



UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION

PLAINTIFF'S
EXHIBIT
USG-546

ATTESTATION

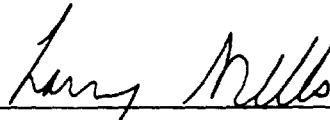
I HEREBY ATTEST

that:

*Attached is a copy of, annual report on Form 10-K405, for the
fiscal year ended December 31, 1999, received in this Commission
March 1, 2000, under the name USG Corporation, File No.
1-8864, pursuant to the provisions of the Securities Exchange Act
of 1934.*

on file in this Commission
February 5, 2001

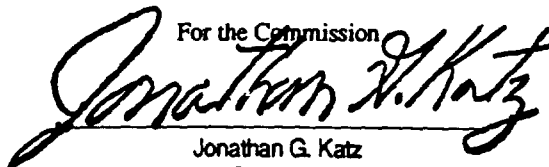
(Date)



Larry Mills
Records Officer

It is hereby certified that the Associate Executive Director, Office of Filings and Information Services, U.S. Securities and Exchange Commission, Washington, D.C., which Commission was created by the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.) is official custodian of the records and files of said Commission, and all records and files created or established by the Federal Trade Commission pursuant to the provisions of the Securities Act of 1933 and transferred to this Commission in accordance with Section 210 of the Securities Exchange Act of 1934, and was such official custodian at the time of executing the above attestation, and that he/she, and persons holding the positions of Deputy Director, Associate Directors, Special Assistant to the Director, Records Officer, and the Branch Chief of Records Management, or any one of them, are authorized to execute the above attestation.

For the Commission



Jonathan G. Katz
Secretary

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 (FEE REQUIRED)

For fiscal year ended December 31, 1999

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from _____ to _____

Commission File Number 1-8864

USG CORPORATION

(Exact name of Registrant as Specified in its Charter)

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

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

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

Title of Each Class -----	Name of Exchange on Which Registered -----
Common Stock, \$0.10 par value -----	New York Stock Exchange Chicago Stock Exchange -----
Preferred Share Purchase Rights	New York Stock Exchange Chicago Stock Exchange
8.5% Senior Notes, Due 2005 -----	New York Stock Exchange -----

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

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports

required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

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

As of January 31, 2000, the aggregate market value of USG Corporation common stock held by nonaffiliates (based upon the New York Stock Exchange closing prices) was approximately \$1,810,905,000.

As of January 31, 2000, 48,807,531, shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Corporation's 1999 Annual Report to Stockholders are incorporated by reference in Parts I, II and IV of this Form 10-K Report.
2. The Corporation's definitive Proxy Statement for use in connection with the annual meeting of stockholders to be held on May 10, 2000, is incorporated by reference in Part III of this Form 10-K Report.
3. A list of exhibits incorporated by reference is presented in this Form 10-K Report beginning on page 13.

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PART I

ITEM 1. BUSINESS

GENERAL

United States Gypsum Company ("U.S. Gypsum") was incorporated in 1901. USG Corporation (together with its subsidiaries, called "USG" or "the Corporation") was incorporated in Delaware on October 22, 1964. By a vote of stockholders on December 19, 1984, U.S. Gypsum became a wholly owned subsidiary of the Corporation, and the stockholders of U.S. Gypsum became the stockholders of the Corporation, all effective January 1, 1985.

Through its subsidiaries, USG is a leading manufacturer and distributor of building materials producing a wide range of products for use in new residential, new nonresidential and repair and remodel construction, as well as products used in certain industrial processes.

USG is focused on building long-term stockholder value through dividends, share repurchases and the five elements of its strategic growth plan. USG began paying a \$0.10 per share cash dividend in the fourth quarter of 1998 and increased it to \$0.15 in the fourth quarter of 1999. Under a multi-year share repurchase plan that contemplates buying back up to 5 million shares, USG has bought back nearly 1.7 million shares since the program began in the fourth quarter of 1998. USG is investing in its businesses under five central strategies - building for growth by adding capacity and lowering production costs, leading in product innovation, expanding its building products distribution business, enhancing customer service and promoting its brand names.

USG's operations are organized into three operating segments: North American Gypsum, Worldwide Ceilings and Building Products Distribution.

NORTH AMERICAN GYPSUM

Business

North American Gypsum, which manufactures and markets gypsum and related products in the United States, Canada and Mexico, includes U.S. Gypsum in the United States, the gypsum business of CGC Inc. ("CGC") in Canada, and Yeso Panamericano S.A. de C.V. in Mexico. U.S. Gypsum is the largest producer of gypsum wallboard in the United States and accounted for nearly one-third of total domestic gypsum wallboard sales in 1999. CGC is the largest producer of gypsum wallboard in eastern Canada.

Products

North American Gypsum manufactures and markets building and industrial products used in a variety of applications. Gypsum panel products are used to finish the interior walls and ceilings in residential, commercial and institutional construction. These products provide aesthetic as well as sound-dampening and fire-retarding value. The majority of these products are sold under the SHEETROCK brand name. Also sold under the SHEETROCK brand name is a line of joint compounds used for finishing wallboard joints. The DUROCK line of cement board and accessories provides fire-resistant and water-damage-resistant assemblies for both interior and exterior construction. In 1998, USG launched a new product platform: FIBEROCK brand gypsum fiber panels. This product line currently includes abuse-resistant wall panels and floor underlayment. The Corporation produces a variety of plaster products used to provide a custom finish for residential and commercial interiors. Like SHEETROCK brand gypsum wallboard, these products provide aesthetic, sound-dampening and fire-retarding value. Plaster products are sold under the trade names of RED

TIF, IMPERIAL and DIAMOND. The Corporation also produces gypsum-based products for agricultural and industrial customers to use in a number of applications, including soil conditioning, road repair, fireproofing and ceramics.

Manufacturing

North American Gypsum's products are manufactured at 50 plants located throughout the United States and Canada and in central Mexico. To meet growing demand, USG is investing in state-of-the-art manufacturing facilities. New production capacity will serve to meet the demands of USG's customers and improve profitability. Upon completion of the five projects described below, USG will have added more than 2 billion square feet of net new capacity with lower operating costs than those of the old facilities it is replacing.

In the second quarter of 1999, U.S. Gypsum completed the startup of a new SHEETROCK brand gypsum wallboard and joint compound plant in Bridgeport, Ala. This new facility replaced the 90-year-old Plasterco, Va. plant, which was shutdown on December 23, 1999. In the Midwest, U.S. Gypsum completed construction of a new production line for SHEETROCK brand gypsum wallboard at its East Chicago, Ind., plant. This new line replaced an existing high-cost line and began operation in the fourth quarter of 1999.

