation has not sold any unregistered securities, except in the Note Placement (as defined in the Prospectus included in this Registration Statement).

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following is a complete list of Exhibits filed as a part of this Registration Statement:

See Exhibit Index

(b) The following is a complete list of financial statement Schedules filed as a part of this Registration Statement and included with the financial statements filed as a part of this Registration Statement:

1.	Schedule V	--	Property, Plant and Equipment
2.	Schedule VI	--	Accumulation Depreciation and Depletion of Property, Plant and Equipment
3.	Schedule VIII	--	Valuation and Qualifying Accounts
4.	Schedule IX	--	Short-Term Borrowings
5.	Schedule X	--	Supplemental Statement of Earnings Information

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

ITEM 17. UNDERTAKINGS

The Registrant hereby undertakes:

(1) To provide to the Underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

(2) For purposes of determining any liability under the Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(3) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement, relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof; and

(4) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrants pursuant to provisions described in this Registration Statement or otherwise, the Registrants have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrants of expenses incurred or paid by a director, officer or controlling person of the Registrants in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrants will, unless in the opinion of their respective counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 2 to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago, State of Illinois on March 3, 1994.

USG CORPORATION

By: /s/ Richard H. Fleming

Richard H. Fleming
VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement Amendment No. 1 has been signed on March 3, 1994, by the following persons in the capacities indicated:

SIGNATURE	TITLE
* Eugene B. Connolly	Chairman of the Board, Chief Executive Officer, and Director (Principal Executive Officer)
William C. Foote	President, Chief Operating Officer, and Director
/s/ Richard H. Fleming Richard H. Fleming	Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ Raymond T. Belz Raymond T. Belz	Vice President and Controller (Principal Accounting Officer)
* Robert L. Barnett	Director
* Keith A. Brown	Director
* W.H. Clark	Director
* James C. Cotting	Director
* Lawrence M. Crutcher	Director

SIGNATURE	TITLE
* Wade Fetzer III	Director
* David W. Fox	Director
* Philip C. Jackson, Jr.	Director
* Marvin E. Lesser	Director
* John B. Schwemm	Director
Judith A. Sprieser	Director
* Alan G. Turner	Director
* Barry L. Zubrow	Director

*By: /s/ Richard H. Fleming

Richard H. Fleming
Attorney-in-fact

EXHIBIT INDEX

The following documents are the exhibits to this Registration Statement on Form S-1. For convenient reference, each exhibit is listed according to the Exhibit Table of Regulation S-K. The page number, if any, listed opposite an exhibit indicates the page number in the sequential numbering system in the manually signed original of this Registration Statement on Form S-1 where such exhibit can be found. Exhibits followed by an (*) constitute management contracts or compensatory plans or arrangements. Exhibits followed by an (**) have been filed previously.

EXHIBIT NO.			PAGE
1.		Underwriting Agreements	
	(a)	U.S. Underwriting Agreement.	
	(b)	International Underwriting Agreement.	
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 (incorporated by reference to Exhibit 4(b) of USG Corporation's 1993 Annual Report on Form 10-K, filed on February 24, 1994).	
	(c)	Resolutions dated March 5, 1987 of a Special Committee created by the Board of Directors of USG Corporation (incorporated by reference to Exhibit 4(c) of USG Corporation's 1993 Annual Report on Form 10-K, filed on February 24, 1994).	
	(d)	Resolutions dated March 6, 1987 of a Special Committee created by the Board of Directors of USG Corporation (incorporated by reference to Exhibit 4(d) of USG Corporation's 1993 Annual Report on Form 10-K, filed on February 24, 1994).	
	(e)	Resolutions dated April 26, 1993 of a Special Committee created by the Board of Directors of USG Corporation relating to USG Corporation's 8% Senior Notes due 1995 and 9% Senior Notes due 1998 (incorporated by reference to Exhibit 4.1 of USG Corporation's Form 8-K, dated May 7, 1993).	
	(f)	Consent Resolutions adopted by a Special Committee created by the Board of Directors of USG Corporation relating to USG Corporation's 9 1/4% Senior Notes due 2001.	**
	(g)	Indenture dated as of April 26, 1993 among USG Corporation, certain guarantors and State Street Bank and Trust Company, as Trustees, relating to USG Corporation's 10 1/4% Senior Notes due 2002 (incorporated by reference to Exhibit 4.2 of USG Corporation's Form 8-K, dated May 7, 1993).	
	(h)	Indenture dated as of August 10, 1993 among USG Corporation, certain guarantors and State Street Bank and Trust Company, as Trustee, relating to USG Corporation's 10 1/4% Senior Notes due 2002, Series B (incorporated by reference to Exhibit 4(f) of USG Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 dated August 12, 1993.	
	(i)	Warrant Agreement dated May 6, 1993 between USG Corporation and Harris Trust and Savings Bank, as Warrant Agent, relating to USG Corporation's Warrants (incorporated by reference to Exhibit 4.3 of USG Corporation's Form 8-K, dated May 7, 1993).	

EXHIBIT NO.		PAGE
(j)	Form of Warrant Certificate (incorporated by reference to Exhibit 4(g) of Amendment No. 4 to USG Corporation's Registration Statement No. 33-40136 on Form S-4, dated November 12, 1992).	
(k)	Rights Agreement dated May 6, 1993 between USG Corporation and Harris Trust and Savings Bank, as Rights Agent (incorporated by reference to Exhibit 10.1 of USG Corporation's Form 8-K, dated May 7, 1993).	
(l)	Form of Common Stock certificate (incorporated by reference to Exhibit 4.4 to USG Corporation's Form 8-K, dated May 7, 1993).	
	The Corporation and certain of its consolidated subsidiaries are parties to long-term debt instruments under which the total amount of securities authorized does not exceed 10% of the total assets of the Corporation and its subsidiaries on a consolidated basis. Pursuant to paragraph (b)(4)(iii)(A) of Item 601 of Regulation S-K, the Corporation agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.	
5.	Opinions of counsel as to the legality of the securities being registered.	
10.	Material contracts:	
(a)	Management Performance Plan of USG Corporation (incorporated by reference to Annex C of Amendment No. 8 to USG Corporation's Registration Statement No. 33-40136 on Form S-4, dated February 3, 1993).*	
(b)	1991-1993 Management Incentive Compensation Program -- USG Corporation, as amended (incorporated by reference to Exhibit 10(b) of USG Corporation's 1991 Annual Report on Form 10-K, dated March 5, 1992).*	
(c)	Amendment and Restatement of USG Corporation Supplemental Retirement Plan, effective as of July 1, 1993 and dated November 30, 1993.*	**
(d)	First Amendment of USG Corporation Supplemental Retirement Plan, effective as of November 15, 1993 and dated December 2, 1993.*	**
(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 *.	**
(h)	Form of Change of Control Waiver (incorporated by reference to Exhibit 10(t) of USG Corporation's 1992 Annual Report on Form 10-K dated March 26, 1993).*	
(i)	Incentive Recovery Program -- Waiver of Full Payment (incorporated by reference to Exhibit 10(u) of USG Corporation's 1992 Annual Report on Form 10-K, dated March 26, 1993).*	
(j)	Rights Agreement dated May 6, 1993 between USG Corporation and Harris Trust and Savings Bank, as Rights Agent (incorporated by reference to Exhibit 10.1 of Form 8-K filed by USG Corporation on May 7, 1993).	
(k)	Warrant Agreement dated May 6, 1993 between USG Corporation and Harris Trust and Savings Bank, as Warrant Agent, relating to USG Corporation's Warrants (incorporated by reference to Exhibit 4.3 of Form 8-K filed by USG Corporation on May 7, 1993).	
(l)	Amended and Restated Credit Agreement dated as of May 6, 1993 among USG Corporation and USG Interiors, Inc., as borrowers; the Financial Institutions listed on the signature pages thereof, as Senior Lenders; Bankers Trust Company, Chemical Bank and Citibank, N.A., as Agents; and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.2 of Form 8-K filed by USG Corporation on May 7, 1993).	

EXHIBIT NO.		PAGE
(m)	First Amendment to Amended and Restated Credit Agreement between USG Corporation and USG Interiors, Inc. as borrowers; the Financial Institutions listed on the signature pages thereof, as Senior Lenders; Bankers Trust Company, Chemical Bank and Citibank, N.A., as Agents; and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 4M of USG Corporation's Registration Statement No. 35-65804 on Form S-1, dated July 9, 1993).	
(n)	Second Amendment to Amended and Restated Credit Agreement between USG Corporation and USG Interiors, Inc. as borrowers; the Financial Institutions listed on the signature pages thereof, as Senior Lenders; Bankers Trust Company, Chemical Bank and Citibank, N.A., as Agents; and Citibank, N.A., as Administrative Agent.	**
(o)	Letter of Credit Issuance and Reimbursement Agreement dated as of May 6, 1993 between USG Interiors, Inc. and Chemical Bank (incorporated by reference to Exhibit 10.12 of Form 8-K filed by USG Corporation on May 7, 1993).	
(p)	Amended and Restated Collateral Trust Agreement dated as of May 6, 1993 among USG Corporation, USG Interiors, Inc. and USG Foreign Investments, Ltd., as grantors, and Wilmington Trust Company and William J. Wade, as Trustees (incorporated by reference to Exhibit 10.6 of Form 8-K filed by USG Corporation on May 7, 1993).	
(q)	Amended and Restated Company Pledge Agreement dated as of May 6, 1993 among USG Corporation, Wilmington Trust Company and William J. Wade (incorporated by reference to Exhibit 10.7 of Form 8-K filed by USG Corporation on May 7, 1993).	
(r)	Amended and Restated Subsidiary Pledge Agreement dated as of May 6, 1993 among USG Interiors, Inc., Wilmington Trust Company and William J. Wade (incorporated by reference to Exhibit 10.8 of Form 8-K filed by USG Corporation on May 7, 1993).	
(s)	Amended and Restated Subsidiary Pledge Agreement dated as of May 6, 1993 among USG Foreign Investments, Ltd., Wilmington Trust Company and William J. Wade (incorporated by reference to Exhibit 10.9 of Form 8-K filed by USG Corporation on May 7, 1993).	
(t)	Amended and Restated Share Pledge Agreement dated as of May 6, 1993 among USG Foreign Investments, Ltd., Wilmington Trust Company and William J. Wade (incorporated by reference to Exhibit 10.10 of Form 8-K filed by USG Corporation on May 7, 1993).	
(u)	Amended and Restated Deed of Charge dated as of May 6, 1993 among USG Foreign Investments, Ltd., Wilmington Trust Company and William J. Wade (incorporated by reference to Exhibit 10.11 of Form 8-K filed by USG Corporation on May 7, 1993).	
(v)	Amended and Restated Company Guaranty dated as of May 6, 1993 made by USG Corporation (incorporated by reference to Exhibit 10.3 of Form 8-K filed by USG Corporation on May 7, 1993).	
(w)	Amended and Restated Subsidiary Guaranty dated as of May 6, 1993 made by USG Interiors, Inc. (incorporated by reference to Exhibit 10.1 of Form 8-K filed by USG Corporation on May 7, 1993).	
(x)	Form of Amended and Restated Subsidiary Guaranty dated as of May 6, 1993 made by each of United States Gypsum Company, USG Foreign Investments, Ltd., L&W Supply Corporation, USG Interiors International, Inc., La Mirada Products Co., Inc., Westbank Planting Company, American Metals Corporation and USG Industries, Inc. (incorporated by reference to Exhibit 10.5 of Form 8-K filed by USG Corporation on May 7, 1993).	
(y)	Consent and Agreement dated as of August 22, 1991 with respect to the Old Credit Agreement dated as of July 1, 1988 (incorporated by reference to Exhibit 10(ai) of USG Corporation's Form 8-K, dated August 23, 1991).	

EXHIBIT NO.		PAGE
(z)	First Amendment dated as of March 12, 1993 with respect to the Consent and Agreement dated as of August 22, 1991 (incorporated by reference to Exhibit 10(ap) of USG Corporation's 1992 Annual Report on Form 10-K, dated March 26, 1993).	
(aa)	Deposit Agreement dated as of September 19, 1991 (incorporated by reference to Exhibit 10(aq) of USG Corporation's 1992 Annual Report on Form 10-K, dated March 26, 1993).	
(ab)	First Amendment dated as of March 12, 1993 to the Deposit Agreement (incorporated by reference to Exhibit 10(ar) of USG Corporation's 1992 Annual Report on Form 10-K, dated March 26, 1993).	
(ac)	Agreement among USG Corporation and the Ad Hoc Committee of Holders of 13 1/4% Senior Subordinated Debentures of USG Corporation due 2000 (incorporated by reference to Exhibit 10(aq) of Amendment No. 4 to USG Corporation's Registration Statement No. 33-40136 on Form S-4).	
(ad)	Letter Agreement dated February 25, 1993 among USG Corporation, Water Street Corporate Recovery Fund I L.P., The Goldman Sachs Group, L.P. and Goldman, Sachs & Co. (incorporated by reference to Exhibit 10(au) of USG Corporation's 1992 Annual Report on Form 10-K, dated March 26, 1993).	
(ae)	First Amendment to Letter Agreement dated February 22, 1994 among USG Corporation, Water Street Corporate Recovery Fund I, L.P., The Goldman Sachs Group, L.P., and Goldman, Sachs & Co.	
(af)	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).	
(ag)	Consulting Agreement dated July 1, 1990, as amended March 23, 1992, between USG Corporation and William L. Weiss (incorporated by reference to Exhibit 10(au) of Amendment No. 4 to USG Corporation's Registration Statement No. 33-40136 on Form S-4).	
(ah)	Consulting Agreement dated May 6, 1993 between USG Corporation and Jack D. Sparks.	**
(ai)	Consulting Agreement dated August 11, 1993 between USG Corporation and James W. Cozad.	**
(aj)	1993 Annual Management Incentive Program -- USG Corporation (incorporated by reference to Exhibit 10(b) of Amendment No. 1 to USG Corporation's Registration Statement No. 33-61152 on Form S-1).	
(ak)	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).	
(al)	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).	
(am)	Form of Nonqualified Stock Option Agreement effective June 1, 1993 (incorporated by reference to Exhibit 10(l) of Amendment No. 1 on USG Corporation's Registration Statement No. 33-61152 on Form S-1).	
(an)	Form of Nonqualified Stock Option Agreement with Anthony J. Falvo, Jr. effective June 1, 1993 (incorporated by reference to Exhibit 10(m) of Amendment No. 1 to USG Corporation's Registration Statement No. 33-61152 on Form S-1).	
(ao)	Form of First Amendment to Amended and Restated Collateral Trust Agreement (incorporated by reference to Exhibit 10(w) of Amendment No. 1 to USG Corporation's Registration Statement No. 33-61152 on Form S-1).	
(ap)	Form of First Amendment to Amended and Restated Subsidiary Guaranty (incorporated by reference to Exhibit 10(ae) of Amendment No. 2 to USG Corporation's Registration Statement No. 33-61152 on Form S-1).	
(aq)	First Amendment to Management Performance Plan, effective November 15, 1993, and dated February 1, 1994.	**

EXHIBIT NO.			PAGE
	(ar)	Modification letter dated February 1, 1994 to Nonqualified Stock Option Agreement dated June 1, 1993 between USG Corporation and Eugene B. Connolly.	**
	(as)	Form of Nonqualified Stock Option Agreement effective February 9, 1994.	**
	(at)	Executive Consulting Agreement effective March 1, 1994 between USG Corporation and Anthony J. Falvo, Jr.	**
24.	Consents of Experts and Counsel		
	(a)	Consent of Arthur Andersen & Co.	**
	(b)	Consents of counsel (included in Exhibit 5).	
25.	Power of Attorney		**

APPENDIX TO FORM S-1

The following graphics have been omitted from the EDGAR submission of Amendment No. 1 to Form S-1:

Inside front cover page of Prospectus:

An assortment of four photographs of the Corporation's products and applications of those products.

Page 33:

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

Inside back cover page of Prospectus:

An assortment of four photographs of the Corporation's products and applications of those products.

USG Corporation

Exhibit 1A

__________ Shares*
Common Stock
($.10 par value)

U.S. Underwriting Agreement

New York, New York
February __, 1994

Salomon Brothers Inc
Lazard Freres & Co.
Smith Barney Shearson Inc.
As Representatives of the Several Underwriters,
c/o Salomon Brothers Inc
7 World Trade Center
New York, New York 10048

Dear Sirs:

USG Corporation, a Delaware corporation (the "Company"), proposes to sell to the underwriters named in Schedule I hereto (the "Underwriters"), for which you are acting as representatives (the "Representatives"), ______ shares (the "Company Underwritten Securities") of common stock, $.10 par value per share (the "Common Stock"), of the Company, and Water Street Corporate Recovery Fund I, L.P. ("Water Street" or the "Selling Stockholder") proposes to sell to the Underwriters ___ shares of Common Stock (the "Selling Stockholder Securities" and together with the Company Underwritten Securities, the "Underwritten Securities"). In addition, solely for the purpose of covering overallotments, the Company proposes to grant to the Underwriters an option to purchase up to an additional ________ shares (the "Company Option Securities") of Common Stock and the Selling Stockholder proposes to grant to the Underwriters an option to purchase up to an additional ____

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* Plus options to purchase from USG Corporation and from the Selling Stockholder up to _________ additional shares to cover overallotments.

shares of Common Stock (the "Selling Stockholder Option Securities" and together with the Company Option Securities, the "U.S. Option Securities"). The Underwritten Securities and the Option Securities are hereinafter referred to as the "U.S. Securities." [The parties hereto acknowledge that the underwriting discount on the sale of the Securities will be 4.5% of the aggregate price to the public.]

It is understood that the Company and the Selling Stockholder are concurrently entering into an International Underwriting Agreement dated the date hereof (the "International Underwriting Agreement") providing for the issue and sale by the Company of an aggregate of _______ shares of Common Stock (the "International Company Underwritten Securities") and the sale by the Selling Stockholder of an aggregate of ________ shares of Common Stock (the "International Selling Stockholder Underwritten Securities" and together with the International Company Underwritten Securities, the "International Underwritten Securities"), in each case, outside the United States and Canada through arrangements with certain underwriters outside the United_States and Canada (the "Managers") for whom Salomon Brothers International Limited, Lazard Brothers & Co., Limited and Smith Barney Shearson Inc. are acting as representatives (the "International Representatives"), and providing for the grant by the Company to the Managers of an option to purchase up to _______ additional shares of Common Stock (the "International Company Option Securities") and by the Selling Stockholder to the Managers of an option to purchase up to _______ additional shares of Common Stock (the "International Selling Stockholder Option Securities," together with the International Company Option Securities, the "International Option Securities," and together with the International Underwritten Securities, the "International Securities") solely for the purpose of covering overallotments. The U.S. Securities together with the International Securities are hereinafter called the "Securities"). It is further understood and agreed that the Managers and the Underwriters are entering into an agreement dated the date hereof (the "Agreement Between U.S. Underwriters and the Managers"), pursuant to which, among other things, the Managers may purchase from the Underwriters a portion of the U.S. Securities to be sold pursuant to the U.S. Underwriting Agreement and the Underwriters may purchase from the Managers a portion of the International Securities to be sold pursuant to International Underwriting Agreement.