In the Northeast, U.S. Gypsum is building a new SHEETROCK brand gypsum wallboard plant in Aliquippa, Pa. Construction of this facility is on schedule to be completed in the second quarter of 2000. In the Northwest, ground was broken in 1999 for a new SHEETROCK brand gypsum wallboard plant in Rainier, Ore., which is expected to be fully operational in 2001. A significant portion of the new capacity provided by this plant will replace existing USG shipments into the region from plants as far away as Iowa, Texas and Ontario, Canada. In the Southwest, construction began in 1999 on a new production line for SHEETROCK brand gypsum wallboard at U.S. Gypsum's plant in Plaster City, Calif. This new low-cost production line will replace a 41-year-old, high-cost production line. This facility also is expected to be fully operational in 2001.

Construction of a new facility to manufacture FIBEROCK brand gypsum fiber panels, USG's newest product platform, was completed in the fourth quarter of 1999. This production line, located at the company's wallboard plant in Gypsum, Ohio, will complement the gypsum fiber panel plant in Port Hawkesbury, Nova Scotia, Canada.

In the fourth quarter of 1999, USG acquired Sybex, Inc., the holding company of Beadex Manufacturing Company, Inc. and The Synkoloid Company of Canada. Sybex operates joint compound and paper-faced metal corner bead plants in the United States and Canada. With annual sales of approximately \$58 million, Sybex is the leader in joint compound in the Pacific Northwest and western Canada and the leader in paper-faced metal corner bead in North America.

Gypsum rock is mined or quarried at 12 company-owned locations in the United States and Canada. In 1999, these facilities provided approximately 84% of the gypsum used by the Corporation's plants in North America. Certain plants purchase synthetic gypsum or natural gypsum rock from various outside sources. Outside purchases accounted for 16% of the gypsum used in the Corporation's North American plants. The Corporation's geologists estimate that recoverable rock reserves are sufficient for more than 30 years of operation based on the Corporation's average annual production of crude gypsum during the past five years. Proven reserves contain approximately 198 million tons, of which approximately 69% are located in the United States and 31% in Canada. Additional reserves of approximately 153 million tons are found on three properties not in operation. The Corporation's total average annual production of crude gypsum in the United States and Canada during the past five years was 10.2 million tons.

The Corporation owns and operates seven paper mills located across the United States. Vertical integration in paper ensures a continuous supply of high-quality paper that is tailored to the specific needs of USG's wallboard production processes.

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The Corporation does research and development at the USG Research and Technology Center in Libertyville, Ill. The staff at this center provides specialized technical services to the operating units and does product and process research and development. The center is especially well-equipped for carrying out fire, acoustical, structural and environmental evaluations of products and building assemblies. The center also has an analytical laboratory for chemical analysis and characterization of materials. Development activities can be taken to the pilot plant level before being transferred to a full-size plant.

Marketing and Distribution

Distribution is carried out through L&W Supply Corporation ("L&W Supply"), a wholly owned subsidiary of USG, building materials dealers, home improvement centers and other retailers, contractors and specialty wallboard distributors. Sales of gypsum products are seasonal in the sense that sales are generally greater from spring through the middle of autumn than during the remaining part of the year. Based on the Corporation's estimates using publicly available data, internal surveys, and gypsum wallboard shipment data from the Gypsum Association, management estimates that during 1999, about 45% of total industry volume demand for gypsum wallboard was generated by new residential construction activity, 37% of volume demand was generated by residential and nonresidential repair and remodel activity, 11% of volume demand was generated by new nonresidential construction activity and the remaining 7% of volume demand was generated by other activities such as exports and temporary construction.

Competition

The Corporation competes in North America as the largest of 13 producers of gypsum wallboard products and in 1999 accounted for nearly one-third of total gypsum wallboard sales in the United States. In 1999, U.S. Gypsum shipped 9.2 billion square feet of wallboard, the highest level in the Corporation's history, out of total U.S. industry shipments (including imports) estimated at 31.0 billion square feet, also a record. Principal competitors in the United States are: National Gypsum Company, Georgia-Pacific Corporation, James Hardie Gypsum, The Celotex Corporation, Temple-Inland Forest Products Corporation, American Gypsum and several smaller, regional competitors. Major competitors in Canada include BPB Westroc and Georgia-Pacific Corporation. In Mexico, the Corporation's major competitor is Panel Rey.

WORLDWIDE CEILINGS

Business

Worldwide Ceilings, which manufactures and markets interior systems products worldwide, includes USG Interiors, Inc. ("USG Interiors"), the international interior systems business managed as USG International and the ceilings business of CGC. Worldwide Ceilings is a leading supplier of interior ceilings products used primarily in commercial applications. In 1999, Worldwide Ceilings was estimated to be the largest producer of ceiling grid and the second-largest producer of ceiling tile in the world.

Products

Worldwide Ceilings manufactures and markets ceiling grid, ceiling tile, relocatable wall systems and, in Europe and the Asia-Pacific region, access floor systems. USG's integrated line of ceilings products provides qualities such as sound absorption, fire retardation, and convenient access to the space above the ceiling for electrical and mechanical systems, air distribution and maintenance. USG Interiors' significant trade names include the AURATONE and ACCUSTONE brands of ceiling tile and the DX, FINELINE, CENTRICITEE, CURVATURA and TONN brands of ceiling grid.

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Manufacturing

Worldwide Ceilings' products are manufactured at 20 plants located in North America, Europe and Asia-Pacific. These include 10 ceiling grid plants, 5 ceiling tile plants, 2 plants that produce other interior products and 3 plants that produce or prepare raw materials for ceiling tile and grid. Principal raw materials used in the production of Worldwide Ceilings' products include mineral fiber, steel, perlite, starch 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' primary research and development are carried out at the Corporation's research and development center in Libertyville, Ill., and at its "Solutions Center"SM in Chicago, Ill. An additional metal forming research and development facility in Avon, Ohio, provides product design, engineering and testing services in addition to manufacturing development.

Marketing and Distribution

Worldwide Ceilings' products are sold primarily in markets related to the new construction and renovation of commercial buildings. Marketing and distribution are conducted through a network of distributors, installation contractors, L&W Supply, and home improvement centers.

Competition

The Corporation estimates that it is the second-largest producer/marketer of acoustical ceiling tile in the world. Principal global competitors include Armstrong World Industries, Inc. (the largest manufacturer), OWA Faserplattenwerk GmbH (Odenwald) and The Celotex Corporation. The Corporation estimates that it is the world's largest manufacturer of ceiling grid. Principal competitors in ceiling grid include WAVE (a joint venture between Armstrong World Industries, Inc. and Worthington Industries) and Chicago Metallic Corporation.

BUILDING PRODUCTS DISTRIBUTION

Business

Building Products Distribution consists of L&W Supply, the leading distributor of wallboard and related building products in the United States. In 1999, L&W Supply distributed approximately 10% of all gypsum wallboard in the United States (including approximately 28% of U.S. Gypsum's wallboard production).

Marketing and Distribution

L&W Supply, was organized in 1971 by U.S. Gypsum and, as of December 31, 1999, operated 193 distribution locations in 37 states. It is a service-oriented organization that stocks a wide range of construction materials and delivers less-than-truckload quantities of construction materials to a job site and places them in areas where work is being done, thereby reducing or eliminating the need for handling by contractors. Although L&W Supply specializes in distribution of gypsum wallboard (which accounts for approximately 53% of its total net sales), joint compound and other products manufactured primarily by U.S. Gypsum, it also distributes products manufactured by USG Interiors such as acoustical ceiling tile and grid, as well as products of other manufacturers including drywall metal, insulation, roofing products and accessories. L&W Supply leases approximately 92% of its facilities from third parties. Usually, initial leases run from three to five years with a five-year renewal option.

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Competition

L&W Supply's largest competitor, Gypsum Management Supply, is an independent distributor with locations in the southern, central and western United States. There are several regional competitors, such as, CSR RINKER in the southeast (primarily in Florida) and Strober Building Supply in the northeastern United States. L&W Supply's many local competitors include lumber dealers, hardware stores, home improvement centers and acoustical tile distributors.

OTHER INFORMATION

The Corporation's plants are substantial users of energy. Five major fuel types are used in a mix consisting of 82% natural gas, 10% electricity, 3% oil, 2% coke and 3% purchased hot air. With few exceptions, plants that use natural gas are equipped with fuel standby systems, principally oil. Primary fuel supplies have been adequate, and no curtailment of plant operations has resulted from insufficient supplies. Supplies are likely to remain sufficient for projected requirements. Energy price swap agreements are used by the Corporation to hedge the cost of certain purchased fuel.

None of the operating segments have any special working capital requirements or is materially dependent on a single customer or a few customers on a regular basis. No single customer of the Corporation accounted for more than 10% of the Corporation's 1999 or 1998 consolidated net sales. Because orders are filled upon receipt, no operating segment has any significant backlog.

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

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

One of the Corporation's subsidiaries, U.S. Gypsum, is a defendant in asbestos lawsuits alleging both property damage and personal injury. Information

pertaining to legal proceedings is included in "Notes to Financial Statements - Note 16. Litigation" of the Corporation's 1999 Annual Report to Stockholders and is incorporated herein by reference.

Financial information pertaining to operating segments, foreign and domestic operations and export sales is included in "Notes to Financial Statements - Note 15. Segments" of the Corporation's 1999 Annual Report to Stockholders and is incorporated herein by reference.

ITEM 1. PROPERTIES

The Corporation's plants, mines, quarries, transport ships and other facilities are located in North America, Europe and Asia-Pacific. Many of these facilities are operating at or near full capacity. The locations of the production properties of the Corporation's subsidiaries, grouped by operating segment, are as follows (plants are owned unless otherwise indicated):

NORTH AMERICAN GYPSUM

Gypsum Wallboard and Other Gypsum Products

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

The Plasterco, Va., plant was shutdown on December 23, 1999.

Joint Compound (surface preparation and joint treatment products)

Auburn, Wash.	Gypsum, Ohio	Edmonton, Alberta, Canada
Bridgeport, Ala.	Jacksonville, Fla.	Hagersville, Ontario, Canada
Chamblee, Ga.	Port Reading, N.J.	Montreal, Quebec, Canada
Dallas, Texas	Sigurd, Utah	Surrey, British Columbia, Canada
East Chicago, Ind.	Tacoma, Wash. (leased)	Puebla, Puebla, Mexico
Fort Dodge, Iowa	Torrance, Calif.	Port Klang, Malaysia (leased)
Galena Park, Texas	Calgary, Alberta, Canada	

Gypsum Rock (mines and quarries)

Alabaster (Tawas City), Mich.	Shoals, Ind.	Sweetwater, Texas
Empire, Nev.	Sigurd, Utah	Hagersville, Ontario, Canada
Fort Dodge, Iowa	Southard, Okla.	Little Narrows, Nova Scotia, Canada
Plaster City, Calif.	Sperry, Iowa	Windsor, Nova Scotia, Canada

Synthetic gypsum is processed at Belledune, New Brunswick, Canada.

Mining operations at Plasterco, Va., were shut down on December 23, 1999.

Paper for Gypsum Wallboard

Clark, N.C.
Galena Park, Texas
Gypsum, Ohio

Jacksonville, Fla.
North Kansas City, Mo.
Oakfield, N.Y.

South Gate, Calif.

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Other Products

A mica-processing plant is located at Spruce Pine, N.C.; perlite ore is produced at Grants, N.M.; and drywall metal products are manufactured at Medina, Ohio (leased). Metal lath, plaster and drywall accessories and light gauge steel framing products are manufactured at Puebla, Mexico. Gypsum fiber panel products are produced at Gypsum, Ohio, and Port Hawkesbury, Nova Scotia, Canada. Paper-faced metal corner bead is manufactured at Auburn, Wash. and Weirton, W.Va. Various other products are manufactured at La Mirada, Calif. (adhesives and finishes) and New Orleans, La. (lime products).

Ocean Vessels

Gypsum Transportation Limited, a wholly owned subsidiary of USG headquartered in Bermuda, owns and operates a fleet of three self-unloading ocean vessels. Under contract of affreightment, these vessels transport gypsum rock from Nova Scotia to the East Coast plants of U.S. Gypsum. Excess ship time, when available, is offered for charter on the open market. A contract to build a new self-unloading vessel was entered into with Hyundai Mipo Dockyard Ltd. in December 1999, providing for delivery in about 18 months from the date of contract.

WORLDWIDE CEILINGS

Ceiling Tile

Cloquet, Minn.
Greenville, Miss.

Walworth, Wis.
San Juan Ixhuatepec, Mexico

Aubange, Belgium

Ceiling Grid

Cartersville, Ga.
Stockton, Calif.
Westlake, Ohio
Auckland, New Zealand (leased)

Dreux, France
Oakville, Ontario, Canada
Peterlee, England (leased)
Port Klang, Malaysia (leased)

Viersen, Germany
Taipei, Taiwan (leased)

A coil coater and slitter plant used in the production of ceiling grid also is located in Westlake, Ohio and a slitter plant is located in Stockton, Calif. (leased).