The terms which follow, when used in this Agreement, shall have the meanings indicated. The term "the Effective Date" shall mean each date that the Registration Statement and

any post-effective amendment or amendments thereto became or become effective. "Execution Time" shall mean the date and time that this Agreement is executed and delivered by the parties hereto. The "Preliminary Prospectus" shall mean any preliminary prospectus with respect to the offering of the Securities referred to in Section 1(a)(i) below and any preliminary prospectus with respect to the offering of the Securities included in the Registration Statement at the Effective Date that omits Rule 430A Information; "Registration Statement" shall mean the registration statement referred to in Section 1(a)(i) below, including exhibits and financial statements, as amended at the Execution Time (or, if not effective at the Execution Time, in the form in which it shall become effective) and, in the event any post-effective amendment thereto becomes effective prior to the Closing Date, shall also mean such registration statement as so amended. Such term shall include any Rule 430A Information deemed to be included therein at the Effective Date as provided by Rule 430A. "Rule 424" and "Rule 430A" and "Regulation S-K" refer to such rules under the Act. "Rule 430A Information" means information with respect to the Securities and the offering thereof permitted to be omitted from the Registration Statement pursuant to Rule 430A when the Registration Statement becomes effective.

1. REPRESENTATIONS AND WARRANTIES. (a) The Company represents and warrants to, and agrees with, each Underwriter as follows:

(i) The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement (file number 33-51845) on Form S-1, including a related preliminary prospectus, for the registration under the Securities Act of 1933, as amended (the "Act") of the offering and sale of the Securities. The Company may have filed one or more amendments thereto, including the related preliminary prospectus, each of which has previously been furnished to you. The Company will next file with the Commission either (i) prior to the effectiveness of such registration statement, a further amendment to such registration statement (including the form of final prospectus) or (ii) after the effectiveness of such registration statement, a final prospectus in accordance with Rules 430A and 424(b)(1) or (4). In the case of clause (ii), the Company has included in such registration statement, as amended at the Effective Date, all information (other than Rule 430A Information) required by the Act and

the rules thereunder to be included in the final prospectus with respect to the Securities and the offering thereof. As filed, such amendment and form of final prospectus, or such final prospectus, shall contain all Rule 430A Information, together with all other such required information, with respect to the Securities and the offering thereof and, except to the extent the Representatives shall agree in writing to a modification, shall be in all substantive respects in the form furnished to you prior to the Execution Time or, to the extent not completed at the Execution Time, shall contain only such specific additional information and other changes (beyond those contained in the latest Preliminary Prospectus) as the Company has advised you, prior to the Execution Time, will be included or made therein.

The form of prospectus relating to the Securities as first filed pursuant to Rule 424(b) or, if no filing pursuant to Rule 424(b) is made, such form of prospectus included in the Registration Statement at the Effective Date, is hereinafter called the "Prospectus."

(ii) On the Effective Date, the Registration Statement did or will, and when the Prospectus is first filed (if required) in accordance with Rule 424(b) and on each Closing Date (as defined in Section 3 hereof) the Prospectus (and any supplement thereto) will, comply in all material respects with the applicable requirements of the Act and the rules thereunder; on the Effective Date, the Registration Statement did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and, on the Effective Date, the Prospectus, if not filed pursuant to Rule 424(b), did not or will not, and on the date of any filing pursuant to Rule 424(b) and on each Closing Date, the Prospectus (together with any supplement thereto) will not, include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that the Company makes no representations or warranties as to the information contained in or omitted from the Registration Statement, or the Prospectus (or any supplement thereto) in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of any Underwriter through the Representatives, or Water Street specifically for use in connection with the

preparation of the Registration Statement or the Prospectus (or any supplement thereto).

(iii) Each of the Company and its subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation; all of the issued shares of capital stock of each subsidiary have been duly and validly authorized and issued, are fully paid and nonassessable, and (except for directors' qualifying shares and those shares not held by the Company or any of its Affiliates) are owned directly or indirectly by the Corporation, free and clear of all liens, encumbrances, equities or claims, except for the shares of capital stock of USG Interiors (Europe) SA and except as provided under the Collateral Trust Agreement (as such term is defined in the Prospectus). Each of the Company and its subsidiaries has the requisite corporate power and authority to own or lease and operate its properties and to carry on its business as described in the Prospectus except where the failure to have such power and authority would not reasonably be expected to result in a material adverse change in the financial condition, assets or operations of the Company and its subsidiaries taken as a whole (a "MAC"). The Company has the requisite power and authority to authorize the offering of the Securities to be sold by it, and to issue, sell and deliver the Securities to be sold by it. The Company has the requisite power and authority to enter into each of the following agreements and to perform its obligations thereunder: the letter agreement, dated February 25, 1993, as amended (the "Water Street Agreement"), among the Company, Water Street, Goldman, Sachs & Co. and The Goldman Sachs Group, L.P.; this Agreement; and the International Underwriting Agreement (collectively, the "Agreements"). It being understood and agreed that the Company will have to deliver good standing certificates and similar documentation only with respect to United States Gypsum Company, USG Interiors, Inc., L&W Supply Corporation, USG Industries, Inc., USG Foreign Investments, Ltd., La Mirada Products Co., Inc., Westbank Planting Company and American Metals Corporation (individually a "Major Subsidiary" and collectively the "Major Subsidiaries").

(iv) Each of the Company and its subsidiaries is duly qualified or licensed and in good standing as a foreign corporation duly authorized to do business in each jurisdiction in which it owns or leases properties, or conducts any business, so as to require such qualification

or licensure, except where the failure to be so qualified and authorized would not reasonably be expected to result in a MAC.

(v) Except as may be disclosed in the Registration Statement and the Prospectus, there are no actions, proceedings or investigations pending or to the best of the Company's knowledge threatened (solely in the case of such actions, proceedings or investigations which would result in a MAC, in writing) which question the validity of this Agreement or the International Underwriting Agreement or any action taken or to be taken pursuant hereto or thereto which would result in a MAC, or which is required to be disclosed in the Registration Statement or Prospectus which is not adequately disclosed in the Registration Statement or Prospectus, as the case may be, and, to the Company's knowledge, there is no franchise, contract or other document required to be described in the Registration Statement or Prospectus, or required to be filed as an exhibit to the Registration Statement, which is not so described or filed.

(vi) The Company and its subsidiaries are not in breach or violation of any term or provision of any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation, domestic or foreign, applicable to the Company or its subsidiaries or to any of their respective properties or assets, which breach, breaches, violation or violations would reasonably be expected to individually or in the aggregate result in a MAC, and the Company and its subsidiaries are not in violation of any term of their respective charters or by-laws. The compliance by the Company with all of the provisions of the Agreements, and the performance of the transactions contemplated by the Agreements will not result in any such violation or be in conflict with or constitute a default under any such term, which conflict or default would result in a MAC or result in the creation of any mortgage, lien, charge or encumbrance upon any of the properties or assets of the Company pursuant to any such term which would reasonably be expected to result in a MAC. No consent, approval, authorization or order of any court or governmental agency or body is required for the consummation by the Company and the subsidiaries of the transactions contemplated herein, except such as have been obtained under the Act and such as may be required under the Blue Sky Laws of any jurisdiction in connection with the

distribution of the Securities and such other approvals as have been obtained.

(vii) The Securities to be issued and sold by the Company to the Underwriters have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein, will be duly and validly issued and fully paid and nonassessable and will conform in all material respects to the description of the Common Stock contained in the Prospectus.

(viii) Each of the Agreements has been duly authorized and validly executed and delivered by the Company and constitutes a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms (assuming the due execution and delivery by the parties thereto other than the Company) subject to the effect of bankruptcy, insolvency, reorganization, arrangement, moratorium, fraudulent conveyance and other similar laws relating to or affecting the enforcement of rights of secured or unsecured creditors generally.

(ix) Except as disclosed in the Prospectus, no holder of any security of the Company has or will have any right to require the registration of such security by virtue of any transactions contemplated by this Agreement other than any such right that has been expressly waived in writing. No holder of any of the outstanding shares of capital stock of the Company is entitled to preemptive or other rights to subscribe for the Securities.

(x) The Securities have been duly authorized for trading on the New York Stock Exchange, Inc., subject to official notice of issuance.

(b) The Selling Stockholder represents and warrants to, and agrees with, each Underwriter as follows:

(i) The Selling Stockholder is a partnership duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization. The Selling Stockholder has all necessary power and authority to enter into this Agreement and the International Underwriting Agreement. Each of the Agreements has been duly authorized, executed and delivered by the Selling Stockholder and constitutes a valid and binding obligation of the Selling Stockholder, enforceable against it in accordance with its terms (subject, as to enforcement of remedies, to

applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity and except with respect to the indemnification provisions contained in the Agreements and assuming due execution by the parties thereto other than Water Street). No consent, approval, authorization or order of any court or governmental agency or body is required for the consummation by Water Street of any of the transactions contemplated herein. The sale of the Securities by Water Street and the consummation by Water Street of the transactions contemplated by this Agreement and the International Underwriting Agreement will not conflict with, result in a breach or violation of, or constitute a default under any law, agreement of limited partnership of Water Street, the Water Street Agreement or the terms of any indenture or other agreement or instrument to which Water Street is a party or bound, or any judgment, order or decree applicable to Water Street of any court, regulatory body, administrative agency, governmental body or arbitrator having jurisdiction over Water Street.

(ii) Water Street has good and valid title to the Securities to be sold by Water Street and upon sale and delivery of, and payment for, such Securities, as provided herein, Water Street will convey good and valid title to such Securities, free and clear of all liens, encumbrances, equities and claims whatsoever.

(iii) On the Effective Date, the Registration Statement did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and on the Effective Date the Prospectus, if not filed pursuant to Rule 424(b), did not or will not, and on the date of any filing pursuant to Rule 424(b) and on the Closing Date, the Prospectus (together with any supplements thereto) will not, include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided that the Selling Stockholder makes no representations or warranties as to any statements in or omissions from the Registration Statement or Prospectus or any supplements thereto, except for statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by or on behalf

of the Selling Stockholder specifically for use in connection with the preparation thereof.

2. PURCHASE AND SALE. (a) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company and the Selling Stockholder agree, severally and not jointly, to sell to each Underwriter, and each Underwriter agrees, severally and not jointly, to purchase from the Company and the Selling Stockholder at a purchase price of $____ per share, the amount of Underwritten Securities set forth opposite such Underwriter's name in Schedule I hereto. The amount of Securities to be purchased by each Underwriter from the Company and the Selling Stockholder shall be as nearly as practicable in the same proportion to the total amount of Securities to be purchased by such Underwriter as the total amount of Securities to be sold by each of the Company and the Selling Stockholder bears to the total amount of Securities to be sold pursuant hereto.

(b) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company and the Selling Stockholder hereby grant, severally and not jointly, an option to the several Underwriters to purchase, severally and not jointly, up to __________ shares and ___ shares of the U.S. Option Securities, respectively, at the same purchase price per share as the Underwriter shall pay for the Underwritten Securities. Said options may be exercised solely to cover overallotments in the sale of the Underwritten Securities. Said options may be exercised in whole or in part at any time (but not more than once) on or before the 30th day after the date of the Prospectus upon written or telegraphic notice by the Representatives to the Company and the Selling Stockholder setting forth the number of shares of the U.S. Option Securities as to which the several Underwriters are exercising the option and the settlement date. Delivery of certificates for the shares of U.S. Option Securities, and payment therefor, shall be made as provided in Section 3 hereof. The number of shares of the U.S. Option Securities to be purchased by each Underwriter shall be the same percentage of the total number of shares of the U.S. Option Securities to be purchased by the several Underwriters as such Underwriter is purchasing of the Underwritten Securities, subject to such adjustments as you in your absolute discretion shall make to eliminate any fractional shares.

3. DELIVERY AND PAYMENT. Delivery of and payment for the Underwritten Securities shall be made at the offices of Wachtell, Lipton, Rosen & Katz, 51 W. 52nd Street (or such

other place as mutually may be agreed upon), New York, New York, at 10:00 a.m., New York City time, on ____________, 1994, or such later date (not later than __________, 1994) as the Representatives shall designate, which date and time may be postponed by agreement among the Representatives, the Company and the Selling Stockholder or as provided in Section 9 hereof (such date and time of delivery and payment for the Securities being herein called the "First Closing Date"). Delivery of the Underwritten Securities shall be made to the Representatives for the respective accounts of the several Underwriters against payment by the several Underwriters through the Representatives of the purchase price therefor to or upon the order of the Company and the Selling Stockholder by certified or official bank check or checks drawn on or by a New York Clearing House bank and payable in next day funds. Certificates for the Underwritten Securities shall be registered in such names and in such denominations as the Representatives may request not less than three full business days in advance of the First Closing Date.

The overallotment option may be exercised during the term thereof by written notice by you to the Company and the Selling Stockholder. Such notice shall set forth the aggregate number of U.S. Option Securities as to which the option is being exercised, the name or names in which the certificates for such U.S. Option Securities are to be registered, the authorized denominations in which such U.S. Option Securities are to be issued, and the time and date, as determined by you, when such U.S. Option Securities are to be delivered (an "Additional Closing Date"); PROVIDED, HOWEVER, that no Additional Closing Date shall be earlier than the First Closing Date nor earlier than the third business day after the date on which the notice of the exercise of the option shall have been given nor later than the eighth business day after the date on which such notice shall have been given. Delivery and payment for such U.S. Option Securities is to be at the offices set forth above for delivery and payment of the Underwritten Securities. The First Closing Date and any Additional Closing Date are individually referred to as a "Closing Date" and collectively referred to as the "Closing Dates."

The Company and the Selling Stockholder agree to use their best efforts to have the Underwritten Securities and the U.S. Option Securities, as the case may be, to be delivered at each Closing Date available for inspection, checking and packaging by the Representatives in New York, New York, not later than 1:00 p.m. on the business day prior to such Closing Date.

4. OFFERING BY UNDERWRITERS. It is understood that the several Underwriters propose to offer the Securities for sale to the public as set forth in the Prospectus. The Representatives agree to advise the Company promptly following the completion of the distribution of the Securities.

5. AGREEMENTS. (a) The Company agrees with the several Underwriters and Water Street that:

(i) The Company will use its best efforts to cause the Registration Statement, if not effective at the Execution Time, and any amendment thereof, to become effective. Prior to the termination of the offering of the Securities, the Company will not file any amendment of the Registration Statement or supplement to the Prospectus without your prior consent, which consent shall not be unreasonably withheld. Subject to the foregoing sentence, if the Registration Statement has become or becomes effective pursuant to Rule 430A, or filing of the Prospectus is otherwise required under Rule 424(b), the Company will cause the Prospectus, properly completed, and any supplement thereto to be filed with the Commission pursuant to the applicable paragraph of Rule 424(b) within the time period prescribed and will provide evidence satisfactory to the Representatives of such timely filing. The Company will promptly advise the Representatives (i) when the Registration Statement, if not effective at the Execution Time, and any amendment thereto, shall have become effective, (ii) when the Prospectus, and any supplement thereto, shall have been filed (if required) with the Commission pursuant to Rule 424(b), (iii) when, prior to termination of the offering of the Securities, any amendment to the Registration Statement shall have been filed or become effective, (iv) of any request by the Commission for any amendment of the Registration Statement or supplement to the Prospectus or for any additional information, (v) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the Company becoming aware of the institution or threatening of any proceeding for that purpose, and (vi) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose. The Company will use its best efforts to prevent the issuance of any such stop order and, if issued, to obtain as soon as possible the withdrawal thereof.

(ii) If, at any time when a prospectus relating to the Securities is required to be delivered under the Act, any event occurs as a result of which the Prospectus as then supplemented would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it shall be necessary to amend the Registration Statement or supplement the Prospectus to comply with the Act or the rules thereunder, the Company will promptly prepare and file with the Commission, subject to the second sentence of Section 5(a)(i), an amendment or supplement which will correct such statement or omission or effect such compliance.

(iii) As soon as practicable, but in any event not later than sixteen (16) months after the Effective Date, the Company will make generally available to its security holders and to the Representatives an earnings statement or statements of the Company and its subsidiaries which satisfies the provisions of Section 11(a) of the Act and Rule 158 under the Act. Filing reports under Section 13 of the Securities Exchange Act of 1934 on a timely basis shall constitute compliance with this paragraph (iii), provided that the provisions of Section 11(a) of the Act and Rule 158 are thereby satisfied.

(iv) The Company will furnish to the Representatives and counsel for the Underwriters, without charge, two signed copies of the Registration Statement (including exhibits thereto) and to each other Underwriter a copy of the Registration Statement (without exhibits thereto) and, so long as delivery of a prospectus by an Underwriter or dealer may be required by the Act, as many copies of each Preliminary Prospectus and the Prospectus and any supplement thereto as the Representatives may reasonably request. The Company will pay the expenses of printing or other production of all documents relating to the offering.

(v) The Company will cooperate with you and your counsel in connection with endeavoring to obtain qualification of the Securities for sale under the laws of such jurisdictions as the Representatives may designate, will maintain such qualifications in effect so long as required for the distribution of the Securities; PROVIDED, HOWEVER, that the Corporation shall not be obligated to qualify as a foreign corporation to do business under the laws of any

jurisdiction in which it shall not then be qualified but for the requirements of this Section 4(a)(v), to subject itself to taxation in any such jurisdiction to which it shall not then be so subject or to consent to general service of process in any such jurisdiction to which it shall not then be so subject.

(vi) For a period of 120 days following the Execution Time, the Company will not, without the prior written consent of the Representatives, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any other shares of Common Stock or any securities convertible into, or exercisable or exchangeable for, shares of Common Stock, other than through the exercise of warrants or management stock options.

(vii) The Company will apply the net proceeds of the offering and the sale of the Securities in the manner set forth in the Prospectus under the caption "Purpose of the Offering and Use of Proceeds."

(viii) The Company confirms as of the date hereof that it is in compliance with all provisions of Section 1 of the Laws of Florida, Chapter 92-198, AN ACT RELATING TO DISCLOSURE OF DOING BUSINESS WITH CUBA, Section 517.075 of the Florida Securities and Investor Protection Act, and the Company further agrees that if it or any of its affiliates commences engaging in business with the government of Cuba or with any person or affiliate located in Cuba after the date the Registration Statement becomes or has become effective with the Commission or with the Florida Department of Banking and Finance (the "Department"), whichever date is later, or if the information reported in the Prospectus, if any, concerning the Company's business with Cuba or with any person or affiliate located in Cuba changes in any material way, the Company will provide the Department notice of such business or change, as appropriate, in a form acceptable to the Department.

(ix) The Company will comply with its obligations with respect to the Securities under Article 4 of the Water Street Agreement.

(b) Water Street agrees with the several Underwriters that:

(i) Water Street will not (and any assignees of Water Street's rights under Section 4.1 of the Water Street Agreement will not) request any registration of shares of Common Stock pursuant to Section 4.1 of the Water Street Agreement for a period of 120 days following the Effective Date.

(ii) For a period of 120 days following the Execution Time, Water Street and Goldman, Sachs & Co. will not, without the prior written consent of the Representatives, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any other shares of Common Stock or any securities convertible into, or exercisable or exchangeable for, shares of Common Stock; PROVIDED, HOWEVER, Water Street may distribute such shares or securities held by it to its partners at any time after 90 days following the Effective Date, which partners (other than Goldman, Sachs & Co.) shall not be bound by the limitations in this paragraph (ii); PROVIDED, FURTHER, that Water Street and Goldman, Sachs & Co. may exercise any of their Warrants to purchase Common Stock.