Other Products

Access floor systems products are manufactured at Peterlee, England (leased), and Port Klang, Malaysia (leased). Mineral fiber products are manufactured at Red Wing, Minn. and Walworth, Wis. Wall system products are manufactured at Medina, Ohio (leased). Drywall metal products are manufactured

at Prestice, Czech Republic (leased).

ITEM 3. LEGAL PROCEEDINGS

Information pertaining to legal proceedings is included in "Notes to Financial Statements - Note 16. Litigation" of the Corporation's 1999 Annual Report to Stockholders and is incorporated herein by reference.

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

None during the fourth quarter of 1999.

PART II

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

Information with respect to the principal market on which the Corporation's common stock is traded, the range of high and low market prices, the number of stockholders of record and the amount of quarterly cash dividends is included in "Selected Quarterly Financial Data" of the Corporation's 1999 Annual Report to Stockholders and is incorporated herein by reference.

In November 22, 1996, the Corporation entered into a retention agreement with an employee, formerly the principal stockholder of a corporation certain of whose assets were purchased by the Corporation, whereby the Corporation agreed to grant shares of unregistered common stock, \$0.10 par value, having an aggregate value equal to \$250,000, in five separate annual installments each having a value equal to \$50,000, in reliance on the private offering exemption afforded by Section 4(2) of the Securities Act of 1933, as amended. The third and fourth annual grants of 1,021 and 990 common shares were made on November 23, 1998, and November 22, 1999, respectively. The unregistered common stock is restricted from transfer, resale or other disposition until November 22, 2001.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data are included in the "Five-Year Summary" of the Corporation's 1999 Annual Report to Stockholders and is incorporated herein by reference.

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

"Management's Discussion and Analysis of Results of Operations and Financial Condition" of the Corporation's 1999 Annual Report to Stockholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements and supplementary data included in the "Consolidated Statement of Earnings," "Consolidated Balance Sheet," "Consolidated Statement of Cash Flows," "Consolidated Statement of Stockholders' Equity," "Consolidated Statement of Comprehensive Income," "Notes to Financial Statements" and "Report of Independent Public Accountants" of the Corporation's 1999 Annual Report to

Stockholders are incorporated herein by reference.

ITEM 2. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND
FINANCIAL DISCLOSURE

None.

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PART III

ITEM 11. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors is included in the Corporation's definitive Proxy Statement, which is incorporated herein by reference.

EXECUTIVE OFFICERS OF THE REGISTRANT (AS OF FEBRUARY 10, 2000)

NAME, AGE AND PRESENT POSITION	BUSINESS EXPERIENCE DURING THE LAST FIVE YEARS	PRESENT POSITION HELD SINCE
William J. Foste, 49 Chairman, President and Chief Executive Officer	President and Chief Operating Officer from January 1994 to January 1996; President and Chief Executive Officer to April 1996; Chairman, President and Chief Executive Officer from April 1996 to June 1997; Chairman and Chief Executive Officer from June 1997 to August 1999.	August 1999
F. Jack O'Bryan, 64 Vice Chairman; President and Chief Executive Officer, L&W Supply Corporation	Senior Vice President - Worldwide Manufacturing and Technology to October 1995; Executive Vice President - Worldwide Ceilings to September 1996; Executive Vice President - Operations to June 1997; President and Chief Executive Officer, United States Gypsum Company from October 1996 to February 1999; President and Chief Executive Officer, USG Interiors, Inc. from October 1995 to February 1999; President and Chief Operating Officer from June 1997 to August 1999; President and Chief Executive Officer, L&W Supply Corporation from February 1999 to the present.	August 1999
Richard H. Fleming, 53 Executive Vice President and Chief Financial Officer	Senior Vice President and Chief Financial Officer to February 1999.	February 1999
Raymond T. Beltz, 59 Senior Vice President and Controller; Executive Vice President, Financial Operations, North American Gypsum and Worldwide Ceilings	Vice President and Controller, USG Corporation from January 1994 to February 1999; Vice President Financial Services, United States Gypsum Company from January 1994 to January 1995; Vice President and Chief Financial Officer, North American Gypsum from January 1995 to September 1996; Vice President Financial Operations, North American Gypsum and Worldwide Ceilings from September 1996 to February 1999.	February 1999
Arthur G. Leisten, 58 Senior Vice President and General Counsel	Same position.	February 1994
Edward M. Bosowski, 45 Vice President; President and Chief Executive Officer, United States Gypsum Company	Vice President and Chief Financial Officer, Worldwide Ceilings and Vice President, USG Interiors, Inc. to September 1996; Executive Vice President - Marketing, United States Gypsum Company to February 1999.	February 1999
Brian W. Burrows, 60 Vice President, Research and Technology	Same position.	March 1987

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NAME, AGE AND PRESENT POSITION	BUSINESS EXPERIENCE DURING THE LAST FIVE YEARS	PRESENT POSITION HELD SINCE
Brian J. Cook, 40 Vice President, Human Resources	Director, Employee Relations, Training and Corporate Employee Counsel to April 1996; Director, Human Resources Planning and Development and Corporate Employee Counsel to December 1997; Director, Human Resources - Operations to December 1998.	December 1998
Stanley L. Ferguson, 47 Vice President and Associate General Counsel	Associate General Counsel to February 1999.	February 1999
Jean K. Holley, 40 Vice President and Chief Information Officer	Director, Information Technology, WMX Environmental Monitoring Laboratories to March 1996; Director, Information Systems, Rust Industrial Services (a subsidiary of Waste Management Corporation) to December 1996; Senior Director, Information Technology, Waste Management Corporation to August 1998.	August 1998
Marcia S. Kaminsky, 41 Vice President, Communications	Director, Public Relations, The Nutrasweet Company to March 1995; Vice President, U.S. Communications, Bank of Montreal/Harris Bank to January 1997; Senior Vice President, Public Affairs, Bank of Montreal/Harris Bank to October 1998.	October 1998
D. Rick Lowes, 45 Vice President and Treasurer	Vice President and Chief Financial Officer, CGC Inc. to January 1999.	January 1999
Peter K. Maitland, 58 Vice President, Compensation, Benefits and Administration	Director, Employee Benefits and Office Facilities to June 1997; Director, Employee Benefits and Office Management to February 1999.	February 1999
John H. Meister, 42 Vice President; President and Chief Executive Officer, USG Interiors, Inc.	Director, Marketing East, United States Gypsum Company to July 1994; Vice President Marketing - East, United States Gypsum Company to November 1995; Executive Vice President and Chief Operating Officer, L&W Supply Corporation to May 1996; President and Chief Executive Officer, L&W Supply Corporation to February 1999.	February 1999
Daniel J. Nootens, 61 Vice President; Executive Vice President, Strategic Manufacturing & Capital Investments, North American Gypsum and Worldwide Ceilings	Executive Vice President & Chief Operating Officer, United States Gypsum Company from July 1994 to September 1996; Executive Vice President - Operations, North American Gypsum from September 1996 to June 1997.	June 1997
Robert B. Sirgant, 59 Vice President, Corporate Customer Relations	Vice President, National Accounts, United States Gypsum Company from July 1994 to January 1995; Vice President, Corporate Accounts from January 1995 to August 1999.	August 1999
Dean Goossen, 52 Corporate Secretary	Same position.	February 1994