(c) Each Underwriter covenants and agrees with the Company and Water Street that it will comply with the obligations of an underwriter with respect to the Securities under Article 4 of the Water Street Agreement, it being understood that such obligations do not include those set forth under Sections 4.8(a), (b), (c), (d)(iii) and (d)(iv) of such Agreement.

(d) Each Underwriter agrees that (i) it is not purchasing any of the US Securities for the account of anyone other than a United States or Canadian Person, (ii) it has not offered or sold, and will not offer or sell, directly or indirectly, any of the US Securities or distribute any domestic Prospectus to any person outside the United States or Canada, or to anyone other than a United States or Canadian Person, and (iii) any dealer to whom it may sell any of the US Securities will represent that it is not purchasing for the account of anyone other than a United States or Canadian Person and agree that it will not offer or resell, directly or indirectly, any of the US Securities outside the United States or Canada, or to anyone other than a United States or Canadian Person or to any other dealer who does not so represent and agree; PROVIDED, HOWEVER, that the foregoing shall not restrict (A) purchases and sales between the Underwriters on the one hand and the Managers on the other hand pursuant to Section 1(b) of the Agreement Between Underwriters and Managers, (B) stabilization transactions contemplated under Section 2 of the Agreement

Between Underwriters and Managers, conducted through Salomon Brothers Inc as part of the distribution of the Securities, and (C) sales to or through (or distributions of US Prospectuses or US Preliminary Prospectuses to) United States or Canadian Persons who are investment advisors, or who otherwise exercise investment discretion, and who are purchasing for the account of anyone other than a United States or Canadian Person. "United States or Canadian Person" shall mean any person who is a national or resident of the United States or Canada, a corporation, partnership, or other entity created or organized in or under the laws of the United States or Canada or of any political subdivision thereof, or any estate or trust the income of which is subject to United States or Canadian federal income taxation, regardless of its source (other than any non-United States or non-Canadian branch of any United States or Canadian Person), and shall include any United States or Canadian branch of a person other than a United States or Canadian Person. "US" or "United States" shall mean the United States of America (including the states thereof and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction.

(e) The agreements of the Underwriters set forth in paragraph (d) of this Section 5 shall terminate upon the earlier of the following events:

(i) a mutual agreement of the Representatives and the International Representative to terminate the selling restrictions set forth in paragraph (d) of this Section 5 and in Section 5(d) of the International Underwriting Agreement; or

(ii) the expiration of a period of 30 days after the Closing Date, unless (a) the Representatives shall have given notice to the Company and the International Representative that the distribution of the US Securities by the Underwriters has not yet been completed, or (b) the International Representative shall have given notice to the Company and the Underwriters that the distribution of the International Securities by the Managers has not yet been completed. If such notice by the Representatives or the International Representative is given, the agreements set forth in such paragraph (b) shall survive until the earlier of (1) the event referred to in clause (i) of this subsection (e) or (2) the expiration of any additional period of 30 days from the date of any such notice.

(f) Each Underwriter represents and agrees to make any offer of the Securities in Canada only pursuant to an exemption from the Prospectus requirements in any jurisdiction in Canada in which such offer is made.

6. CONDITIONS TO THE OBLIGATIONS OF THE UNDERWRITERS. The obligations of the Underwriters to purchase the Securities to be delivered at each Closing Date shall be subject to the accuracy of the representations and warranties on the part of the Company and Water Street contained herein as of the Execution Time and as of such Closing Date (as if made at such Closing Date), to the accuracy of the statements of the Company made in any certificates pursuant to the provisions hereof, to the performance by the Company and Water Street of their obligations hereunder and to the following additional conditions:

(a) If the Registration Statement has not become effective prior to the Execution Time, unless the Representatives agree in writing to a later time, the Registration Statement will become effective not later than (i) 6:00 p.m. New York City time on the date of determination of the public offering price, if such determination occurred at or prior to 3:00 p.m. New York City time on such date or (ii) 12:00 Noon on the business day following the day on which the public offering price was determined, if such determination occurred after 3:00 p.m. New York City time on such date; if filing of the Prospectus, or any supplement thereto, is required pursuant to Rule 424(b), the Prospectus, and any such supplement, will be filed in the manner and within the time period required by Rule 424(b); and no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been instituted or threatened.

(b) On each Closing Date, the Company shall have furnished to the Representatives and Water Street the opinion of Kirkland & Ellis, counsel for the Company as to paragraphs (i), (iv), (vii), (viii), (ix) and (x), and of the General Counsel or the Assistant General Counsel of the Company with respect to paragraphs (ii), (iii), (v), (vi), (xi) and (xii), each dated as of such Closing Date, to the effect that:

(i) The Company has been duly incorporated and the Company is validly existing as a corporation under the laws of the State of Delaware, with full corporate power and authority to own its properties and conduct its businesses as described in the Prospectus;

(ii) Each of the Major Subsidiaries has been duly incorporated and all the Major Subsidiaries are validly existing as corporations under the laws of their respective jurisdictions of incorporation, with full corporate power and authority to own their respective properties and conduct their respective businesses as described in the Prospectus, and the Company and each of the Major Subsidiaries are duly qualified to do business as foreign corporations under the laws of each jurisdiction in which the character of the business conducted or the location of the properties owned or leased make such qualifications necessary and in which the consequences of a failure to so qualify would have a material adverse effect on the properties or businesses of the Company and its subsidiaries taken as whole:

(iii) all the outstanding shares of capital stock of each Major Subsidiary have been duly and validly authorized and issued and are fully paid and nonassessable, and have not been issued and are not owned or held in violation of any statutory preemptive right of stockholders; to the knowledge of such counsel after due inquiry, such shares are not held in violation of any other preemptive right of stockholders and, except as otherwise set forth in the Registration Statement, all outstanding shares of capital stock of the Major Subsidiaries are owned by the Company either directly or through wholly owned subsidiaries free and clear of any perfected security interest and, to the knowledge of such counsel, after due inquiry, any other material security interests, stockholders, agreements or voting trusts;

(iv) the Company's authorized equity capitalization is as set forth in the Prospectus; the capital stock of the Company conforms to the description thereof contained in the Prospectus; the Securities being sold hereunder and under the International Underwriting Agreement, as the case may be, have been duly and validly authorized, and, in the case of the

Securities sold to the Underwriters by the Company, when issued and delivered to and paid for by the Underwriters pursuant to this Agreement or pursuant to the International Underwriting Agreement, will be fully paid and nonassessable; the Securities have been duly authorized for trading, subject to official notice of issuance, on the New York Stock Exchange, Inc.; and the holders of outstanding shares of capital stock of the Company are not entitled to statutory preemptive or, to the best of such counsel's knowledge after due inquiry, contractual rights to subscribe for the Securities;

(v) the outstanding shares of Common Stock have been duly and validly authorized and issued and are fully paid and nonassessable; and the certificates for the Securities are in valid form;

(vi) there is no pending or, to the knowledge of such counsel, threatened action, suit or proceeding before any court or governmental agency, authority or body or any arbitrator involving the Company or any of the subsidiaries of a character required to be disclosed in the Registration Statement which is not adequately disclosed in the Prospectus, and there is no contract or other document of a character required to be described in the Registration Statement or the Prospectus, or to be filed as an exhibit, which is not described or filed as required;

(vii) the Registration Statement and all post-effective amendments thereto have become effective under the Act; any required filing of the Prospectus, and any supplements thereto, pursuant to Rule 424(b) and Rule 430A have been made in the manner and within the time period required by such Rules; to the best knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement has been issued, no proceedings for that purpose have been instituted or threatened and the Registration Statement and the Prospectus (other than the financial statements and other financial and statistical information contained therein as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Act and the rules thereunder;

(viii) each of the Agreements has been duly authorized, executed and delivered by the Company;

(ix) no consent, approval, authorization, license, certificate, permit or order of any court or governmental agency or body is required for the consummation of the transactions contemplated herein, except such as have been obtained under the Act or as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters (as to which such counsel need not opine) in connection with the purchase and distribution of the Securities by the Underwriters and such other approvals as have been obtained;

(x) neither the execution and delivery of this Agreement or the International Underwriting Agreement nor the issue and sale of the Securities, nor the consummation of any other of the transactions contemplated herein or therein nor the fulfillment of the terms hereof or thereof will conflict with, result in a breach of, or constitute a default under the charter or by-laws of the Company or the terms of any agreement listed on Exhibit A attached hereto;

(xi) neither the execution and delivery of this Agreement or the International Underwriting Agreement nor the issue and sale of the Securities, nor the consummation of any other of the transactions contemplated herein or therein nor the fulfillment of the terms hereof or thereof will conflict with, result in a breach of, or constitute a default any agreement filed as an exhibit to the Registration Statement (other than any such agreement listed on Exhibit A to the opinion of Kirkland & Ellis delivered pursuant to this Agreement) or under any judgment, order or regulation known to such counsel to be applicable to the Company or any of its subsidiaries of any court, regulatory body, administrative agency, governmental body or arbitrator having jurisdiction over the Company or any of its subsidiaries;

(xii) except as disclosed in the Prospectus, no holders of securities of the Company have rights to the registration of such securities under the Registration Statement.

Each of such counsel shall state that it has participated in conferences with representatives of the Company, at which conferences the contents of the Registration Statement, the Prospectus, each amendment thereof and supplement thereto and related matters were discussed, and, although such counsel has not independently checked or verified and is not passing upon and assumes no responsibility for the factual accuracy, completeness or fairness of the statements contained in the Registration Statement, the Prospectus, any amendment thereof or supplement thereto, no facts have come to the attention of such counsel to cause such counsel to believe (A) that either the Registration Statement or any amendment thereto (other than the financial statements and related schedules and other financial and statistical information contained therein, or omitted therefrom), at the time the Registration Statement became effective contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein not misleading or (B) that the Prospectus, as amended and supplemented (other than the financial statements and related schedules and other financial and statistical information contained therein, or omitted therefrom), at the time the Registration Statement became effective or on each Closing Date contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering such opinions, each such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the States of Illinois and Delaware or the United States, to the extent they deem proper and specified in such opinions, upon the opinion of other counsel of good standing whom they believe to be reliable and who are satisfactory to counsel for the Underwriters and (B) as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and public officials. Reference to the Prospectus in this paragraph (b) include any supplements thereto at the Closing Date.

(c) On each Closing Date, Water Street shall have furnished to the Representatives the opinion of Fried, Frank, Harris, Shriver & Jacobson, counsel for Water Street, dated as of such Closing Date, to the effect that:

(i) Each of this Agreement and the International Underwriting Agreement has been duly authorized, executed and delivered by the Selling Stockholder. No consent, approval, authorization or order

of any court or governmental agency or body of the State of New York or the United States of America is required for the consummation by Water Street of any of the transactions contemplated herein. The sale of the Securities to be sold by Water Street and the consummation by Water Street of the transactions contemplated by this Agreement and the International Underwriting Agreement will not result in a breach or violation of any term or provision of Water Street's agreement of limited partnership or the Water Street Agreement.

(ii) Assuming the Underwriters purchase the Securities to be transferred by Water Street on the applicable Closing Date in good faith and without notice of any adverse claim as such term is used in Section 8-302 of the Uniform Commercial Code in effect in the State of New York, valid title to such Securities, free and clear of all liens, encumbrances, equities, or other adverse claims will pass to the Underwriters when appropriate entries to the accounts of the Underwriters are made on the books of The Depository Trust Company.

(d) The Representatives shall have received from Wachtell, Lipton, Rosen & Katz, counsel for the Underwriters, such opinion or opinions, dated as of each Closing Date, with respect to the issuance and sale of the Securities, the Registration Statement, the Prospectus (together with any supplement thereto) and other related matters as the Representatives may reasonably require, and the Company shall have furnished to such counsel such documents as they may reasonably request for the purpose of enabling them to pass upon such matters.

(e) The Company shall have furnished to the Representatives and to Water Street a certificate of the Company, signed by the Chief Financial Officer and the Vice President-Controller of the Company, each in his official capacity as an officer of the Company and not as an individual, dated as of each Closing Date, to the effect that the signers of such certificate have carefully examined the Registration Statement, the Prospectus, any supplement to the Prospectus, this Agreement and the International Underwriting Agreement and that:

(i) the representations and warranties of the Company in this Agreement and the International Underwriting Agreement are true and correct in all material respects on and as of such Closing Date with the same effect as if made on the Closing Date and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date;

(ii) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or, to the Company's knowledge, threatened; and

(iii) since the date of the most recent financial statements included in the Prospectus (exclusive of any supplement thereto), there has been no MAC, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(f) Water Street shall have furnished to the Representatives a certificate of Water Street, dated as of each Closing Date, to the effect that the representations and warranties of Water Street in this Agreement are true and correct in all material respects on and as of such Closing Date with the same effect as if made on the Closing Date and Water Street has complied in all material respects with all the agreements and satisfied all the conditions on their part to be performed or satisfied at or prior to the Closing Date.

(g) At the Execution Time and at each Closing Date, Arthur Andersen & Co. shall have furnished to the Representatives a letter or letters, dated respectively as of the Execution Time and as of such Closing Date, in form and substance satisfactory to the Representatives, stating in effect that:

(i) They are independent certified public accountants with respect to the Company and its subsidiaries within the meaning of the Act and the applicable published rules and regulations thereunder;

(ii) In their opinion, the financial statements and any supplementary financial information and schedules examined by them and included in the Prospectus or the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations thereunder; and, if applicable, they have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited consolidated interim financial statements of the Company for the periods specified in such letter, as indicated in their reports thereon, copies of which have been furnished to the Representatives;

(iii) The unaudited summary, condensed and selected financial information with respect to the consolidated results of operations and financial position of the Company for the six most recent fiscal years (or such shorter period as applicable) included in the Prospectus agrees with the corresponding amounts (after restatements where applicable) in the audited consolidated financial statements for such period; and the pro forma financial information complies in all material respects as to form with all applicable accounting requirements of the Act;

(iv) On the basis of limited procedures, not constituting an examination in accordance with generally accepted auditing standards, consisting of a reading of the unaudited financial statements and other information referred to below, a reading of the latest available interim financial statements of the Company and its subsidiaries, inspection of the minute books of the Company and its subsidiaries since the date of the latest audited financial statements included in the Prospectus, inquiries of officials of the Company and its subsidiaries responsible for financial and accounting matters and such other inquiries and procedures as may be specified in such letter, nothing came to their attention that caused them to believe that:

(A) the unaudited consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus do not comply as to form in all material respects with the applicable accounting

requirements of the Act and the related published rules and regulations thereunder, or are not in conformity with generally accepted accounting principles applied on a basis substantially consistent with the basis for the audited consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus;

(B) any other unaudited income statement data and balance sheet items included in the Prospectus do not agree with the corresponding items in the unaudited consolidated financial statements from which such data and items were derived, and any such unaudited data and items, if any, were not determined on a basis substantially consistent with the basis for the corresponding amounts in the audited consolidated financial statements included in the Prospectus;

(C) the unaudited financial statements which were not included in the Prospectus but from which were derived any unaudited condensed financial statements referred to in Clause A and any unaudited income statement data and balance sheet items included in the Prospectus and referred to in Clause B were not determined on a basis substantially consistent with the basis for the audited consolidated financial statements included in the Prospectus;

(D) any unaudited pro forma consolidated condensed financial statements included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the published rules and regulations thereunder or the pro forma adjustments have not been properly applied to the historical amounts in the compilation of those statements;

(E) as of a specified date not more than five days prior to the date of such letter, there have been any changes in the consolidated capital stock or any increase in the consolidated long-term debt of the Company and its Subsidiaries, or any decreases in consolidated net

current assets or net assets or other items specified prior to the Execution Time by the Representatives, or any increases in any items specified prior to the Execution Time by the Representatives, in each case as compared with amounts shown in the latest balance sheet included in the Prospectus, except in each case for changes, increases or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(F) for the period from the date of the latest financial statements included in the Prospectus to the specified date referred to in Clause E there were any decreases in consolidated net sales, operating profit data as compared to the preceding period or other items specified by the Representatives, or any increases in any items specified prior to the Execution Time by the Representatives, in each case as compared with the comparable period of the preceding year and with any other period of corresponding length specified prior to the Execution Time by the Representatives, except in each case for decreases or increases which the Prospectus discloses, have occurred or may occur or which are described in such letter; and

(v) In addition to the examination referred to in their report(s) included in the Prospectus and the limited procedures, inspection of minute books, inquiries and other procedures referred to in paragraphs (ii) and (iv) above, they have carried out certain specified procedures, not constituting an examination in accordance with generally accepted auditing standards, with respect to certain amounts, percentages and financial information specified prior to the Execution Time by the Representatives, which are derived from the general accounting records of the Company and its Subsidiaries, which appear in the Prospectus, or in Part II of, or in exhibits and schedules to, the Registration Statement specified prior to the Execution Time by the Representatives, and have compared certain of such amounts, percentages and financial information with the accounting records of the Company and the Subsidiaries and have found them to be in agreement.

References to the Prospectus in this paragraph (g) include any supplement thereto at the date of the letter.

(h) Subsequent to the Execution Time or, if earlier, the dates as of which information is given in the Registration Statement (exclusive of any amendment thereof) and the Prospectus (exclusive of any supplement thereto), there shall not have been (i) any change or decrease specified in the letter or letters referred to in paragraph (g) of this Section 6 or (ii) any change, or any development involving a prospective change, in or affecting the business or properties of the Company and its subsidiaries the effect of which, in any case referred to in clause (i) or (ii) above, is, in the judgment of the Representatives, so material and adverse as to make it impractical or inadvisable to proceed with the public offering or the delivery of the Securities as contemplated by the Registration Statement (exclusive of any amendment thereof) and the Prospectus (exclusive of any supplement thereto).

(i) Prior to each Closing Date, the Company shall have furnished to the Representatives such further information, certificates and documents as the Representatives may reasonably request.

If any of the conditions specified in this Section 6 shall not have been fulfilled in all material respects when and as provided in this Agreement, or if any of the opinions and certificates mentioned above or elsewhere in this Agreement shall not be in all material respects reasonably satisfactory in form and substance to the Representatives and their counsel, this Agreement and all obligations of the Underwriters hereunder may be cancelled at, or at any time prior to, each Closing Date by the Representatives. Notice of such cancellation shall be given to the Company and the Selling Stockholder in writing or by telephone or telegraph confirmed in writing.

6A. CONDITIONS TO THE OBLIGATIONS OF WATER STREET. The obligation of Water Street to sell the Securities to be delivered at each Closing Date shall be subject to the accuracy of the representations on the part of the Company contained herein as of the Execution Time and as of such Closing Date (as if made at such Closing Date), to the accuracy of the statements of the Company made in any certificates pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder and to additional conditions identical to

those set forth in Section 6 (other than paragraph (c) thereof). If any of the conditions specified in this Section 6A shall not have been fulfilled in all material respects when and as provided in this Agreement, Water Street may, by written notice to the Company and the Representatives and at, or at any time prior to, each Closing Date, terminate its obligations under this Agreement.