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ITEM 11. EXECUTIVE COMPENSATION

Information required by Item 11 is included in the Corporation's definitive Proxy Statement, which is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by Item 12 is included in the Corporation's definitive Proxy Statement, which is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by Item 13 is included in the Corporation's definitive Proxy Statement, which is incorporated herein by reference.

PART IV

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

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

1. The consolidated financial statements, notes to financial statements and report of independent public accountants included in the Corporation's 1999 Annual Report to Stockholders and listed below are incorporated herein by reference:

Consolidated Statement of Earnings - Years ended December 31, 1999, 1998 and 1997.

Consolidated Balance Sheet - As of December 31, 1999 and 1998.

Consolidated Statement of Cash Flows - Years ended December 31, 1999, 1998 and 1997.

Consolidated Statement of Stockholders' Equity - Years ended December 31, 1999, 1998 and 1997.

Consolidated Statement of Comprehensive Income - Years ended December 31, 1999, 1998 and 1997.

Notes to Financial Statements.

Report of Independent Public Accountants.

2. Supplemental Financial Statement Schedules:

Schedule II - Valuation and Qualifying Accounts.

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

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

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

EXHIBIT

NO.

PAGE

3 Articles of incorporation and by-laws:

- (a) Restated Certificate of Incorporation of USG Corporation (incorporated by reference to Exhibit 3.1 of USG Corporation's Form 8-K, dated May 7, 1993).
- (b) Certificate of Designation of Junior Participating Preferred Stock, series D, of USG Corporation (incorporated by reference to Exhibit A of Exhibit 4 to USG Corporation's Form 8-K dated March 27, 1998).
- (c) Amended and Restated By-Laws of USG Corporation, dated as of March 27, 1998 (incorporated by reference to Exhibit 3(ii) of USG Corporation's Form 10-Q, dated May 1, 1998).

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) Rights Agreement dated March 27, 1998, between USG Corporation and Harris Trust and Savings Bank, as Rights Agent (incorporated by reference to Exhibit 4 of USG Corporation's Form 8-K, dated March 27, 1998).
- (c) Form of Common Stock certificate (incorporated by reference to Exhibit 4.4 to USG Corporation's Form 8-K, dated May 7, 1993).

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

10 Material contracts:

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

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

Supplemental Retirement Plan, effective as of July 1, 1997, and dated August 25, 1997 (incorporated by reference to Exhibit 10(c) of USG Corporation's Annual Report on Form 10-K, dated February 20, 1998).

- (d) First Amendment to Supplemental Retirement Plan, effective July 1, 1997 (incorporated by reference to Exhibit 10(d) of USG Corporation's Annual Report on Form 10-K, dated February 26, 1999).
- (e) Form of Termination Compensation Agreement. 21
- (f) Form of Indemnification Agreement (incorporated by reference to Exhibit 10(g) of Amendment No. 1 to USG Corporation's Registration No. 33-51845 on Form S-1).
- (g) Form of Employment Agreement 32
- (h) Credit Agreement dated as of July 27, 1995, among USG Corporation and the Banks listed on the signature page thereto and Chase Manhattan Bank (formerly Chemical Bank) as Agent (incorporated by reference to Exhibit 99(a) of Amendment No. 3 to USG Corporation's Registration Statement No. 33-60563 on Form S-3, dated July 28, 1995).
- (i) Amendment No. 1, dated as of February 1, 1996, to the Credit Agreement (incorporated by reference to Exhibit 10(l) of USG Corporation's 1995 Annual Report on Form 10-K, dated February 29, 1996).
- (j) Amendment No. 2, dated as of May 14, 1997, to the Credit Agreement (incorporated by reference to Exhibit 10(l) of USG Corporation's Annual Report on Form 10-K, dated February 20, 1998).
- (k) 1995 Long-Term Equity Plan of USG Corporation (incorporated by reference to Annex A to USG Corporation's Proxy Statement and Proxy, dated March 31, 1995).

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- (l) 1999 Annual Management Incentive Program - USG Corporation. 42
- (m) Omnibus Management Incentive Plan (incorporated by reference to Annex A to USG Corporation's Proxy Statement and Proxy, dated March 28, 1997).
- (n) First Amendment to Omnibus Management Incentive Plan, dated as of November 11, 1997 (incorporated by reference to Exhibit 10(p) of USG Corporation's Annual Report on Form 10-K, dated February 20, 1998).
- (o) Amended and Restated Stock Compensation Program for Non-Employee Directors of USG Corporation, dated July 1, 1997 (incorporated by reference to Exhibit 10(q) of USG Corporation's Annual Report on Form 10-K, dated February 20, 1998).

13	Portions of USG Corporation's 1999 Annual Report to Stockholders. (Such report is not deemed to be filed with the Commission as part of this Annual Report on Form 10-K, except for the portions thereof expressly incorporated by reference.)	49
21	Subsidiaries	81
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(b) Reports on Form 8-K:

No reports on Form 8-K were filed during the fourth quarter of 1999.

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INDEX TO EXHIBITS FILED
WITH THE ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 1999

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

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

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USG CORPORATION
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(DOLLARS IN MILLIONS)

	BEGINNING BALANCE	PROVISION CHARGED TO COSTS AND EXPENSES	RECEIVABLES WRITTEN OFF AND DISCOUNTS ALLOWED	ENDING BALANCE
YEAR ENDED DECEMBER 31, 1999:				
Doubtful accounts.....	\$ 14	\$ 4	\$ (4)	\$ 14
Cash discounts.....	4	59	(59)	4
YEAR ENDED DECEMBER 31, 1998:				
Doubtful accounts.....	14	4	(4)	14
Cash discounts.....	3	59	(58)	4
YEAR ENDED DECEMBER 31, 1997:				
Doubtful accounts.....	14	5	(5)	14
Cash discounts.....	3	52	(52)	3

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
WITH RESPECT TO FINANCIAL STATEMENT SCHEDULE

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements included in USG Corporation's annual report to stockholders incorporated by reference in this Form 10-K and have issued our report thereon dated January 27, 2000. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The financial statement schedule on page 18 is the responsibility of the Corporation's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the consolidated financial statements. The financial statement schedule has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the consolidated financial statements taken as a whole.

/s/Arthur Andersen LLP

Chicago, Illinois
February 29, 2000

ARTHUR ANDERSEN LLP

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SIGNATURES

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

February 29, 2000

USG CORPORATION

By: /s/ Richard H. Fleming

Richard H. Fleming
Executive Vice President and
Chief Financial Officer

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

/s/ William C. Foote

February 29, 2000

WILLIAM C. FOOTE
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Richard H. Fleming

February 29, 2000

RICHARD H. FLEMING
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ Raymond T. Belz

February 29, 2000

RAYMOND T. BELZ
Senior Vice President and Controller
(Principal Accounting Officer)

ROBERT L. BARNETT, KEITH A. BROWN,
W.H. CLARK, JAMES C. COTTING,
LAWRENCE M. CRUTCHER, W. DOUGLAS
FORD, DAVID W. FOX, VALERIE B. JARRETT,
MARVIN E. LESSER, P. JACK O'BRYAN,

) By: /s/ Richard H. Fleming

) Richard H. Fleming
) Attorney-in-fact
) Pursuant to Power of Attorney

JOHN B. SCHWEMM, JUDITH A. SPRIESER,
Directors

)
)

(Exhibit 24 hereto)
February 29, 2000

EXHIBIT 10 (e)

TERMINATION COMPENSATION AGREEMENT

THIS AGREEMENT, made and entered into in duplicate as of the 1st day of January, 2000, by and between USG CORPORATION, a Delaware corporation (hereinafter, together with its subsidiaries, collectively referred to as the "Corporation") and _____ (hereinafter referred to as the "Executive").

WITNESSETH:

WHEREAS, the Executive has had extensive experience in the business and affairs of the Corporation and is a valuable member of management; and

WHEREAS, the Board of Directors of USG Corporation has determined that it is appropriate to reinforce and encourage the continued attention of members of the management of the Corporation, including the Executive, to their assigned duties without distraction if the possibility should arise of a change in control of the Corporation;

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. EMPLOYMENT. During the term of this Agreement, the Executive agrees to remain in the employ of the Corporation except as may be permitted hereunder and to continue to perform the Executive's regular duties as an executive of the Corporation.

2. CHANGE IN CONTROL. No benefits shall be payable hereunder unless there shall have been a change in control of the Corporation, as set forth below, and the Executive's employment by the Corporation shall thereafter have been terminated in accordance with Section 3 below. For purposes of this Agreement, a "change in control of the Corporation" shall be deemed to have occurred if:

2.1. any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of USG Corporation representing twenty percent (20%) or more of the combined voting power of USG Corporation's then outstanding securities, or

2.2. during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of USG Corporation cease for any reason to constitute at least a

majority thereof; or

2.3. the Corporation is a party to (i) any consolidation or merger of USG Corporation in which it is not the continuing or surviving corporation or pursuant to which its shares of common stock would be converted into cash, securities, or other property, or (ii) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Corporation; or

2.4. approval by the stockholders of USG Corporation of any plan or proposal for its liquidation or dissolution.

3. TERMINATION FOLLOWING CHANGE IN CONTROL. If any of the events described in Section 2 hereof constituting a change in control of the Corporation shall have occurred, the Executive, if terminated within three (3) years of any such change in control shall be entitled to the benefits provided in Section 4 hereof, unless such termination is due to the Executive's death, disability, or, except as provided below, retirement, or is by the Corporation for cause, or is by the Executive for other than good reason. It is expressly understood and agreed that each occurrence of any change in control, as defined in Section 2 hereof, shall commence a new three-year period, regardless of the number of such occurrences. For purposes of this Agreement, the following definitions shall apply.

3.1. "Disability" shall mean termination because of the Executive's absence from the Executive's duties with the Corporation on a full-time basis for six (6) consecutive months, as a result of incapacity due to physical or mental illness, unless within thirty (30) days after Notice of Termination (as hereinafter defined) is given following such absence the Executive shall have returned to the full-time performance of the Executive's duties.

3.2. "Retirement" shall mean termination in accordance with the terms of the USG Corporation Retirement Plan (the "Retirement Plan") and the USG Corporation Supplemental Retirement Plan (the

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"Supplemental Plan"), if applicable, as in effect immediately prior to the change in control, under circumstances where the Executive is immediately eligible for retirement benefits. It is understood that eligibility of the Executive for immediate retirement benefits, and any request therefor, does not preclude Executive's receipt of benefits under Section 4 hereof as a result of any termination by the Corporation without cause or by the Executive for good reason.

3.3. "Cause" shall mean termination upon (i) the willful and continued failure by the Executive to substantially perform the Executive's duties (other than any such failure resulting from incapacity due to physical or mental illness) after a demand for substantial performance has been delivered by the Chief Executive Officer of the Corporation, which specifically identifies the manner in which it is believed that the Executive has not substantially performed the Executive's duties, or (ii) the willful engaging by the Executive in misconduct which is materially injurious to the Corporation. For purposes of this paragraph, no act, or failure to act, on the Executive's part shall be considered "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the action or omission was in the best interest of the Corporation. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for cause unless and until there shall have been delivered to the Executive a copy of a Notice of Termination from the Chief Executive Officer of the Corporation, after reasonable notice to, and an opportunity for the Executive, together with

counsel, to be heard before the Board of Directors of the Corporation, finding that in the good faith opinion of such Board the Executive was guilty of conduct set forth in clauses (i) or (ii) of the first sentence of this Section 3.3 and specifying the particulars thereof in detail.