7. EXPENSES. The Company agrees with Water Street that it will pay or cause to be paid all Registration Expenses (as defined in the Water Street Agreement) in connection with the Registration Statement and this Agreement and the International Underwriting Agreement (it being understood that such Registration Expenses shall not include any expenses relating to the preparation of any amendment to the Water Street Agreement). If the sale of the Securities provided for herein is not consummated because any condition to the obligations of the Underwriters set forth in Section 6 hereof is not satisfied (other than the conditions specified in paragraphs 6(d) and, if the Underwriters shall have not exercised their judgment reasonably, 6(h)), because of any termination pursuant to Section 10 hereof or because of any refusal, inability or failure on the part of the Company to perform any agreement herein or comply with any provision hereof other than by reason of a default by any of the Underwriters, the Company will reimburse the Underwriters severally upon demand for all out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the proposed purchase and sale of the Securities.

8. INDEMNIFICATION AND CONTRIBUTION. (a) The Company agrees to indemnify and hold harmless each Underwriter, the directors, officers, employees and agents of each Underwriter and each person who controls any Underwriter within the meaning of either the Act or the Securities Exchange Act of 1934 (the "Exchange Act") against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the registration statement for the registration of the Securities as originally filed or in any amendment thereof, or in any Preliminary Prospectus or the Prospectus, or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein

or necessary to make the statements therein not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; PROVIDED, HOWEVER, that (i) the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Underwriter through the Representatives specifically for use in connection with the preparation thereof, (ii) the Company will not be liable for the amount paid in settlement of any litigation commenced or threatened or of any claim whatsoever arising out of or based upon any (actual or alleged) untrue statement or omission unless such settlement is effected with the written consent of the Company and (iii) such indemnity with respect to any Preliminary Prospectus shall not inure to the benefit of an Underwriter (or any person controlling such Underwriter) from whom the person asserting any such loss, claim, damage or liability purchased the Securities which are the subject thereof if such person did not receive a copy of the Prospectus (or the Prospectus as supplemented) excluding documents incorporated therein by reference at or prior to the confirmation of the sale of such Securities to such person in any case where such delivery is required by the Act and the untrue statement or omission of a material fact contained in such Preliminary Prospectus was corrected in the Prospectus (or the Prospectus as supplemented). This indemnity agreement will be in addition to any liability which the Company may otherwise have.

(b) The Selling Stockholder agrees to indemnify and hold harmless the Underwriter and each person who controls the Underwriter within the meaning of the Act or the Exchange Act to the same extent as the foregoing indemnity in paragraph (a) of this Section from the Company to the Underwriter, but only with reference to written information furnished to the Company by or on behalf of the Selling Stockholder specifically for use in preparation of the documents referred to in the foregoing indemnity. This indemnity agreement will be in addition to any liability which the Selling Stockholder may otherwise have. Notwithstanding the provisions of this subsection (b), the Selling Stockholder shall not be required to pay an amount in excess of the net proceeds received by the Selling Stockholder from the Securities sold by it hereunder. The Company, the Selling Stockholder and the Underwriters acknowledge that the statements set forth under the heading "Ownership of Common

Stock -- Selling Stockholder and its Affiliates" in the Prospectus (and not any information to which reference is made under such heading) constitutes the only information furnished in writing by or on behalf of Water Street for inclusion in the documents referred to in the foregoing indemnity, and Water Street confirms that such statements are correct and complete.

(c) Each Underwriter severally agrees to indemnify and hold harmless the Company, each of its directors, each of its officers who signs the Registration Statement, and each person who controls the Company within the meaning of either the Act or the Exchange Act and the Selling Stockholder and its respective directors, officers, partners, employees and agents and each other person, if any, who controls the Selling Stockholder within the meaning of the Act or the Exchange Act, to the same extent as the foregoing indemnity in paragraph (a) of this Section from the Company to each Underwriter, but only with reference to written information relating to such Underwriter furnished to the Company by or on behalf of such Underwriter through the Representatives specifically for inclusion in the documents referred to in the foregoing indemnity. This indemnity agreement will be in addition to any liability which any Underwriter may otherwise have. The Company acknowledges that the statements set forth in the last paragraph of the cover page and under the heading "Underwriting" in any Preliminary Prospectus and the Prospectus constitute the only information furnished in writing by or on behalf of the several Underwriters for inclusion in any Preliminary Prospectus or the Prospectus, and you, as the Representatives, confirm that such statements are correct.

(d) Each of the Company and Water Street hereby confirms its indemnification obligations contained in Section 4.9 of the Water Street Agreement, which Section is incorporated herein by reference.

(e) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a), (b) or (c) above unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of any material right or defense and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other

than the indemnification obligation provided in paragraph (a), (b) or (c) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); PROVIDED, HOWEVER, that such counsel shall be satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel in its reasonable judgment with a conflict of interest, (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, (iii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. It being understood and agreed that the indemnifying party shall bear the fees, costs and expenses of only one counsel pursuant to this paragraph. An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding. No indemnifying party shall be liable for any settlement of any commenced or threatened action or proceeding effected without its written consent.

(f) In the event that the indemnity provided in paragraph (a), (b) or (c) of this Section 8 is unavailable to or insufficient to hold harmless an indemnified party for any

reason, the Company, the Selling Stockholder and the Underwriters agree to contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) (collectively "Losses") to which the Company, the Selling Stockholder and one or more of the Underwriters may be subject in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and the indemnified party on the other hand; PROVIDED, HOWEVER, that in no case shall any Underwriter (except as may be provided in any agreement among underwriters relating to the offering of the Securities) be responsible for any amount in excess of the underwriting discount or commission applicable to the Securities purchased by such Underwriter hereunder. If the allocation provided by the immediately preceding sentence is unavailable for any reason, or if such allocation provides a lesser sum to the indemnified party than the amount hereinafter calculated then the Company, the Selling Stockholder and the Underwriters shall contribute in such proportion as is appropriate to reflect not only such relative fault but also the relative benefits of the indemnifying party and the indemnified party as well as any other equitable considerations. Benefits received by the Company shall be deemed to be equal to the net proceeds from the offering (before deducting expenses) received by the Company, benefits received by the Selling Stockholder shall be deemed to be equal to the net proceeds from the offering (before deducting expenses) received by the Selling Stockholders and benefits received by the Underwriters shall be deemed to be equal to the total underwriting discounts and commissions, in each case as set forth on the cover page of the Prospectus. Relative fault shall be determined by reference to whether any alleged untrue statement or omission relates to information provided by the Company, the Selling Stockholder or the Underwriters. The Company, the Selling Stockholder and the Underwriters agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this Section 8(f), the Selling Stockholder shall not be required to contribute any amount under this Section 8(f) in excess of the amount by which the net proceeds received by the Selling Stockholder from the sale of Securities in the offering exceed the aggregate amount the Selling Stockholder has otherwise paid pursuant hereto and pursuant to Section 8(b); and no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of

this Section 8, each person who controls the Underwriter within the meaning of either the Act or the Exchange Act and each director, officer, employee and agent of the Underwriter shall have the same rights to contribution as the Underwriter, each person who controls the Company within the meaning of either the Act or the Exchange Act, each officer of the Company who shall have signed the Registration Statement and each director of the Company shall have the same rights to contribution as the Company, and each person who controls the Selling Stockholder within the meaning of either the Act or the Exchange Act and each director, officer, partner, employee and agent of the Selling Stockholder shall have the same rights to contribution as the Selling Stockholder, subject in each case to the applicable terms and provisions of this paragraph (f). Contribution payments made under this Section 8 are losses for purposes of Section 4.9 of the Water Street Agreement.

9. DEFAULT BY AN UNDERWRITER. If any one or more Underwriters shall fail to purchase and pay for any of the Securities agreed to be purchased by such Underwriter or Underwriters hereunder, and such failure to purchase shall constitute a default in the performance of its or their obligations under this Agreement, the remaining Underwriters shall be obligated severally to take up and pay for (in the respective proportions which the amount of Securities set forth opposite their names in Schedule I hereto bears to the aggregate amount of Securities set forth opposite the names of all the remaining Underwriters) the Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase; PROVIDED, HOWEVER, that in the event that the aggregate amount of Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase shall exceed 10% of the aggregate amount of Securities set forth in Schedule I hereto, the remaining Underwriters shall have the right to purchase all, but shall not be under any obligation to purchase any, of the Securities, and if such nondefaulting Underwriters do not purchase all the Securities, this Agreement will terminate without liability to any nondefaulting Underwriter, the Company or the Selling Stockholder. In the event of a default by any Underwriter as set forth in this Section 9, the Closing Date shall be postponed for such period, not exceeding seven days, as the Representatives shall determine in order that the required changes in the Registration Statement and the Prospectus or in any other documents or arrangements may be effected. Nothing contained in this Agreement shall relieve any defaulting Underwriter of its liability, if any, to the Company, the Selling Stockholder and any nondefaulting Underwriter for damages occasioned by its default hereunder.

10. TERMINATION. This Agreement shall be subject to termination in the absolute discretion of the Representatives, by notice given to the Company and the Selling Stockholder prior to the Closing Date if prior to such time (i) trading in the Company's Common Stock shall have been suspended by the Securities and Exchange Commission or the New York Stock Exchange or trading in securities generally on the New York Stock Exchange shall have been suspended or limited or minimum prices shall have been established on such Exchange, (ii) a banking moratorium shall have been declared either by Federal or New York State authorities or (iii) there shall have occurred any outbreak or material escalation of hostilities or other calamity or crisis the effect of which on the financial markets of the United States is such as to make it, in the judgment of the Representatives, impracticable to market the Securities.

11. REPRESENTATIONS AND INDEMNITIES TO SURVIVE. The respective agreements, representations, warranties, indemnities and other statements of the Company or its officers, of the Selling Stockholder, and of the Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of the Underwriters, the Selling Stockholder, or the Company or any of the officers, directors, partners or controlling persons referred to in Section 8 hereof, and will survive delivery of and payment for the Securities. The provisions of Sections 7 and 8 hereof shall survive the termination or cancellation of this Agreement.

12. NOTICES. All communications hereunder will be in writing and effective only on receipt, and, if sent to the Representatives, will be mailed, delivered or telecopied and confirmed to them at Salomon Brothers Inc, at 7 World Trade Center, New York, New York 10048, attn: ______________________; or, if sent to the Company, will be mailed, delivered or telecopied and confirmed to it at USG Corporation, 125 S. Franklin Street, Chicago, Illinois 60606, attn: Secretary, with a copy to Kirkland & Ellis, 200 E. Randolph Drive, Chicago, Illinois 60601, attn: Francis J. Gerlits, P.C.; or, if sent to the Selling Stockholder, will be mailed, delivered or telecopied and confirmed to it at c/o Goldman, Sachs & Co., 85 Broad Street, New York, New York 10004, attn: Barry S. Volpert; with a copy to Fried, Frank, Harris, Shriver & Jacobson, One New York Plaza, New York, New York 10004, attn: David J. Greenwald, Esq.

13. SUCCESSORS. This Agreement will inure to the benefit of and be binding upon the parties hereto and their

respective successors and the officers, directors, partners, employees, agents and controlling persons referred to in Section 8 hereof, and no other person will have any right or obligation hereunder.

14. APPLICABLE LAW. This Agreement will be governed by and construed in accordance with the laws of the State of New York, without giving affect to the conflicts of laws principles thereof.

15. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

16. ENTIRE AGREEMENT. This Agreement and the Water Street Agreement constitute the entire agreement among the parties hereto with respect to the transactions contemplated hereby.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this letter and your acceptance shall represent a binding agreement among the Company, the Selling Stockholder and the several Underwriters.

Very truly yours,

USG CORPORATION

By:

Its:

WATER STREET CORPORATE
RECOVERY FUND I, L.P.

By: GOLDMAN, SACHS & CO.

By:

   Name:
   Title:

The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

Salomon Brothers Inc
Lazard Freres & Co.
Smith Barney Shearson Inc.

By: Salomon Brothers Inc

By:

For themselves and the other several Underwriters named in Schedule I to the foregoing Agreement.

SCHEDULE I

Underwriters	Number of Shares to be Purchased
Salomon Brothers Inc	
Lazard Freres & Co.	
Smith Barney Shearson Inc.	
TOTAL	

EXHIBIT A

AGREEMENTS

Letter Agreement, dated February 25, 1993, among USG Corporation, Water Street Corporate Recovery Fund I, L.P., Goldman, Sachs & Co. and The Goldman Sachs Group, L.P.

Amendment No. 1, dated February 22, 1994, to Letter Agreement, dated February 25, 1993, among USG Corporation, Water Street Corporate Recovery Fund I, L.P., Goldman, Sachs & Co. and The Goldman Sachs Group, L.P.

Amended and Restated Credit Agreement dated as of May 6, 1993 between USG Corporation and USG Interiors, Inc. as borrowers; the Financial Institutions listed on the signature pages thereof, as senior lenders; Bankers Trust Company, Chemical Bank and Citibank, N.A., as agents; and Citibank, N.A., as Administrative Agent (the "Amended and Restated Credit Agreement")

First Amendment, dated August 1, 1993, to Amended and Restated Credit Agreement

Second Amendment, dated as of January 31, 1994, to Amended and Restated Credit Agreement

Indenture, dated October 1, 1986, between USG Corporation and Harris Trust and Savings Bank, as supplemented

Indenture, dated as of April 26, 1993, among USG Corporation, certain guarantors and State Street Bank and Trust Company, as Trustee (the "10 1/4% Senior Notes Indenture")

Indenture, dated as of August 10, 1993, among USG Corporation, certain guarantors and State Street Bank and Trust Company, as Trustee

Amended and Restated Subsidiary Guarantees, dated as of May 6, 1993

Contingent Payment Guarantees issued pursuant to the 10 1/4% Senior Notes Indenture

Amended and Restated Collateral Trust Agreement, dated as of May 6, 1993 between USG Corporation, USG Interiors, Inc. and USG Foreign Investments, Ltd., as guarantors, and Wilmington Trust Company and William J. Wade, as trustees (the "Amended and Restated Collateral Trust Agreement")

First Amendment, dated August 1, 1993, to Amended and Restated Collateral Trust Agreement

Second Amendment, dated as of January 31, 1994, to Amended and Restated Collateral Trust Agreement.

First Amendment, dated August 1, 1993, to Amended and Restated Subsidiary Guarantees

Reaffirmation, dated as of January 31, 1994, of Guarantees.

EXHIBIT B

LOCK-UP AGREEMENT

March __, 1994

Salomon Brothers Inc
Lazard Freres & Co.
Smith Barney Shearson Inc.
As Representatives of the
Several Underwriters,
c/o Salomon Brothers Inc
7 World Trade Center
New York, New York 10048

Salomon Brothers International Limited
Lazard Brothers & Co., Limited
Smith Barney Shearson Inc.
As International Representatives of the
Several International Underwriters
c/o Salomon Brothers International Limited
Victoria Plaza
111 Buckingham Palace Road
London SW1W 0SB, England

Gentlemen and Ladies:

The undersigned understand that USG Corporation, a Delaware corporation (the "Company"), has filed a Registration Statement on Form S-1 (as amended, the "Registration Statement") with the Securities and Exchange Commission (the "SEC") in connection with a proposed underwritten public offering (the "Offering") of its Common Stock, par value $0.10 per share (the "Common Stock"). All capitalized terms not defined herein shall have the meanings ascribed in the Registration Statement.

At your request, and in consideration of your agreeing to act as underwriters in connection with the Offering and for other good and valuable consideration, the undersigned hereby agree that, without the prior written consent of the representatives (the "Representatives") of the U.S. Underwriters and the International Underwriters, for a period of 120 days following the date hereof, the undersigned will not, without the prior written consent of the Representatives, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any other shares of Common Stock or any securities convertible into, or exercisable or exchangeable for, shares of Common Stock; PROVIDED, HOWEVER,

Water Street may distribute such shares or securities held by it to its partners at any time after 90 days following the effective date of the Registration Statement, which partners (other than Goldman, Sachs & Co.) shall not be bound by this Agreement; PROVIDED, FURTHER, that Water Street and Goldman, Sachs & Co. may exercise any of their Warrants to purchase Common Stock.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

Very truly yours,

GOLDMAN, SACHS & CO.

By:

Name:
Title:

WATER STREET CORPORATE RECOVERY FUND I., L.P.

By: GOLDMAN, SACHS & CO.

By:

Name:
Title:

Accepted as of the date hereof:

Salomon Brothers Inc
Lazard Freres & Co.
Smith Barney Shearson, Inc.

By: Salomon Brothers Inc

By:

Title:
For itself and the Several
U.S. Underwriters

Salomon Brothers International Limited
Lazard Brothers & Co. Limited
Smith Barney Shearson Inc.

By: Salomon Brothers International
Limited

By:

Title:
For itself and the Several Managers.

Exhibit 1B

__________ Shares*
Common Stock
($.10 par value)

International Underwriting Agreement

London, England
February __, 1994

Salomon Brothers International Limited
Lazard Brothers & Co., Limited
Smith Barney Shearson Inc.
As Representatives of the Several
International Underwriters,
c/o Salomon Brothers International Limited
Victoria Plaza
111 Buckingham Palace Road
London SW1W OSB, England

Dear Sirs:

USG Corporation, a Delaware corporation (the "Company"), proposes to sell to the underwriters named in Schedule I hereto (the "International Underwriters"), for which you are acting as representatives (the "International Representatives"), _____ shares (the "Company Underwritten Securities") of common stock, $.10 par value per share (the "Common Stock"), of the Company, and Water Street Corporate Recovery Fund I, L.P. ("Water Street" or the "Selling Stockholder") proposes to sell to the International Underwriters _____ shares of Common Stock (the "Selling Stockholder Securities" and together with the Company Underwritten Securities, the "Underwritten Securities"). In addition, solely for the purpose of covering overallotments, the Company proposes to grant to the Underwriters an option to purchase up to an additional _____ shares (the "Company Option Securities") of Common Stock and the Selling

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* Plus options to purchase from USG Corporation and from the Selling Stockholder up to _____ additional shares to cover overallotments.

Stockholder proposes to grant to the Underwriters an option to purchase up to an additional _____ shares of Common Stock (the "Selling Stockholder Option Securities" and together with the Company Option Securities, the "Option Securities"). The Underwritten Securities and the Option Securities are hereinafter referred to as the "International Securities." [The parties hereto acknowledge that the underwriting discount on the sale of the Securities will be 4.5% of the aggregate price to the public.]

It is understood that the Company and the Selling Stockholder are concurrently entering into a U.S. Underwriting Agreement dated the date hereof (the "U.S. Underwriting Agreement") providing for the issue and sale by the Company of an aggregate of _____ shares of Common Stock (the "U.S. Company Underwritten Securities") and the sale by the Selling Stockholder of an aggregate of _____ shares of Common Stock (the "U.S. Selling Stockholder Underwritten Securities" and together with the U.S. Company Underwritten Securities, the "U.S. Underwritten Securities") with certain underwriters (the "U.S. Underwriters") for whom Salomon Brothers Inc, Lazard Freres & Co., and Smith Barney Shearson Inc. are acting as representatives (the "U.S. Representatives"), and providing for the grant by the Company to the U.S. Underwriters of an option to purchase up to _____ additional shares of Common Stock (the "U.S. Company Option Securities") and by the Selling Stockholder to the U.S. Underwriters of an option to purchase up to _____ additional shares of Common Stock (the "U.S. Selling Stockholder Option Securities," together with the U.S. Company Option Securities, the "U.S. Option Securities," and together with the U.S. Underwritten Securities, the "U.S. Securities") solely for the purpose of covering overallotments. The U.S. Securities together with the International Securities are hereinafter called the "Securities"). It is further understood and agreed that the Managers and the U.S. Underwriters are entering into an agreement dated the date hereof (the "Agreement Between U.S. Underwriters and the Managers"), pursuant to which, among other things, the Managers may purchase from the U.S. Underwriters a portion of the U.S. Securities to be sold pursuant to the U.S. Underwriting Agreement and the U.S. Underwriters may purchase from the Managers a portion of the International Securities to be sold pursuant to International Underwriting Agreement.

The terms which follow, when used in this Agreement, shall have the meanings indicated. The term "the Effective Date" shall mean each date that the Registration Statement and any post-effective amendment or amendments thereto became or become effective. "Execution Time" shall mean the date and

time that this Agreement is executed and delivered by the parties hereto. The "Preliminary Prospectus" shall mean any preliminary prospectus with respect to the offering of the Securities referred to in Section 1(a)(i) below and any preliminary prospectus with respect to the offering of the Securities included in the Registration Statement at the Effective Date that omits Rule 430A Information; "Registration Statement" shall mean the registration statement referred to in Section 1(a)(i) below, including exhibits and financial statements, as amended at the Execution Time (or, if not effective at the Execution Time, in the form in which it shall become effective) and, in the event any post-effective amendment thereto becomes effective prior to the Closing Date, shall also mean such registration statement as so amended. Such term shall include any Rule 430A Information deemed to be included therein at the Effective Date as provided by Rule 430A. "Rule 424" and "Rule 430A" and "Regulation S-K" refer to such rules under the Act. "Rule 430A Information" means information with respect to the Securities and the offering thereof permitted to be omitted from the Registration Statement pursuant to Rule 430A when the Registration Statement becomes effective.

1. REPRESENTATIONS AND WARRANTIES. (a) The Company represents and warrants to, and agrees with, each International Underwriter as follows:

(i) The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement (file number 33-51845) on Form S-1, including a related preliminary prospectus, for the registration under the Securities Act of 1933, as amended (the "Act") of the offering and sale of the Securities. The Company may have filed one or more amendments thereto, including the related preliminary prospectus, each of which has previously been furnished to you. The Company will next file with the Commission either (i) prior to the effectiveness of such registration statement, a further amendment to such registration statement (including the form of final prospectus) or (ii) after the effectiveness of such registration statement, a final prospectus in accordance with Rules 430A and 424(b)(1) or (4). In the case of clause (ii), the Company has included in such registration statement, as amended at the Effective Date, all information (other than Rule 430A Information) required by the Act and the rules thereunder to be included in the final prospectus with respect to the Securities and the offering thereof. As filed, such amendment and form of final prospectus, or such final prospectus, shall contain all Rule 430A Information, together with all other such required

information, with respect to the Securities and the offering thereof and, except to the extent the Representatives shall agree in writing to a modification, shall be in all substantive respects in the form furnished to you prior to the Execution Time or, to the extent not completed at the Execution Time, shall contain only such specific additional information and other changes (beyond those contained in the latest Preliminary Prospectus) as the Company has advised you, prior to the Execution Time, will be included or made therein.

The form of prospectus relating to the Securities as first filed pursuant to Rule 424(b) or, if no filing pursuant to Rule 424(b) is made, such form of prospectus included in the Registration Statement at the Effective Date, is hereinafter called the "Prospectus."

(ii) On the Effective Date, the Registration Statement did or will, and when the Prospectus is first filed (if required) in accordance with Rule 424(b) and on each Closing Date (as defined in Section 3 hereof) the Prospectus (and any supplement thereto) will, comply in all material respects with the applicable requirements of the Act and the rules thereunder; on the Effective Date, the Registration Statement did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and, on the Effective Date, the Prospectus, if not filed pursuant to Rule 424(b), did not or will not, and on the date of any filing pursuant to Rule 424(b) and on each Closing Date, the Prospectus (together with any supplement thereto) will not, include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that the Company makes no representations or warranties as to the information contained in or omitted from the Registration Statement, or the Prospectus (or any supplement thereto) in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of any Underwriter through the Representatives, or Water Street specifically for use in connection with the preparation of the Registration Statement or the Prospectus (or any supplement thereto).

(iii) Each of the Company and its subsidiaries is a corporation duly organized, validly existing and in good

standing under the laws of the jurisdiction of its incorporation; all of the issued shares of capital stock of each subsidiary have been duly and validly authorized and issued, are fully paid and nonassessable, and (except for directors' qualifying shares and those shares not held by the Company or any of its Affiliates) are owned directly or indirectly by the Corporation, free and clear of all liens, encumbrances, equities or claims, except for the shares of capital stock of USG Interiors (Europe) SA and except as provided under the Collateral Trust Agreement (as such term is defined in the Prospectus). Each of the Company and its subsidiaries has the requisite corporate power and authority to own or lease and operate its properties and to carry on its business as described in the Prospectus except where the failure to have such power and authority would not reasonably be expected to result in a material adverse change in the financial condition, assets or operations of the Company and its subsidiaries taken as a whole (a "MAC"). The Company has the requisite power and authority to authorize the offering of the Securities to be sold by it, and to issue, sell and deliver the Securities to be sold by it. The Company has the requisite power and authority to enter into each of the following agreements and to perform its obligations thereunder: the letter agreement, dated February 25, 1993, as amended (the "Water Street Agreement"), among the Company, Water Street, Goldman, Sachs & Co. and The Goldman Sachs Group, L.P.; this Agreement; and the International Underwriting Agreement (collectively, the "Agreements"). It being understood and agreed that the Company will have to deliver good standing certificates and similar documentation only with respect to United States Gypsum Company, USG Interiors, Inc., L&W Supply Corporation, USG Industries, Inc., USG Foreign Investments, Ltd., La Mirada Products Co., Inc., Westbank Planting Company and American Metals Corporation (individually a "Major Subsidiary" and collectively the "Major Subsidiaries").

(iv) Each of the Company and its subsidiaries is duly qualified or licensed and in good standing as a foreign corporation duly authorized to do business in each jurisdiction in which it owns or leases properties, or conducts any business, so as to require such qualification or licensure, except where the failure to be so qualified and authorized would not reasonably be expected to result in a MAC.

(v) Except as may be disclosed in the Registration Statement and the Prospectus, there are no actions, proceedings or investigations pending or to the best of the Company's knowledge threatened (solely in the case of such actions, proceedings or investigations which would result in a MAC, in writing) which question the validity of this Agreement or the International Underwriting Agreement or any action taken or to be taken pursuant hereto or thereto which would result in a MAC, or which is required to be disclosed in the Registration Statement or Prospectus which is not adequately disclosed in the Registration Statement or Prospectus, as the case may be, and, to the Company's knowledge, there is no franchise, contract or other document required to be described in the Registration Statement or Prospectus, or required to be filed as an exhibit to the Registration Statement, which is not so described or filed.

(vi) The Company and its subsidiaries are not in breach or violation of any term or provision of any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation, domestic or foreign, applicable to the Company or its subsidiaries or to any of their respective properties or assets, which breach, breaches, violation or violations would reasonably be expected to individually or in the aggregate result in a MAC, and the Company and its subsidiaries are not in violation of any term of their respective charters or by-laws. The compliance by the Company with all of the provisions of the Agreements, and the performance of the transactions contemplated by the Agreements will not result in any such violation or be in conflict with or constitute a default under any such term, which conflict or default would result in a MAC or result in the creation of any mortgage, lien, charge or encumbrance upon any of the properties or assets of the Company pursuant to any such term which would reasonably be expected to result in a MAC. No consent, approval, authorization or order of any court or governmental agency or body is required for the consummation by the Company and the subsidiaries of the transactions contemplated herein, except such as have been obtained under the Act and such as may be required under the Blue Sky Laws of any jurisdiction in connection with the distribution of the Securities and such other approvals as have been obtained.

(vii) The Securities to be issued and sold by the Company to the Underwriters have been duly and validly authorized and, when issued and delivered against payment

therefor as provided herein, will be duly and validly issued and fully paid and nonassessable and will conform in all material respects to the description of the Common Stock contained in the Prospectus.

(viii) Each of the Agreements has been duly authorized and validly executed and delivered by the Company and constitutes a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms (assuming the due execution and delivery by the parties thereto other than the Company) subject to the effect of bankruptcy, insolvency, reorganization, arrangement, moratorium, fraudulent conveyance and other similar laws relating to or affecting the enforcement of rights of secured or unsecured creditors generally.

(ix) Except as disclosed in the Prospectus, no holder of any security of the Company has or will have any right to require the registration of such security by virtue of any transactions contemplated by this Agreement other than any such right that has been expressly waived in writing. No holder of any of the outstanding shares of capital stock of the Company is entitled to preemptive or other rights to subscribe for the Securities.

(x) The Securities have been duly authorized for trading on the New York Stock Exchange, Inc., subject to official notice of issuance.

(b) The Selling Stockholder represents and warrants to, and agrees with, each International Underwriter as follows:

(i) The Selling Stockholder is a partnership duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization. The Selling Stockholder has all necessary power and authority to enter into this Agreement and the International Underwriting Agreement. Each of the Agreements has been duly authorized, executed and delivered by the Selling Stockholder and constitutes a valid and binding obligation of the Selling Stockholder, enforceable against it in accordance with its terms (subject, as to enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity and except with respect to the indemnification provisions contained in the Agreements and assuming due execution by the parties thereto other than Water Street). No consent, approval, authorization or order of any court

or governmental agency or body is required for the consummation by Water Street of any of the transactions contemplated herein. The sale of the Securities by Water Street and the consummation by Water Street of the transactions contemplated by this Agreement and the International Underwriting Agreement will not conflict with, result in a breach or violation of, or constitute a default under any law, agreement of limited partnership of Water Street, the Water Street Agreement or the terms of any indenture or other agreement or instrument to which Water Street is a party or bound, or any judgment, order or decree applicable to Water Street of any court, regulatory body, administrative agency, governmental body or arbitrator having jurisdiction over Water Street.

(ii) Water Street has good and valid title to the Securities to be sold by Water Street and upon sale and delivery of, and payment for, such Securities, as provided herein, Water Street will convey good and valid title to such Securities, free and clear of all liens, encumbrances, equities and claims whatsoever.

(iii) On the Effective Date, the Registration Statement did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and on the Effective Date the Prospectus, if not filed pursuant to Rule 424(b), did not or will not, and on the date of any filing pursuant to Rule 424(b) and on the Closing Date, the Prospectus (together with any supplements thereto) will not, include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided that the Selling Stockholder makes no representations or warranties as to any statements in or omissions from the Registration Statement or Prospectus or any supplements thereto, except for statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of the Selling Stockholder specifically for use in connection with the preparation thereof.

2. PURCHASE AND SALE. (a) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company and the Selling Stockholder agree, severally and not jointly, to sell to each International Underwriter, and each International Underwriter agrees, severally and not jointly, to purchase from the Company and the

Selling Stockholder at a purchase price of $____ per share, the amount of Underwritten Securities set forth opposite such International Underwriter's name in Schedule_I hereto. The amount of Securities to be purchased by each International Underwriter from the Company and the Selling Stockholder shall be as nearly as practicable in the same proportion to the total amount of Securities to be purchased by such International Underwriter as the total amount of Securities to be sold by each of the Company and the Selling Stockholder bears to the total amount of Securities to be sold pursuant hereto.

(b) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company and the Selling Stockholder hereby grant, severally and not jointly, an option to the several International Underwriters to purchase, severally and not jointly, up to _____ shares and _____ shares of the U.S. Option Securities, respectively, at the same purchase price per share as the International Underwriter shall pay for the Underwritten Securities. Said options may be exercised solely to cover overallotments in the sale of the Underwritten Securities. Said options may be exercised in whole or in part at any time (but not more than once) on or before the 30th day after the date of the Prospectus upon written or telegraphic notice by the International Representatives to the Company and the Selling Stockholder setting forth the number of shares of the U.S. Option Securities as to which the several International Underwriters are exercising the option and the settlement date. Delivery of certificates for the shares of Option Securities, and payment therefor, shall be made as provided in Section 3 hereof. The number of shares of the Option Securities to be purchased by each International Underwriter shall be the same percentage of the total number of shares of the Option Securities to be purchased by the several International Underwriters as such International Underwriter is purchasing of the Underwritten Securities, subject to such adjustments as you in your absolute discretion shall make to eliminate any fractional shares.

3. DELIVERY AND PAYMENT. Delivery of and payment for the Underwritten Securities shall be made at the offices of Wachtell, Lipton, Rosen & Katz, 51 W. 52nd Street (or such other place as mutually may be agreed upon), New York, New York, at 10:00 a.m., New York City time, on _______, 1994, or such later date (not later than _______, 1994) as the International Representatives shall designate, which date and time may be postponed by agreement among the International Representatives, the Company and the Selling Stockholder or as provided in Section 9 hereof (such date and time of delivery and payment for the Securities being herein called the "First Closing

Date"). Delivery of the Underwritten Securities shall be made to the International Representatives for the respective accounts of the several International Underwriters against payment by the several International Underwriters through the International Representatives of the purchase price therefor to or upon the order of the Company and the Selling Stockholder by certified or official bank check or checks drawn on or by a New York Clearing House bank and payable in next day funds. Certificates for the Underwritten Securities shall be registered in such names and in such denominations as the International Representatives may request not less than three full business days in advance of the First Closing Date.

The overallotment option may be exercised during the term thereof by written notice by you to the Company and the Selling Stockholder. Such notice shall set forth the aggregate number of Option Securities as to which the option is being exercised, the name or names in which the certificates for such Option Securities are to be registered, the authorized denominations in which such Option Securities are to be issued, and the time and date, as determined by you, when such Option Securities are to be delivered (an "Additional Closing Date"); PROVIDED, HOWEVER, that no Additional Closing Date shall be earlier than the First Closing Date nor earlier than the third business day after the date on which the notice of the exercise of the option shall have been given nor later than the eighth business day after the date on which such notice shall have been given. Delivery and payment for such U.S. Option Securities is to be at the offices set forth above for delivery and payment of the Underwritten Securities. The First Closing Date and any Additional Closing Date are individually referred to as a "Closing Date" and collectively referred to as the "Closing Dates."

The Company and the Selling Stockholder agree to use their best efforts to have the Underwritten Securities and the U.S. Option Securities, as the case may be, to be delivered at each Closing Date available for inspection, checking and packaging by the Representatives in New York, New York, not later than 1:00 p.m. on the business day prior to such Closing Date.

4. OFFERING BY UNDERWRITERS. It is understood that the several International Underwriters propose to offer the Securities for sale to the public as set forth in the Prospectus. The International Representatives agree to advise the Company promptly following the completion of the distribution of the Securities.

5. AGREEMENTS. (a) The Company agrees with the several International Underwriters and Water Street that:

(i) The Company will use its best efforts to cause the Registration Statement, if not effective at the Execution Time, and any amendment thereof, to become effective. Prior to the termination of the offering of the Securities, the Company will not file any amendment of the Registration Statement or supplement to the Prospectus without your prior consent, which consent shall not be unreasonably withheld. Subject to the foregoing sentence, if the Registration Statement has become or becomes effective pursuant to Rule 430A, or filing of the Prospectus is otherwise required under Rule 424(b), the Company will cause the Prospectus, properly completed, and any supplement thereto to be filed with the Commission pursuant to the applicable paragraph of Rule 424(b) within the time period prescribed and will provide evidence satisfactory to the Representatives of such timely filing. The Company will promptly advise the Representatives (i) when the Registration Statement, if not effective at the Execution Time, and any amendment thereto, shall have become effective, (ii) when the Prospectus, and any supplement thereto, shall have been filed (if required) with the Commission pursuant to Rule 424(b), (iii) when, prior to termination of the offering of the Securities, any amendment to the Registration Statement shall have been filed or become effective, (iv) of any request by the Commission for any amendment of the Registration Statement or supplement to the Prospectus or for any additional information, (v) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the Company becoming aware of the institution or threatening of any proceeding for that purpose, and (vi) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose. The Company will use its best efforts to prevent the issuance of any such stop order and, if issued, to obtain as soon as possible the withdrawal thereof.

(ii) If, at any time when a prospectus relating to the Securities is required to be delivered under the Act, any event occurs as a result of which the Prospectus as then supplemented would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or

if it shall be necessary to amend the Registration Statement or supplement the Prospectus to comply with the Act or the rules thereunder, the Company will promptly prepare and file with the Commission, subject to the second sentence of Section 5(a)(i), an amendment or supplement which will correct such statement or omission or effect such compliance.

(iii) As soon as practicable, but in any event not later than sixteen (16) months after the Effective Date, the Company will make generally available to its security holders and to the International Representatives an earnings statement or statements of the Company and its subsidiaries which satisfies the provisions of Section 11(a) of the Act and Rule 158 under the Act. Filing reports under Section 13 of the Securities Exchange Act of 1934 on a timely basis shall constitute compliance with this paragraph (iii), provided that the provisions of Section 11(a) of the Act and Rule 158 are thereby satisfied.

(iv) The Company will furnish to the International Representatives and counsel for the International Underwriters, without charge, two signed copies of the Registration Statement (including exhibits thereto) and to each other Underwriter a copy of the Registration Statement (without exhibits thereto) and, so long as delivery of a prospectus by an International Underwriter or dealer may be required by the Act, as many copies of each Preliminary Prospectus and the Prospectus and any supplement thereto as the International Representatives may reasonably request. The Company will pay the expenses of printing or other production of all documents relating to the offering.

(v) The Company will cooperate with you and your counsel in connection with endeavoring to obtain qualification of the Securities for sale under the laws of such jurisdictions as the International Representatives may designate, will maintain such qualifications in effect so long as required for the distribution of the Securities; PROVIDED, HOWEVER, that the Corporation shall not be obligated to qualify as a foreign corporation to do business under the laws of any jurisdiction in which it shall not then be qualified but for the requirements of this Section 4(a)(v), to subject itself to taxation in any such jurisdiction to which it shall not then be so subject or to consent to general service of process in any such jurisdiction to which it shall not then be so subject.

(vi) For a period of 120 days following the Execution Time, the Company will not, without the prior written consent of the International Representatives, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any other shares of Common Stock or any securities convertible into, or exercisable or exchangeable for, shares of Common Stock, other than through the exercise of warrants or management stock options.

(vii) The Company will apply the net proceeds of the offering and the sale of the Securities in the manner set forth in the Prospectus under the caption "Purpose of the Offering and Use of Proceeds."

(viii) The Company confirms as of the date hereof that it is in compliance with all provisions of Section 1 of the Laws of Florida, Chapter 92-198, AN ACT RELATING TO DISCLOSURE OF DOING BUSINESS WITH CUBA, Section 517.075 of the Florida Securities and Investor Protection Act, and the Company further agrees that if it or any of its affiliates commences engaging in business with the government of Cuba or with any person or affiliate located in Cuba after the date the Registration Statement becomes or has become effective with the Commission or with the Florida Department of Banking and Finance (the "Department"), whichever date is later, or if the information reported in the Prospectus, if any, concerning the Company's business with Cuba or with any person or affiliate located in Cuba changes in any material way, the Company will provide the Department notice of such business or change, as appropriate, in a form acceptable to the Department.