3.4. "Good reason" shall mean termination subsequent to a change in control of the Corporation based on (i) a diminution in the Executive's normal duties and responsibilities, including, but not limited to, the assignment without the Executive's written consent of any diminished duties and responsibilities which are inconsistent with the Executive's positions, duties, responsibilities and status with the Corporation immediately prior to a change in control, or a change in the Executive's reporting responsibilities, titles or offices as in effect immediately prior to the change in control, whether or not resulting from an act of the Corporation or otherwise, or any removal of the Executive from or any failure to re-elect the Executive to any of such positions, except in connection with the termination of the Executive's employment for disability, retirement, or cause or as a result of the Executive's death or by the Executive other than for good reason; (ii) a reduction by the Corporation in the Executive's base salary as in effect on the date hereof or as the same may be increased from time to time; (iii) a failure by the Corporation to continue any

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bonus, incentive or similar plans in which the Executive was entitled to participate immediately prior to the change in control (the "Bonus Plans"), in substantially the same form and substance as in effect at such time, or a failure by the Corporation to continue the Executive as a participant in the Bonus Plans on at least the same basis as the Executive participated at such time in accordance with the Bonus Plans; (iv) the Corporation's requiring the Executive, without the Executive's written consent, to be based anywhere other than within thirty (30) miles of the Executive's office location immediately prior to the change in control, except for required travel on the Corporation's business to an extent substantially consistent with business travel obligations immediately prior to the change in control; (v) the failure by the Corporation to continue in effect any benefit, compensation, or retirement plan, savings plan, stock purchase plan, stock option plan, other equity incentive plan, life insurance plan, health and accident plan, or disability plan in which the Executive was participating at the time of such change (or plans providing the Executive with substantially similar benefits), the taking of any action by the Corporation which would adversely affect the Executive's participation in or materially reduce the Executive's benefits under any of such plans or deprive the Executive of any material fringe benefit enjoyed by the Executive at the time of such change, or the failure by the Corporation to provide the Executive with the number of paid vacation days to which the Executive was then entitled in accordance with the Corporation's normal vacation policy in effect on the date hereof; (vi) the failure by the Corporation to obtain assumption of the obligation to perform this Agreement by any successor as contemplated in Section 6 hereof; (vii) any purported termination of the Executive's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3.5 below (and, if applicable, Section 3.3 above); and for purposes of this Agreement, no such purported termination shall be effective; or (viii) the failure of the Corporation, within five (5) business days of any change in control, to establish and fund a Rabbi Trust, as required in Section 4.7 below.

3.5. Any purported termination by the Corporation pursuant to Sections 3.1, 3.2, or 3.3 above or by the Executive pursuant to Sections 3.2 or 3.4 above shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination

provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

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3.6. "Date of Termination" shall mean (i) if the Executive's employment is terminated for disability, thirty (30) days after Notice of Termination is given (provided that the Executive shall not have returned to the performance of the Executive's duties on a full-time basis during such thirty (30) day period); (ii) if the Executive's employment is terminated for cause, the date specified in the Notice of Termination; and (iii) if the Executive's employment is terminated for any other reason, the date on which a Notice of Termination is given. Anything in the immediately preceding sentence to the contrary notwithstanding, "Date of Termination" for purposes of Section 4.1 below shall mean the date on which any dispute arising under Section 2, this Section 3, or Section 6 of this Agreement is definitively adjudicated, settled, or otherwise resolved.

4. CERTAIN BENEFITS UPON TERMINATION. If, after any change in control of the Corporation shall have occurred, as defined in Section 2 above and consistent with Section 3 above, the Executive's employment by the Corporation shall be terminated (i) by the Corporation other than for disability, retirement, or cause or (ii) by the Executive for good reason, then the Executive shall be entitled to the benefits provided below.

4.1. The Corporation shall pay the Executive full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given plus credit for any vacation earned but not taken. The Corporation also shall pay the Executive the amount, if any, of any bonus for a past fiscal year (and pro rata for any portion of the then current fiscal year based solely on position par value), which has not yet been awarded or paid under the Bonus Plans and shall continue in full force and effect through the Date of Termination all stock ownership, purchase, or option plans, benefit or compensation plans, and insurance or disability plans in effect at the time of the change in control, or plans substantially similar thereto.

4.2. In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination, and subject to Section 4.3 hereof, the Corporation shall pay as severance pay to the Executive on or before the fifth (5th) day following the Date of Termination a lump sum amount (the "lump sum amount") equal to two and ninety-nine one hundredths (2.99) times the sum of (i) the Executive's then annual base salary, computed at twelve (12) times the Executive's then current monthly pay, and (ii) the Executive's full year bonus for the then current fiscal year, computed based solely on par award opportunity for the applicable fiscal year under the then current Annual Management Incentive Program of the Corporation at the value in effect at the Date of Termination or the date of this

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Agreement, whichever is higher, such lump sum payment to be subject to all applicable federal, state, provincial and local income and FICA taxes, including all required withholding.

4.3. The lump sum amount payable to the Executive under

Section 4.2 shall be adjusted as set forth in this Section 4.3. If the sum (the "combined amount") of the lump sum amount under Section 4.2 and all other payments or benefits which the Executive has received or has the right to receive from the Corporation which are defined in ss.280G(b)(2)(A)(i) of the Internal Revenue Code of 1986, as amended (the "Code"), would constitute a "parachute payment" (as defined in ss.280G(b)(2) of the Code), the combined amount shall, unless the following sentence applies, be decreased by the smallest amount that will eliminate any parachute payment. If the decrease referred to in the preceding sentence is 10% or more of the combined amount, the combined amount shall not be decreased, but rather shall be increased by an amount sufficient to provide the Executive, after tax, a net amount equal to the Code ss.4999 excise tax imposed on such combined amount, as increased pursuant to this section. For this purpose, "after tax" means the amount retained by the Executive after satisfaction (whether through withholding, direct payment or otherwise) of all applicable federal, state, provincial and local income taxes at the highest marginal tax rate, and the employee share of any applicable FICA taxes. If at a time subsequent to any payment under Section 4.2, an additional amount of Code ss.4999 excise tax is definitively determined to be due by either the Internal Revenue Service or a court of competent jurisdiction, the Corporation shall pay to the Executive an additional amount which, net of Federal, state, provincial and local income, FICA and Code ss.4999 excise taxes, will satisfy such additional Code ss.4999 excise tax, including applicable interest and penalties. The parties acknowledge that the intention of the preceding three sentences is to place the Executive in the position in which the Executive would be if the Code ss.4999 excise tax did not exist.

4.4. If, following a change in control, as defined in Section 2 above, the Executive's employment is terminated in accordance with Section 3 above, the Corporation shall also pay to the Executive an amount equal to all reasonable legal fees and expenses incurred by the Executive as a result of such termination, including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit under this Agreement or incurred by the Executive in seeking advice with respect to the matters set forth in Section 3.4 or Section 4 of this Agreement.