(ix) The Company will comply with its obligations with respect to the Securities under Article 4 of the Water Street Agreement.

(b) Water Street agrees with the several International Underwriters that:

(i) Water Street will not (and any assignees of Water Street's rights under Section 4.1 of the Water Street Agreement will not) request any registration of shares of Common Stock pursuant to Section 4.1 of the Water Street Agreement for a period of 120 days following the Effective Date.

(ii) For a period of 120 days following the Execution Time, Water Street and Goldman, Sachs & Co. will not,

without the prior written consent of the International Representatives, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any other shares of Common Stock or any securities convertible into, or exercisable or exchangeable for, shares of Common Stock; PROVIDED, HOWEVER, Water Street may distribute such shares or securities held by it to its partners at any time after 90 days following the Effective Date, which partners (other than Goldman, Sachs & Co.) shall not be bound by the limitations in this paragraph (ii); PROVIDED, FURTHER, that Water Street and Goldman, Sachs & Co. may exercise any of their Warrants to purchase Common Stock.

(c) Each International Underwriter covenants and agrees with the Company and Water Street that it will comply with the obligations of an underwriter with respect to the Securities under Article 4 of the Water Street Agreement, it being understood that such obligations do not include those set forth under Sections 4.8(a), (b), (c), (d)(iii) and (d)(iv) of such Agreement.

(d) Each Manager agrees that (i) it is not purchasing any of the International Securities for the account of any United States or Canadian Person, (ii) it has not offered or sold, and will not offer or sell, directly or indirectly, any of the International Securities or distribute any International Prospectus to any person inside the United States or Canada, or to any United States or Canadian Person, and (iii) any dealer to whom it may sell any of the International Securities will represent that it is not purchasing for the account of any United States or Canadian Person and agree that it will not offer or resell, directly or indirectly, any of the International Securities inside the United States or Canada, or to any United States or Canadian Person or to any other dealer who does not so represent and agree; PROVIDED, HOWEVER, that the foregoing shall not restrict (A) purchases and sales between the Underwriters on the one hand and the Managers on the other hand pursuant to Section 1(b) of the Agreement Between Underwriters and Managers, (B) stabilization transactions contemplated under Section 2 of the Agreement Between Underwriters and Managers, conducted through Salomon Brothers Inc as part of the distribution of the Securities, and (C) sales to or through (or distributions of International Prospectuses or International Preliminary Prospectuses to) persons not United States or Canadian Persons who are investment advisors, or who otherwise exercise investment discretion, and who are purchasing for the account of United States or Canadian Persons. "United States or Canadian Person"

shall mean any person who is a national or resident of the United States or Canada, a corporation, partnership, or other entity created or organized in or under the laws of the United States or Canada or of any political subdivision thereof, or any estate or trust the income of which is subject to United States or Canadian federal income taxation, regardless of its source (other than any non-United States or non-Canadian branch of any United States or Canadian Person), and shall include any United States or Canadian branch of a person other than a United States or Canadian Person. "US" or "United States" shall mean the United States of America (including the states thereof and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction.

(e) The agreements of the Managers set forth in paragraph (b) of this Section 5 shall terminate upon the earlier of the following events:

(i) a mutual agreement of the Representatives and the International Representative to terminate the selling restrictions set forth in paragraph (d) of this Section 5 and in Section 5(d) of the US Underwriting Agreement; or

(ii) the expiration of a period of 30 days after the Closing Date, unless (a) the Representatives shall have given notice to the Company and the International Representative that the distribution of the US Securities by the Underwriters has not yet been completed, or (b) the International Representative shall have given notice to the Company and the Underwriters that the distribution of the International Securities by the Managers has not yet been completed. If such notice by the Representatives or the International Representative is given, the agreements set forth in such paragraph (b) shall survive until the earlier of (1) the event referred to in clause (i) of this subsection (e) or (2) the expiration of any additional period of 30 days from the date of any such notice.

(f) Each Manager represents and agrees that:

(i) it has not offered or sold and will not offer or sell in the United Kingdom, by means of any document, any International Securities other than to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent or in circumstances which do not constitute an offer to the public within the meaning of the Companies Act 1985;

(ii) it has complied and will comply with all applicable provisions of The Financial Services Act 1986 with respect to anything done by it in relation to the International Securities in, from or otherwise involving the United Kingdom;

(iii) it has only issued or passed on and will only issue or pass on to any person in the United Kingdom any document received by it in connection with the issue of the International Securities if that person is of a kind described in Article 9(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1988; and

(iv) it has not offered or sold and will not offer or sell, by means of any document, any International Securities in violation of any applicable financial regulation in a country where such International Securities are to be sold.

6. CONDITIONS TO THE OBLIGATIONS OF THE INTERNATIONAL UNDERWRITERS. The obligations of the International Underwriters to purchase the Securities to be delivered at each Closing Date shall be subject to the accuracy of the representations and warranties on the part of the Company and Water Street contained herein as of the Execution Time and as of such Closing Date (as if made at such Closing Date), to the accuracy of the statements of the Company made in any certificates pursuant to the provisions hereof, to the performance by the Company and Water Street of their obligations hereunder and to the following additional conditions:

(a) If the Registration Statement has not become effective prior to the Execution Time, unless the International Representatives agree in writing to a later time, the Registration Statement will become effective not later than (i) 6:00 p.m. New York City time on the date of determination of the public offering price, if such determination occurred at or prior to 3:00 p.m. New York City time on such date or (ii) 12:00 Noon on the business day following the day on which the public offering price was determined, if such determination occurred after 3:00 p.m. New York City time on such date; if filing of the Prospectus, or any supplement thereto, is required pursuant to Rule 424(b), the Prospectus, and any such supplement, will be filed in the manner and within the time period required by Rule 424(b); and no stop order suspending the effectiveness of the Registration Statement shall have been

issued and no proceedings for that purpose shall have been instituted or threatened.

(b) On each Closing Date, the Company shall have furnished to the International Representatives and Water Street the opinion of Kirkland & Ellis, counsel for the Company as to paragraphs (i), (iv), (vii), (viii), (ix) and (x), and of the General Counsel or the Assistant General Counsel of the Company with respect to paragraphs (ii), (iii), (v), (vi), (xi) and (xii), each dated as of such Closing Date, to the effect that:

(i) The Company has been duly incorporated and the Company is validly existing as a corporation under the laws of the State of Delaware, with full corporate power and authority to own its properties and conduct its businesses as described in the Prospectus;

(ii) Each of the Major Subsidiaries has been duly incorporated and all the Major Subsidiaries are validly existing as corporations under the laws of their respective jurisdictions of incorporation, with full corporate power and authority to own their respective properties and conduct their respective businesses as described in the Prospectus, and the Company and each of the Major Subsidiaries are duly qualified to do business as foreign corporations under the laws of each jurisdiction in which the character of the business conducted or the location of the properties owned or leased make such qualifications necessary and in which the consequences of a failure to so qualify would have a material adverse effect on the properties or businesses of the Company and its subsidiaries taken as whole:

(iii) all the outstanding shares of capital stock of each Major Subsidiary have been duly and validly authorized and issued and are fully paid and nonassessable, and have not been issued and are not owned or held in violation of any statutory preemptive right of stockholders; to the knowledge of such counsel after due inquiry, such shares are not held in violation of any other preemptive right of stockholders and, except as otherwise set forth in the Registration Statement, all outstanding shares of capital stock of the Major Subsidiaries are owned by the Company either directly or through wholly owned subsidiaries free and clear of any perfected security

interest and, to the knowledge of such counsel, after due inquiry, any other material security interests, stockholders, agreements or voting trusts;

(iv) the Company's authorized equity capitalization is as set forth in the Prospectus; the capital stock of the Company conforms to the description thereof contained in the Prospectus; the Securities being sold hereunder and under the International Underwriting Agreement, as the case may be, have been duly and validly authorized, and, in the case of the Securities sold to the Underwriters by the Company, when issued and delivered to and paid for by the Underwriters pursuant to this Agreement or pursuant to the International Underwriting Agreement, will be fully paid and nonassessable; the Securities have been duly authorized for trading, subject to official notice of issuance, on the New York Stock Exchange, Inc.; and the holders of outstanding shares of capital stock of the Company are not entitled to statutory preemptive or, to the best of such counsel's knowledge after due inquiry, contractual rights to subscribe for the Securities;

(v) the outstanding shares of Common Stock have been duly and validly authorized and issued and are fully paid and nonassessable; and the certificates for the Securities are in valid form;

(vi) there is no pending or, to the knowledge of such counsel, threatened action, suit or proceeding before any court or governmental agency, authority or body or any arbitrator involving the Company or any of the subsidiaries of a character required to be disclosed in the Registration Statement which is not adequately disclosed in the Prospectus, and there is no contract or other document of a character required to be described in the Registration Statement or the Prospectus, or to be filed as an exhibit, which is not described or filed as required;

(vii) the Registration Statement and all post-effective amendments thereto have become effective under the Act; any required filing of the Prospectus, and any supplements thereto, pursuant to Rule 424(b) and Rule 430A have been made in the manner and within the time period required by such Rules; to the best knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement has

been issued, no proceedings for that purpose have been instituted or threatened and the Registration Statement and the Prospectus (other than the financial statements and other financial and statistical information contained therein as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Act and the rules thereunder;

(viii) each of the Agreements has been duly authorized, executed and delivered by the Company;

(ix) no consent, approval, authorization, license, certificate, permit or order of any court or governmental agency or body is required for the consummation of the transactions contemplated herein, except such as have been obtained under the Act or as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters (as to which such counsel need not opine) in connection with the purchase and distribution of the Securities by the Underwriters and such other approvals as have been obtained;

(x) neither the execution and delivery of this Agreement or the International Underwriting Agreement nor the issue and sale of the Securities, nor the consummation of any other of the transactions contemplated herein or therein nor the fulfillment of the terms hereof or thereof will conflict with, result in a breach of, or constitute a default under the charter or by-laws of the Company or the terms of any agreement listed on Exhibit A attached hereto;

(xi) neither the execution and delivery of this Agreement or the International Underwriting Agreement nor the issue and sale of the Securities, nor the consummation of any other of the transactions contemplated herein or therein nor the fulfillment of the terms hereof or thereof will conflict with, result in a breach of, or constitute a default any agreement filed as an exhibit to the Registration Statement (other than any such agreement listed on Exhibit A to the opinion of Kirkland & Ellis delivered pursuant to this Agreement) or under any judgment, order or regulation known to such counsel to be applicable to the Company or any of its subsidiaries of any court, regulatory body, administrative agency, governmental

body or arbitrator having jurisdiction over the Company or any of its subsidiaries;

(xii) except as disclosed in the Prospectus, no holders of securities of the Company have rights to the registration of such securities under the Registration Statement.

Each of such counsel shall state that it has participated in conferences with representatives of the Company, at which conferences the contents of the Registration Statement, the Prospectus, each amendment thereof and supplement thereto and related matters were discussed, and, although such counsel has not independently checked or verified and is not passing upon and assumes no responsibility for the factual accuracy, completeness or fairness of the statements contained in the Registration Statement, the Prospectus, any amendment thereof or supplement thereto, no facts have come to the attention of such counsel to cause such counsel to believe (A) that either the Registration Statement or any amendment thereto (other than the financial statements and related schedules and other financial and statistical information contained therein, or omitted therefrom), at the time the Registration Statement became effective contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein not misleading or (B) that the Prospectus, as amended and supplemented (other than the financial statements and related schedules and other financial and statistical information contained therein, or omitted therefrom), at the time the Registration Statement became effective or on each Closing Date contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering such opinions, each such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the States of Illinois and Delaware or the United States, to the extent they deem proper and specified in such opinions, upon the opinion of other counsel of good standing whom they believe to be reliable and who are satisfactory to counsel for the Underwriters and (B) as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and public officials. Reference to the Prospectus in this paragraph (b) include any supplements thereto at the Closing Date.

(c) On each Closing Date, Water Street shall have furnished to the International Representatives the opinion

of Fried, Frank, Harris, Shriver & Jacobson, counsel for Water Street, dated as of such Closing Date, to the effect that:

(i) Each of this Agreement and the International Underwriting Agreement has been duly authorized, executed and delivered by the Selling Stockholder. No consent, approval, authorization or order of any court or governmental agency or body of the State of New York or the United States of America is required for the consummation by Water Street of any of the transactions contemplated herein. The sale of the Securities to be sold by Water Street and the consummation by Water Street of the transactions contemplated by this Agreement and the International Underwriting Agreement will not result in a breach or violation of any term or provision of Water Street's agreement of limited partnership or the Water Street Agreement.

(ii) Assuming the Underwriters purchase the Securities to be transferred by Water Street on the applicable Closing Date in good faith and without notice of any adverse claim as such term is used in Section 8-302 of the Uniform Commercial Code in effect in the State of New York, valid title to such Securities, free and clear of all liens, encumbrances, equities, or other adverse claims will pass to the Underwriters when appropriate entries to the accounts of the Underwriters are made on the books of The Depository Trust Company.

(d) The International Representatives shall have received from Wachtell, Lipton, Rosen & Katz, counsel for the International Underwriters, such opinion or opinions, dated as of each Closing Date, with respect to the issuance and sale of the Securities, the Registration Statement, the Prospectus (together with any supplement thereto) and other related matters as the International Representatives may reasonably require, and the Company shall have furnished to such counsel such documents as they may reasonably request for the purpose of enabling them to pass upon such matters.

(e) The Company shall have furnished to the International Representatives and to Water Street a certificate of the Company, signed by the Chief Financial Officer and the Vice President-Controller of the Company, each in his official capacity as an officer of the Company and not as

an individual, dated as of each Closing Date, to the effect that the signers of such certificate have carefully examined the Registration Statement, the Prospectus, any supplement to the Prospectus, this Agreement and the International Underwriting Agreement and that:

(i) the representations and warranties of the Company in this Agreement and the International Underwriting Agreement are true and correct in all material respects on and as of such Closing Date with the same effect as if made on the Closing Date and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date;

(ii) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or, to the Company's knowledge, threatened; and

(iii) since the date of the most recent financial statements included in the Prospectus (exclusive of any supplement thereto), there has been no MAC, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(f) Water Street shall have furnished to the International Representatives a certificate of Water Street, dated as of each Closing Date, to the effect that the representations and warranties of Water Street in this Agreement are true and correct in all material respects on and as of such Closing Date with the same effect as if made on the Closing Date and Water Street has complied in all material respects with all the agreements and satisfied all the conditions on their part to be performed or satisfied at or prior to the Closing Date.

(g) At the Execution Time and at each Closing Date, Arthur Andersen & Co. shall have furnished to the International Representatives a letter or letters, dated respectively as of the Execution Time and as of such Closing Date, in form and substance satisfactory to the International Representatives, stating in effect that:

(i) They are independent certified public accountants with respect to the Company and its subsidiaries within the meaning of the Act and the

applicable published rules and regulations thereunder;

(ii) In their opinion, the financial statements and any supplementary financial information and schedules examined by them and included in the Prospectus or the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations thereunder; and, if applicable, they have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited consolidated interim financial statements of the Company for the periods specified in such letter, as indicated in their reports thereon, copies of which have been furnished to the Representatives;

(iii) The unaudited summary, condensed and selected financial information with respect to the consolidated results of operations and financial position of the Company for the six most recent fiscal years (or such shorter period as applicable) included in the Prospectus agrees with the corresponding amounts (after restatements where applicable) in the audited consolidated financial statements for such period; and the pro forma financial information complies in all material respects as to form with all applicable accounting requirements of the Act;

(iv) On the basis of limited procedures, not constituting an examination in accordance with generally accepted auditing standards, consisting of a reading of the unaudited financial statements and other information referred to below, a reading of the latest available interim financial statements of the Company and its subsidiaries, inspection of the minute books of the Company and its subsidiaries since the date of the latest audited financial statements included in the Prospectus, inquiries of officials of the Company and its subsidiaries responsible for financial and accounting matters and such other inquiries and procedures as may be specified in such letter, nothing came to their attention that caused them to believe that:

(A) the unaudited consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations thereunder, or are not in conformity with generally accepted accounting principles applied on a basis substantially consistent with the basis for the audited consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus;

(B) any other unaudited income statement data and balance sheet items included in the Prospectus do not agree with the corresponding items in the unaudited consolidated financial statements from which such data and items were derived, and any such unaudited data and items, if any, were not determined on a basis substantially consistent with the basis for the corresponding amounts in the audited consolidated financial statements included in the Prospectus;

(C) the unaudited financial statements which were not included in the Prospectus but from which were derived any unaudited condensed financial statements referred to in Clause A and any unaudited income statement data and balance sheet items included in the Prospectus and referred to in Clause B were not determined on a basis substantially consistent with the basis for the audited consolidated financial statements included in the Prospectus;

(D) any unaudited pro forma consolidated condensed financial statements included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the published rules and regulations thereunder or the pro forma adjustments have not been properly applied to the historical amounts in the compilation of those statements;

(E) as of a specified date not more than five days prior to the date of such letter, there have been any changes in the consolidated

capital stock or any increase in the consolidated long-term debt of the Company and its Subsidiaries, or any decreases in consolidated net current assets or net assets or other items specified prior to the Execution Time by the Representatives, or any increases in any items specified prior to the Execution Time by the Representatives, in each case as compared with amounts shown in the latest balance sheet included in the Prospectus, except in each case for changes, increases or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(F) for the period from the date of the latest financial statements included in the Prospectus to the specified date referred to in Clause E there were any decreases in consolidated net sales, operating profit data as compared to the preceding period or other items specified by the Representatives, or any increases in any items specified prior to the Execution Time by the Representatives, in each case as compared with the comparable period of the preceding year and with any other period of corresponding length specified prior to the Execution Time by the Representatives, except in each case for decreases or increases which the Prospectus discloses, have occurred or may occur or which are described in such letter; and

(v) In addition to the examination referred to in their report(s) included in the Prospectus and the limited procedures, inspection of minute books, inquiries and other procedures referred to in paragraphs (ii) and (iv) above, they have carried out certain specified procedures, not constituting an examination in accordance with generally accepted auditing standards, with respect to certain amounts, percentages and financial information specified prior to the Execution Time by the Representatives, which are derived from the general accounting records of the Company and its Subsidiaries, which appear in the Prospectus, or in Part II of, or in exhibits and schedules to, the Registration Statement specified prior to the Execution Time by the Representatives, and have compared certain of such amounts, percentages and financial information with the accounting

records of the Company and the Subsidiaries and have found them to be in agreement.

References to the Prospectus in this paragraph (g) include any supplement thereto at the date of the letter.