4.5. The Corporation shall credit the Executive with three years of benefit and credited service in addition to the total number of years of benefit and credited service the Executive has accrued under the

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Retirement Plan, as supplemented by the Supplemental Plan. In the event the Executive, after credit for the additional three years, has a total of less than five years of credited service, said Executive nonetheless shall be treated as if fully vested under the Retirement Plan and the Supplemental Plan, but with benefits computed solely on the basis of such total benefit service. The total amount of pension enhancement described in this Section 4.5 shall be reduced to present value in accordance with assumptions consistent with those used by the Corporation under the terms of such plans prior to the change of control, or, if more favorable to the Executive, prior to the termination of the Executive's employment, based on age of the Executive at the date entitlement to benefits under this Section 4 arises and then shall be paid to the Executive in a lump sum on or before the fifth (5th) day following such date. The obligations imposed by this Section 4.5 are contractual in nature only, running between the Corporation and the Executive, and in no way shall be construed as new obligations under or an amendment or attempted amendment of the Retirement Plan.

4.6. The Corporation shall maintain in full force and effect, for the continued benefit of the Executive until the earlier of (i)

three (3) years after the Date of Termination or (ii) the Executive's commencement of full-time employment with a new employer, all employee welfare plans and programs, including, but not limited to, life insurance, executive death benefit, medical, health and accident, and disability plans or programs (but excluding the Retirement Plan, the Supplemental Plan and the USG Corporation Investment Plan) in which the Executive was entitled to participate immediately prior to the Date of Termination, provided that the Executive's continued participation is possible under the general terms and provisions of such plans and programs and subject to periodic changes in such benefits as are applicable generally to all participants in such plans and programs. In connection with the USG Corporation Executive Medical Expense Plan, the Corporation will use its reasonable best efforts to permit the Executive to continue to participate, at the Corporation's expense, and on a basis that is tax-free to the Executive, in such Plan. In the event that, with respect to any of the benefits referred to in this Section 4.6, the Corporation is unable to provide the continuation of one or more of such the benefits described herein, the Corporation shall provide benefits comparable to those which the Executive would otherwise be entitled to receive under such plans and programs to the Executive at the Corporation's expense. Except as provided in Section 4.3 above, the Executive is responsible for any personal income taxes that might arise as a result of the Executive's benefits under this Section. Notwithstanding the continuation of welfare plans and programs hereunder, no service credit shall be given for the period of such continuation.

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4.7. Within five (5) business days of a change of control, the Corporation shall establish a so-called "Rabbi Trust," the assets of which shall be subject to the claims of the Corporation's creditors in the event of the Corporation's insolvency. Said "Rabbi Trust" is intended to provide a source of payment for benefits payable under this Agreement. Immediately after the Rabbi Trust is established, the Corporation shall be obligated to deposit with the trustee under such Rabbi Trust, an amount the proper officers of the Corporation reasonably estimate could potentially be payable under this Agreement. Funds in the Rabbi Trust shall be audited annually by external auditors to ensure sufficiency of funding levels. Notwithstanding the foregoing, if the assets in the Rabbi Trust are in fact insufficient to provide for all benefits payable under this Agreement, such insufficiency shall be paid directly by the Corporation from its general assets.

Any sum due pursuant to this Section 4 and not paid by such time shall accrue for the benefit of Executive with interest at the prime rate as then in effect at The Northern Trust Bank (or successor thereto).

The Executive shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment provided for in this Section 4 be reduced by any compensation earned by the Executive as the result of employment by another employer after the Date of Termination, or otherwise.

5. TERM OF AGREEMENT. Except as provided in the immediately succeeding sentence, this Agreement shall have an original term expiring at the close of business on December 31, 2000, and shall thereafter be automatically extended for successive two-year terms expiring at the close of business on the second December 31st following the commencement of each such extended term unless the Corporation has notified the Executive of its election not to extend the term of this Agreement not less than 120 days before the expiration of the then current term, in which case this Agreement shall terminate at the expiration of the then current term. Notwithstanding anything in this Agreement to the contrary, this Agreement shall not terminate in the event that a change

in control of the Corporation, as defined in Section 2 above, shall have occurred.

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6. SUCCESSORS; BINDING AGREEMENT. (i) The Corporation shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Corporation, by agreement in form and substance satisfactory to the Executive, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform it if no such succession had taken place. Failure of the Corporation to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Corporation in the same amount and on the same terms as the Executive would be entitled hereunder if the Executive terminated employment for good reason, except that for purposes of implementing the foregoing and subject to the provisions of Section 3.6 above, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "Corporation" shall mean the Corporation as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 6 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law. (ii) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amount would still be payable hereunder to the Executive if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee or other designee or, if there be no such designee, to the Executive's estate.

7. NOTICES. Any and all notices which may be given hereunder by either party to the other shall be sufficient if in writing and sent by registered mail to the respective party at its or their last known address.

8. MODIFICATIONS AND WAIVERS; ENTIRE AGREEMENT. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Chief Executive Officer of the Corporation. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject

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matter hereof have been made by either party which are not expressly set forth in this Agreement; provided, however, that this Agreement shall not supersede or in any way limit the rights, duties or obligations the Executive may have under any other written agreement with the Corporation, it being understood that any rights, duties, or obligations of the Executive under this Agreement shall be

assertable or operative in the alternative and not in addition to any rights, duties, or obligations of the Executive under any employment agreement now in effect or subsequently entered into by and between the Corporation and the Executive. Notwithstanding any of the foregoing, this Agreement supersedes and replaces and by its own force terminates any prior termination compensation agreement between the parties.

9. GOVERNING LAW. The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the State of Delaware.

10. SEVERABILITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

11. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

12. ARBITRATION. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Chicago, Illinois in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. All reasonable expenses of such arbitration, including the fees and expenses of the counsel for the Executive, shall be borne by the Corporation.

* * * * *

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

USG CORPORATION:

By: _____

Brian J. Cook
Vice President,
Human Resources

ATTEST:

Dean H. Goossen
Corporate Secretary

EXECUTIVE:

Name:

WITNESS:

Name :

EXHIBIT 10 (g)

EMPLOYMENT AGREEMENT

THIS AGREEMENT, made and entered into as of the 1st day of January, 2000, by and between USG CORPORATION, a Delaware corporation (hereinafter, together with its subsidiaries, collectively referred to as the "Corporation") and _____ (the "Executive");

W I T N E S S E T H:

WHEREAS, the Executive has had extensive experience in the business and affairs of the Corporation and is a valuable member of management;

WHEREAS, the Corporation wishes to assure itself of the continued availability of the Executive's services, and the Executive wishes to assure the Executive's continued employment, all on and subject to the