(h) Subsequent to the Execution Time or, if earlier, the dates as of which information is given in the Registration Statement (exclusive of any amendment thereof) and the Prospectus (exclusive of any supplement thereto), there shall not have been (i) any change or decrease specified in the letter or letters referred to in paragraph (g) of this Section 6 or (ii) any change, or any development involving a prospective change, in or affecting the business or properties of the Company and its subsidiaries the effect of which, in any case referred to in clause (i) or (ii) above, is, in the judgment of the Representatives, so material and adverse as to make it impractical or inadvisable to proceed with the public offering or the delivery of the Securities as contemplated by the Registration Statement (exclusive of any amendment thereof) and the Prospectus (exclusive of any supplement thereto).

(i) Prior to each Closing Date, the Company shall have furnished to the International Representatives such further information, certificates and documents as the International Representatives may reasonably request.

If any of the conditions specified in this Section 6 shall not have been fulfilled in all material respects when and as provided in this Agreement, or if any of the opinions and certificates mentioned above or elsewhere in this Agreement shall not be in all material respects reasonably satisfactory in form and substance to the International Representatives and their counsel, this Agreement and all obligations of the International Underwriters hereunder may be cancelled at, or at any time prior to, each Closing Date by the International Representatives. Notice of such cancellation shall be given to the Company and the Selling Stockholder in writing or by telephone or telegraph confirmed in writing.

6A. CONDITIONS TO THE OBLIGATIONS OF WATER STREET. The obligation of Water Street to sell the Securities to be delivered at each Closing Date shall be subject to the accuracy of the representations on the part of the Company contained herein as of the Execution Time and as of such Closing Date (as if made at such Closing Date), to the accuracy of the statements of the Company made in any certificates pursuant to the

provisions hereof, to the performance by the Company of its obligations hereunder and to additional conditions identical to those set forth in Section 6 (other than paragraph (c) thereof). If any of the conditions specified in this Section 6A shall not have been fulfilled in all material respects when and as provided in this Agreement, Water Street may, by written notice to the Company and the International Representatives and at, or at any time prior to, each Closing Date, terminate its obligations under this Agreement.

7. EXPENSES. The Company agrees with Water Street that it will pay or cause to be paid all Registration Expenses (as defined in the Water Street Agreement) in connection with the Registration Statement and this Agreement and the International Underwriting Agreement (it being understood that such Registration Expenses shall not include any expenses relating to the preparation of any amendment to the Water Street Agreement). If the sale of the Securities provided for herein is not consummated because any condition to the obligations of the International Underwriters set forth in Section 6 hereof is not satisfied (other than the conditions specified in paragraphs 6(d) and, if the International Underwriters shall have not exercised their judgment reasonably, 6(h)), because of any termination pursuant to Section 10 hereof or because of any refusal, inability or failure on the part of the Company to perform any agreement herein or comply with any provision hereof other than by reason of a default by any of the International Underwriters, the Company will reimburse the International Underwriters severally upon demand for all out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the proposed purchase and sale of the Securities.

8. INDEMNIFICATION AND CONTRIBUTION. (a) The Company agrees to indemnify and hold harmless each International Underwriter, the directors, officers, employees and agents of each International Underwriter and each person who controls any Underwriter within the meaning of either the Act or the Securities Exchange Act of 1934 (the "Exchange Act") against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the registration statement for the registration of the Securities as originally filed or in any amendment thereof, or in any Preliminary Prospectus or the Prospectus, or in any amendment thereof or

supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; PROVIDED, HOWEVER, that (i) the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of any International Underwriter through the International Representatives specifically for use in connection with the preparation thereof, (ii) the Company will not be liable for the amount paid in settlement of any litigation commenced or threatened or of any claim whatsoever arising out of or based upon any (actual or alleged) untrue statement or omission unless such settlement is effected with the written consent of the Company and (iii) such indemnity with respect to any Preliminary Prospectus shall not inure to the benefit of an International Underwriter (or any person controlling such International Underwriter) from whom the person asserting any such loss, claim, damage or liability purchased the Securities which are the subject thereof if such person did not receive a copy of the Prospectus (or the Prospectus as supplemented) excluding documents incorporated therein by reference at or prior to the confirmation of the sale of such Securities to such person in any case where such delivery is required by the Act and the untrue statement or omission of a material fact contained in such Preliminary Prospectus was corrected in the Prospectus (or the Prospectus as supplemented). This indemnity agreement will be in addition to any liability which the Company may otherwise have.

(b) The Selling Stockholder agrees to indemnify and hold harmless the International Underwriter and each person who controls the International Underwriter within the meaning of the Act or the Exchange Act to the same extent as the foregoing indemnity in paragraph (a) of this Section from the Company to the International Underwriter, but only with reference to written information furnished to the Company by or on behalf of the Selling Stockholder specifically for use in preparation of the documents referred to in the foregoing indemnity. This indemnity agreement will be in addition to any liability which the Selling Stockholder may otherwise have. Notwithstanding the provisions of this subsection (b), the Selling Stockholder shall not be required to pay an amount in excess of the net

proceeds received by the Selling Stockholder from the Securities sold by it hereunder. The Company, the Selling Stockholder and the International Underwriters acknowledge that the statements set forth under the heading "Ownership of Common Stock -- Selling Stockholder and its Affiliates" in the Prospectus (and not any information to which reference is made under such heading) constitutes the only information furnished in writing by or on behalf of Water Street for inclusion in the documents referred to in the foregoing indemnity, and Water Street confirms that such statements are correct and complete.

(c) Each International Underwriter severally agrees to indemnify and hold harmless the Company, each of its directors, each of its officers who signs the Registration Statement, and each person who controls the Company within the meaning of either the Act or the Exchange Act and the Selling Stockholder and its respective directors, officers, partners, employees and agents and each other person, if any, who controls the Selling Stockholder within the meaning of the Act or the Exchange Act, to the same extent as the foregoing indemnity in paragraph (a) of this Section from the Company to each International Underwriter, but only with reference to (i) written information relating to such International Underwriter furnished to the Company by or on behalf of such International Underwriter through the International Representatives specifically for inclusion in the documents referred to in the foregoing indemnity and (ii) any breach of its obligation to make any offer of the Securities in Canada only pursuant to an exemption from the Prospectus requirements in any jurisdiction in Canada in which such offer is made. This indemnity agreement will be in addition to any liability which any International Underwriter may otherwise have. The Company acknowledges that the statements set forth in the last paragraph of the cover page and under the heading "Underwriting" in any Preliminary Prospectus and the Prospectus constitute the only information furnished in writing by or on behalf of the several International Underwriters for inclusion in any Preliminary Prospectus or the Prospectus, and you, as the International Representatives, confirm that such statements are correct.

(d) Each of the Company and Water Street hereby confirms its indemnification obligations contained in Section 4.9 of the Water Street Agreement, which Section is incorporated herein by reference.

(e) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this

Section 8, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a), (b) or (c) above unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of any material right or defense and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a), (b) or (c) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); PROVIDED, HOWEVER, that such counsel shall be satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel in its reasonable judgment with a conflict of interest, (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, (iii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. It being understood and agreed that the indemnifying party shall bear the fees, costs and expenses of only one counsel pursuant to this paragraph. An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding. No

indemnifying party shall be liable for any settlement of any commenced or threatened action or proceeding effected without its written consent.

(f) In the event that the indemnity provided in paragraph (a), (b) or (c) of this Section 8 is unavailable to or insufficient to hold harmless an indemnified party for any reason, the Company, the Selling Stockholder and the International Underwriters agree to contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) (collectively "Losses") to which the Company, the Selling Stockholder and one or more of the International Underwriters may be subject in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and the indemnified party on the other hand; PROVIDED, HOWEVER, that in no case shall any International Underwriter (except as may be provided in any agreement among underwriters relating to the offering of the Securities) be responsible for any amount in excess of the underwriting discount or commission applicable to the Securities purchased by such International Underwriter hereunder. If the allocation provided by the immediately preceding sentence is unavailable for any reason, or if such allocation provides a lesser sum to the indemnified party than the amount hereinafter calculated then the Company, the Selling Stockholder and the International Underwriters shall contribute in such proportion as is appropriate to reflect not only such relative fault but also the relative benefits of the indemnifying party and the indemnified party as well as any other equitable considerations. Benefits received by the Company shall be deemed to be equal to the net proceeds from the offering (before deducting expenses) received by the Company, benefits received by the Selling Stockholder shall be deemed to be equal to the net proceeds from the offering (before deducting expenses) received by the Selling Stockholders and benefits received by the International Underwriters shall be deemed to be equal to the total underwriting discounts and commissions, in each case as set forth on the cover page of the Prospectus. Relative fault shall be determined by reference to whether any alleged untrue statement or omission relates to information provided by the Company, the Selling Stockholder or the International Underwriters. The Company, the Selling Stockholder and the International Underwriters agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this Section 8(f), the Selling Stockholder shall not be required to contribute any amount under this Section 8(f) in

excess of the amount by which the net proceeds received by the Selling Stockholder from the sale of Securities in the offering exceed the aggregate amount the Selling Stockholder has otherwise paid pursuant hereto and pursuant to Section 8(b); and no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each person who controls the International Underwriter within the meaning of either the Act or the Exchange Act and each director, officer, employee and agent of the International Underwriter shall have the same rights to contribution as the International Underwriter, each person who controls the Company within the meaning of either the Act or the Exchange Act, each officer of the Company who shall have signed the Registration Statement and each director of the Company shall have the same rights to contribution as the Company, and each person who controls the Selling Stockholder within the meaning of either the Act or the Exchange Act and each director, officer, partner, employee and agent of the Selling Stockholder shall have the same rights to contribution as the Selling Stockholder, subject in each case to the applicable terms and provisions of this paragraph (f). Contribution payments made under this Section 8 are losses for purposes of Section 4.9 of the Water Street Agreement.

9. DEFAULT BY AN INTERNATIONAL UNDERWRITER. If any one or more International Underwriters shall fail to purchase and pay for any of the Securities agreed to be purchased by such International Underwriter or International Underwriters hereunder, and such failure to purchase shall constitute a default in the performance of its or their obligations under this Agreement, the remaining International Underwriters shall be obligated severally to take up and pay for (in the respective proportions which the amount of Securities set forth opposite their names in Schedule I hereto bears to the aggregate amount of Securities set forth opposite the names of all the remaining International Underwriters) the Securities which the defaulting International Underwriter or International Underwriters agreed but failed to purchase; PROVIDED, HOWEVER, that in the event that the aggregate amount of Securities which the defaulting International Underwriter or International Underwriters agreed but failed to purchase shall exceed 10% of the aggregate amount of Securities set forth in Schedule I hereto, the remaining International Underwriters shall have the right to purchase all, but shall not be under any obligation to purchase any, of the Securities, and if such nondefaulting International Underwriters do not purchase all the Securities, this Agreement will terminate without liability to any nondefaulting

International Underwriter, the Company or the Selling Stockholder. In the event of a default by any International Underwriter as set forth in this Section 9, the Closing Date shall be postponed for such period, not exceeding seven days, as the Representatives shall determine in order that the required changes in the Registration Statement and the Prospectus or in any other documents or arrangements may be effected. Nothing contained in this Agreement shall relieve any defaulting International Underwriter of its liability, if any, to the Company, the Selling Stockholder and any nondefaulting International Underwriter for damages occasioned by its default hereunder.

10. TERMINATION. This Agreement shall be subject to termination in the absolute discretion of the International Representatives, by notice given to the Company and the Selling Stockholder prior to the Closing Date if prior to such time (i) trading in the Company's Common Stock shall have been suspended by the Securities and Exchange Commission or the New York Stock Exchange or trading in securities generally on the New York Stock Exchange shall have been suspended or limited or minimum prices shall have been established on such Exchange, (ii) a banking moratorium shall have been declared either by Federal or New York State authorities or (iii) there shall have occurred any outbreak or material escalation of hostilities or other calamity or crisis the effect of which on the financial markets of the United States is such as to make it, in the judgment of the International Representatives, impracticable to market the Securities.

11. REPRESENTATIONS AND INDEMNITIES TO SURVIVE. The respective agreements, representations, warranties, indemnities and other statements of the Company or its officers, of the Selling Stockholder, and of the International Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of the International Underwriters, the Selling Stockholder, or the Company or any of the officers, directors, partners or controlling persons referred to in Section 8 hereof, and will survive delivery of and payment for the Securities. The provisions of Sections 7 and 8 hereof shall survive the termination or cancellation of this Agreement.

12. NOTICES. All communications hereunder will be in writing and effective only on receipt, and, if sent to the International Representatives, will be mailed, delivered or telecopied and confirmed to them at Salomon Brothers International Limited at Victoria Plaza, 111 Buckingham Plaza Road, London SW1W OSB, attn: ; or, if sent to the Company, will be mailed, delivered or telecopied and confirmed to it at

USG Corporation, 125 S. Franklin Street, Chicago, Illinois 60606, attn: Secretary, with a copy to Kirkland & Ellis, 200 E. Randolph Drive, Chicago, Illinois 60601, attn: Francis J. Gerlits, P.C.; or, if sent to the Selling Stockholder, will be mailed, delivered or telecopied and confirmed to it at c/o Goldman, Sachs & Co., 85 Broad Street, New York, New York 10004, attn: Barry S. Volpert; with a copy to Fried, Frank, Harris, Shriver & Jacobson, One New York Plaza, New York, New York 10004, attn: David J. Greenwald, Esq.

13. SUCCESSORS. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers, directors, partners, employees, agents and controlling persons referred to in Section 8 hereof, and no other person will have any right or obligation hereunder.

14. APPLICABLE LAW. This Agreement will be governed by and construed in accordance with the laws of the State of New York, without giving affect to the conflicts of laws principles thereof.

15. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

16. ENTIRE AGREEMENT. This Agreement and the Water Street Agreement constitute the entire agreement among the parties hereto with respect to the transactions contemplated hereby.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this letter and your acceptance shall represent a binding agreement among the Company, the Selling Stockholder and the several International Underwriters.

Very truly yours,

USG CORPORATION

By: ------------------------------------

Its: -----------------------------------

WATER STREET CORPORATE
RECOVERY FUND I, L.P.

By: GOLDMAN, SACHS & CO.

By: ------------------------------------
Name:
Title:

The foregoing Agreement is hereby
confirmed and accepted as of the
date first above written.

Salomon Brothers International Limited
Lazard Brothers & Co., Limited
Smith Barney Shearson Inc.

By: Salomon Brothers International Limited

By: ---------------------------------------

For themselves and the other several
International Underwriters named in
Schedule I to the foregoing Agreement.

SCHEDULE I

International Underwriters	Number of Shares to be Purchased
Salomon Brothers International Limited	
Lazard Brothers & Co., Limited	
Smith Barney Shearson Inc.	
TOTAL	

EXHIBIT A

AGREEMENTS

Letter Agreement, dated February 25, 1993, among USG Corporation, Water Street Corporate Recovery Fund I, L.P., Goldman, Sachs & Co. and The Goldman Sachs Group, L.P.

Amendment No. 1, dated February 22, 1994, to Letter Agreement, dated February 25, 1993, among USG Corporation, Water Street Corporate Recovery Fund I, L.P., Goldman, Sachs & Co. and The Goldman Sachs Group, L.P.

Amended and Restated Credit Agreement dated as of May 6, 1993 between USG Corporation and USG Interiors, Inc. as borrowers; the Financial Institutions listed on the signature pages thereof, as senior lenders; Bankers Trust Company, Chemical Bank and Citibank, N.A., as agents; and Citibank, N.A., as Administrative Agent (the "Amended and Restated Credit Agreement")

First Amendment, dated August 1, 1993, to Amended and Restated Credit Agreement

Second Amendment, dated as of January 31, 1994, to Amended and Restated Credit Agreement

Indenture, dated October 1, 1986, between USG Corporation and Harris Trust and Savings Bank, as supplemented

Indenture, dated as of April 26, 1993, among USG Corporation, certain guarantors and State Street Bank and Trust Company, as Trustee (the "10 1/4% Senior Notes Indenture")

Indenture, dated as of August 10, 1993, among USG Corporation, certain guarantors and State Street Bank and Trust Company, as Trustee

Amended and Restated Subsidiary Guarantees, dated as of May 6, 1993

Contingent Payment Guarantees issued pursuant to the 10 1/4% Senior Notes Indenture

Amended and Restated Collateral Trust Agreement, dated as of May 6, 1993 between USG Corporation, USG Interiors, Inc. and USG Foreign Investments, Ltd., as guarantors, and Wilmington Trust Company and William J. Wade, as trustees (the "Amended and Restated Collateral Trust Agreement")

First Amendment, dated August 1, 1993, to Amended and Restated Collateral Trust Agreement

Second Amendment, dated as of January 31, 1994, to Amended and Restated Collateral Trust Agreement

First Amendment, dated August 1, 1993, to Amended and Restated Subsidiary Guarantees

Reaffirmation, dated as of January 31, 1994, of Guarantees.

EXHIBIT B

LOCK-UP AGREEMENT

March __, 1994

Salomon Brothers Inc
Lazard Freres & Co.
Smith Barney Shearson Inc.
As Representatives of the
Several Underwriters,
c/o Salomon Brothers Inc
7 World Trade Center
New York, New York 10048

Salomon Brothers International Limited
Lazard Brothers & Co., Limited
Smith Barney Shearson Inc.
As International Representatives of the
Several International Underwriters
c/o Salomon Brothers International Limited
Victoria Plaza
111 Buckingham Palace Road
London SW1W 0SB, England

Gentlemen and Ladies:

The undersigned understand that USG Corporation, a Delaware corporation (the "Company"), has filed a Registration Statement on Form S-1 (as amended, the "Registration Statement") with the Securities and Exchange Commission (the "SEC") in connection with a proposed underwritten public offering (the "Offering") of its Common Stock, par value $0.10 per share (the "Common Stock"). All capitalized terms not defined herein shall have the meanings ascribed in the Registration Statement.

At your request, and in consideration of your agreeing to act as underwriters in connection with the Offerings and for other good and valuable consideration, the undersigned hereby agree that, without the prior written consent of the representatives (the "Representatives") of the U.S. Underwriters and the International Underwriters, for a period of 120 days following the date hereof, the undersigned will not, without the prior written consent of the Representatives, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any other shares of Common Stock or any securities convertible into, or exercisable or exchangeable for, shares of Common Stock; PROVIDED, HOWEVER,

Water Street may distribute such shares or securities held by it to its partners at any time after 90 days following the effective date of the Registration Statement, which partners (other than Goldman, Sachs & Co.) shall not be bound by this Agreement; PROVIDED, FURTHER, that Water Street and Goldman, Sachs & Co. may exercise any of their Warrants to purchase Common Stock.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

Very truly yours,

GOLDMAN, SACHS & CO.

By:

Name:
Title:

WATER STREET CORPORATE RECOVERY FUND I., L.P.

By: GOLDMAN, SACHS & CO.

By:

Name:
Title:

Accepted as of the date hereof:

Salomon Brothers Inc
Lazard Freres & Co.
Smith Barney Shearson, Inc.

By: Salomon Brothers Inc

By:

Title:
For itself and the Several
U.S. Underwriters

Salomon Brothers International Limited
Lazard Brothers & Co. Limited
Smith Barney Shearson Inc.

By: Salomon Brothers International
Limited

By:

Title:
For itself and the Several Managers.

Exhibit 5

March 3, 1994

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Ladies and Gentlemen:

We have acted as special counsel to USG Corporation, a Delaware corporation (the "Corporation"), in connection with the registration of up to 11,500,000 shares of common stock, par value $.10 per share, of the Corporation pursuant to a Registration Statement on Form S-1 (File No. 33-51845) filed with the Securities and Exchange Commission (the "Commission") on January 7, 1994 and amended on February 16, 1994 and March 3, 1994 (together with exhibits and any additional amendments thereto, the "Registration Statement"). Of the 11,500,000 shares being registered, up to 6,750,000 shares are being sold by the Corporation (the "Primary Shares") and up to 4,750,000 shares are being sold by a selling stockholder (the "Secondary Shares"). The Secondary Shares were originally issued to the selling stockholder pursuant to a plan of reorganization under Title 11 of the United States Code confirmed by a federal bankruptcy court.

We have examined the Corporation's certificate of incorporation, bylaws, resolutions of its board of directors and originals, or copies certified or otherwise identified to our satisfaction, of such other documents, corporate records and other instruments as we have deemed necessary for the purpose of this opinion and such other matters of fact and law which we have deemed necessary in order to render this opinion.

For the purposes of this opinion, we have assumed the authenticity of all documents submitted to us as originals, the conformity to the originals of all documents submitted to us as copies, and the authenticity of the originals of all documents submitted to us as copies. We have also assumed the genuineness of the signatures of persons signing all documents in connection with which this opinion is rendered, the authority of such persons signing on behalf of the parties thereto other than the Corporation, and the due authorization, execution and delivery of all documents by parties thereto other than the Corporation.

Based upon the foregoing, we are of the opinion that:

(a) when, as and if (i) the Registration Statement shall have become effective pursuant to the provisions of the Securities Act of 1933, as amended, (ii) the Corporation shall have received payment in full for the Primary Shares, and (iii) the Primary Shares shall have been issued in the form and containing the terms described in the Registration Statement, the resolutions of the Corporation's Board of Directors (and any authorized committee thereof) authorizing the foregoing and any legally required consents, approvals, authorizations and other orders of the Commission and any other regulatory authorities have been obtained, the Primary Shares will be validly issued, fully paid and nonassessable; and

(b) the Secondary Shares were validly issued and are fully paid and non-assessable.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to us under the heading entitled "Legal Matters" in the Prospectus which is part of this Registration Statement.

We do not find it necessary for purposes of this opinion, and accordingly do not purport to cover herein, the application of the securities or "Blue Sky" laws of the various states to the sale of the shares. We render no opinion as to the laws of any jurisdiction other than the internal law of the State of Illinois and the United States of America and the internal corporate law of the State of Delaware.

This opinion is being furnished to the addressee in connection with the filing of the Registration Statement, and is not to be used, circulated, quoted or otherwise relied upon for any other purpose.

Very truly yours,

/s/ KIRKLAND & ELLIS
KIRKLAND & ELLIS

LETTER AGREEMENT

February 22, 1994

USG Corporation
125 South Franklin Street
Chicago, Illinois 60606

Gentlemen:

Reference is made to the letter agreement, dated February 25, 1993 (the "Original Letter Agreement"), among USG Corporation, a Delaware corporation ("USG"), Water Street Corporate Recovery Fund I, L.P., a Delaware limited partnership ("Water Street"), The Goldman Sachs Group, L.P., a Delaware limited partnership ("GS Group"), and Goldman, Sachs & Co., a New York limited partnership ("Goldman Sachs"). Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Original Letter Agreement.

On January 7, 1994, USG filed a registration statement on Form S-1 (No. 33-51845) under the Securities Act of 1933, as amended (the "Securities Act"), in connection with the proposed underwritten public offering (the "Proposed Offering") of shares of common stock, par value $.10 per share, of USG ("Common Stock").

This letter agreement (the "Agreement") confirms the following agreements and understandings between us:

1. NUMBER OF SHARES.

(a) USG currently intends to register for sale in the Proposed Offering 10,000,000 shares of Common Stock (11,500,000 shares if the underwriters' overallotment option or options are exercised in full). If that number of shares of Common Stock is included in the Proposed Offering, USG and Water Street will include 6,000,000 shares and 4,000,000 shares, respectively (6,750,000 shares and 4,750,000 shares, respectively, if the underwriters' overallotment option or options are exercised in full).

(b) For purposes of this Section 1, "Primary Shares" shall mean the number of shares of Common Stock included in the Proposed Offering that are not subject to the underwriters' overallotment option or options; and "Option Shares" shall mean the number of shares of Common Stock included in the Proposed Offering that are subject to the underwriters' overallotment option or options and equal to 15% of the total number of Primary Shares.

(c) If the number of Primary Shares to be registered and included in the Proposed Offering is greater than 10,000,000 and is equal to or less than 12,000,000 shares, (x) USG shall be entitled to include in the Proposed Offering a number of Primary Shares equal to the sum of (A) 6,000,000 plus (B) 50% of the excess of the number of Primary Shares to be registered over 10,000,000; (y) Water Street shall be entitled to include in the Proposed Offering a number of Primary Shares equal to the sum of (A) 4,000,000 plus (B) 50% of the excess of the number of Primary Shares to be registered over 10,000,000; and (z) each of USG and Water Street shall be entitled to include 50% of the Option Shares.

(d) If the number of Primary Shares to be registered and included in the Proposed Offering exceeds 12,000,000 shares, (x) USG shall be entitled to include 7,000,000 Primary Shares and 900,000 Option Shares in the Proposed Offering; and (y) Water Street shall be entitled to include in the Proposed Offering a number of Primary Shares equal to the total number of Primary Shares less 7,000,000 and a number of Option Shares equal to the total number of Option Shares less 900,000.

(e) Water Street may elect to include in the Proposed Offering a lesser number of shares of Common Stock than it is entitled to include in the Proposed Offering under Section 1(c) or 1(d). If Water Street so elects, USG shall be entitled to include additional shares of Common Stock in the Proposed Offering up to the difference between the number of shares that Water Street includes in the Proposed Offering and the number of shares that Water Street is entitled to include in the Proposed Offering.

(f) If the underwriters' overallotment option or options are exercised, in whole or in part, in the Proposed Offering, the underwriters shall purchase an equal number of Option Shares from each of USG and Water Street until the underwriters have purchased the total number of Option Shares to be issued and sold by USG upon exercise of such option or options.

2. LIMITATION ON REQUESTS FOR REGISTRATION. Water Street (and any assignees of Water Street's rights under Section 4.1 of the Original Letter

Agreement) shall not request any registration of shares of Common Stock pursuant to Section 4.1 of the Original Letter Agreement until a period of 120 days shall have elapsed from the effective date (the "Effective Date") of the registration statement for the Proposed Offering.

3. LIMITATION ON SALE OF SECURITIES. (a) Unless Water Street withdraws its request to include shares of Common Stock in the Proposed Offering pursuant to the Original Letter Agreement or otherwise does not include any shares of Common Stock in the Proposed Offering, Water Street shall enter into an underwriting agreement substantially in the form attached hereto as Exhibit A, when and if USG enters into such underwriting agreement.

(b) Water Street and Goldman Sachs shall enter into an agreement (the "Lock-Up Agreement") with the underwriters for the Proposed Offering at the time (i) Water Street enters into an underwriting agreement for the Proposed Offering, or (ii) Water Street withdraws its request to include shares of Common Stock in the Proposed Offering pursuant to the Original Letter Agreement or otherwise does not include any shares of Common Stock in the Proposed Offering, unless it elects to terminate this Agreement pursuant to Section 6.1(b) (in which event the provisions of the Original Letter Agreement shall apply). Pursuant to the Lock-Up Agreement, Water Street and Goldman Sachs shall agree not to offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any other shares of Common Stock or any securities convertible into, or exercisable or exchangeable for, shares of Common Stock for a period of 120 days from the Effective Date, without the consent of such underwriters, except that Water Street may distribute such shares or securities held by it to its partners at any time after 90 days following the Effective Date, which partners (other than Goldman Sachs) shall not be bound by the limitations contemplated by this Section 3(b), and except that any Goldman/Water Entity may exercise its Warrants to purchase Common Stock.

4. STOCK CERTIFICATES. As promptly as practicable, and in any event within two days, after consummation of the Proposed Offering, USG shall instruct any transfer agent and registrar of the Common Stock to prepare and deliver, as promptly as practicable, and in any event within 10 days after consummation of the Proposed Offering, to Water Street (or a nominee as Water Street directs), certificates representing, in the aggregate, the number of shares of Common Stock equal to the number of shares of Common Stock represented by the certificate or certificates surrendered by Water Street in connection with the Proposed Offering, less the number of shares of Common Stock sold by Water Street in the Proposed Offering; and USG shall facilitate such preparation and delivery and shall use its reasonable best efforts to cause such transfer agent and

registrar to prepare and deliver such certificates. Such certificates shall be in such denominations and registered in the name of Water Street or such other name or names as Water Street requests. Water Street shall certify to USG its best estimate, based on the then current market price of the Common Stock, of the number of shares of Common Stock attributable to the limited partners in Water Street (other than Goldman Sachs and its affiliates); based on Sections 5(a) and 5(b), the certificate or certificates evidencing such number of shares of Common Stock shall not be imprinted with or otherwise bear any legend; and the certificate or certificates evidencing the remaining shares of Common Stock shall be imprinted with the legend set forth in Section 6.5 of the Original Letter Agreement and no other legend. USG shall not impose, and shall instruct any transfer agent and registrar of the Common Stock to release, any stop transfer orders covering the shares of Common Stock represented by the unlegended certificates. The Common Stock represented by such unlegended certificates may not be sold, transferred, pledged or otherwise disposed of, except pursuant to a distribution to any of Water Street's partners in accordance with the terms of Water Street's limited partnership agreement and not in violation of the Lock-up Agreement.

5. DISTRIBUTIONS BY WATER STREET; STOCK CERTIFICATES.

(a) USG acknowledges receipt of the opinion of Fried, Frank, Harris, Shriver & Jacobson, special counsel to Water Street, in the form attached hereto as Exhibit B and the certificate of Water Street, in the form attached hereto as Exhibit C (the "Water Street Certificate"). After, but on the same day that, Water Street distributes shares of Common Stock or Warrants or both to its partners, Water Street shall furnish to USG (i) an opinion of counsel to Water Street, substantially in the form of Exhibit B (but with appropriate changes to reflect the number of shares sold in the Proposed Offering, the number of shares of Common Stock then outstanding and other relevant factual differences), to the effect that (A) if a limited partner in Water Street is not an affiliate of USG, such limited partner (other than Goldman Sachs and its affiliates as to which counsel need express no opinion) may sell the Common Stock and Warrants received by it in such distribution without registration under the Securities Act in reliance on Section 4(1) thereof and (B) if a limited partner in Water Street is an affiliate of USG, such limited partner may sell the Common Stock and Warrants received by it in such distribution in accordance with Rule 144 under the Securities Act; and (ii) a certificate of Water Street, to substantially the same effect and substantially in the form of Exhibit C, except that (A) such certificate may identify exceptions to the certifications in paragraphs 2(b), 6(b), 7, 8, 9, and 10 of the Water Street Certificate and (B) paragraph 3 of the Water Street Certificate may be revised to reflect the then current market price of the Common Stock, the number of shares

of Common Stock sold in the Proposed Offering and the number of shares of Common Stock then outstanding.

(b) The parties agree that, based on paragraphs 4 and 5 of the Water Street Certificate, if Water Street distributes any shares of Common Stock or Warrants or both to its partners:

(i) such partners (other than any Goldman/Water Entity) shall not be subject to any restrictions under the Original Letter Agreement on the sale, transfer or other disposition of the shares of Common Stock and Warrants distributed to them; provided, however, that partners to which rights under Article 4 of the Original Letter Agreement are assigned shall be subject to the obligations under such Article 4;

(ii) each Goldman/Water Entity shall be bound by the provisions of the Original Letter Agreement (and such provisions shall terminate) in accordance with their terms (it being understood that the Original Letter Agreement provides that none of the Goldman/Water Entities will, directly or indirectly, sell, transfer, pledge or otherwise dispose of any shares of Common Stock, except for any sale, transfer, pledge or disposition set forth in Section 1.3 thereof); and

(iii) (A) if such partner is not an affiliate of USG, such partner (other than Goldman Sachs and its affiliates) may sell the shares of Common Stock and Warrants distributed to it without registration under the Securities Act in reliance on Section 4(1) thereof and (B) if such partner is an affiliate of USG, such partner may sell the shares of Common Stock and Warrants distributed to it in accordance with Rule 144 under the Securities Act.

If the certifications in paragraphs 4 or 5 of the Water Street Certificate with respect to any limited partner are not correct, either when made or in the future due to a change in the facts with respect to such limited partner, then the agreements by USG pursuant to this Section 5(b) with respect to such limited partner shall terminate, and the agreements by USG pursuant to this Section 5(b) with respect to all of the other limited partners shall continue in full force and effect.

(c) Upon written request by Water Street in connection with any distribution of shares of Common Stock, Warrants or both to its partners, USG shall instruct any transfer agent and registrar of the Common Stock and of the Warrants to prepare and deliver to Water Street (or a nominee as Water Street directs), as promptly as practicable, and in any event within 10 days after such written request, and upon surrender to the transfer agent of outstanding certificates

representing shares of Common Stock or Warrants being distributed to such partners in Water Street, new certificates representing, in the aggregate, such number of shares of Common Stock and Warrants, in such denominations and registered in such names as Water Street requests; and USG shall facilitate such preparation and delivery and shall use its reasonable best efforts to cause such transfer agent and registrar to prepare and deliver such certificates. Subject to Section 5(d), none of the certificates evidencing the shares of Common Stock and Warrants being distributed by Water Street to the partners in Water Street shall be imprinted with or otherwise bear any legend.

(d) The certificates evidencing shares of Common Stock and Warrants being distributed by Water Street to the Goldman/Water Entities and their affiliates shall be imprinted with the legend set forth in Section 6.5 of the Original Letter Agreement and no other legend. If, immediately after such distribution, any certificates representing shares of Common Stock or Warrants owned by any Goldman/Water Entity or their affiliates are not imprinted with the legend set forth in Section 6.5 of the Letter Agreement, then (i) such Goldman/Water Entity and affiliate shall surrender such certificates to the transfer agent of the Common Stock or the Warrants, as the case may be; and (ii) such transfer agent shall prepare and deliver to such Goldman/Water Entity or affiliate, as the case may be (or a nominee as directed by them), as promptly as practicable, and in any event within 10 days after such surrender, new certificates representing the number of shares of Common Stock and Warrants represented by the surrendered certificates, in such denominations and registered in such names as such Goldman/Water Entity or such affiliate shall request. Such new certificates shall be imprinted with the legend set forth in Section 6.5 of the Original Letter Agreement and no other legend. USG shall facilitate such preparation and delivery and shall use its reasonable best efforts to cause such transfer agent and registrar to prepare and deliver such certificates.

(e) At any time the Goldman/Water Entities beneficially own (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) less than 5% of the then outstanding shares of Common Stock, upon written request by the Goldman/Water Entities and delivery to the transfer agent of the Common Stock of an opinion of counsel to the Goldman/Water Entities to the effect that the Goldman/Water Entities may sell the Common Stock or Warrants represented by the unlegended certificates delivered to them under this Section 5(e) without registration under the Securities Act in reliance on Section 4(1) thereof, USG shall instruct any transfer agent and registrar of the Common Stock to prepare and deliver to the Goldman/Water Entities and their affiliates (or a nominee as directed by them), as promptly as practicable, and in any event within 10 days after such written request, and upon surrender of any outstanding

certificates representing shares of Common Stock and Warrants, new unlegended certificates representing such shares of Common Stock and Warrants, in such denominations and registered in such names as the Goldman/Water Entities and their affiliates shall request; and USG shall facilitate such preparation and delivery and shall use its reasonable best efforts to cause such transfer agent and registrar to prepare and deliver such certificates. USG shall not impose, and shall instruct any transfer agent and registrar of the Common Stock and of the Warrants to release, any stop transfer orders covering the shares of Common Stock and Warrants being distributed to persons whose certificates will be unlegended.

6. MISCELLANEOUS.

6.1 TERMINATION. (a) Sections 1, 2 and 3 of this Agreement shall terminate and be of no further force and effect if the Effective Date does not occur by April 30, 1994. The remainder of this Agreement shall survive such termination.

(b) If Water Street withdraws its request to include shares of Common Stock in the Proposed Offering or otherwise does not sell any shares of Common Stock in the Proposed Offering, Water Street may, by written notice to the Company, elect to terminate this Agreement, in which case this Agreement shall terminate and be of no further force and effect. If Water Street withdraws such request or otherwise does not sell any shares of Common Stock in the Proposed Offering and Water Street does not elect to terminate this Agreement, this Agreement shall remain in full force and effect.

6.2 ENTIRE AGREEMENT. This Agreement and the Original Letter Agreement embody the entire agreement and all understandings between the parties hereto and supersede all prior agreements and understandings relating to the subject matter hereof.

6.3 FULL FORCE AND EFFECT. Except to the extent amended hereby, all of the provisions of the Original Letter Agreement shall remain in full force and effect.

6.4 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the domestic laws of the State of New York, without giving effect to any choice of law or conflict of laws provision or rule (whether of the State of New York or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of New York.

6.5 FURTHER ASSURANCES. Each party hereto shall do and perform or cause to be done and performed all such further acts and things and

shall execute and deliver all such other agreements, certificates, instruments and documents as any other party may request in order to carry out the intent and accomplish the purpose of this Agreement and the consummation of the transactions contemplated hereby.

6.6 AMENDMENTS AND WAIVERS. This Agreement may not be changed, modified or discharged orally, nor may any waivers or consents be given orally hereunder, and every such change, modification, discharge, waiver or consent shall be in writing and signed by the party against which enforcement thereof is sought. No such amendment or waiver shall extend to or affect any obligation not expressly amended or waived or impair any right consequent thereon.

6.7 BINDING EFFECT. This Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective legal representatives, successors and assigns.

6.8 HEADINGS. Article, section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

6.9 COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

6.10 NOTICES. All notices and other communications which are required to be or may be given or furnished under this Agreement shall be given in accordance with Section 8.9 of the Original Letter Agreement.

6.11 AFFILIATES. Imprinting the certificate or certificates evidencing the shares of Common Stock or Warrants owned by any affiliate of the Goldman/Water Entities with the legend set forth in Section 6.5 of the Original Letter Agreement shall not be deemed an agreement or admission on the part of the Goldman/Water Entities or such affiliate that such affiliate or the shares of Common Stock or Warrants owned by such affiliate are bound by or otherwise subject to the Original Letter Agreement (other than, if such affiliate is assigned rights under Article 4 of the Original Letter Agreement, for obligations under such Article 4).

If the foregoing accurately reflects our agreement, please so indicate by signing and returning to the undersigned a copy of this letter, whereupon this letter shall constitute the binding obligations of the parties hereto.

Very truly yours,

WATER STREET CORPORATE RECOVERY FUND I, L.P.

By: Goldman, Sachs & Co.
General Partner

By: ______________________________
Title: General Partner

THE GOLDMAN SACHS GROUP, L.P.

By: ______________________________
Title: General Partner

GOLDMAN, SACHS & CO.

By: ______________________________
Title: General Partner

Executed and agreed to
this 22nd day of February, 1994

USG CORPORATION

By: ______________________________
Title: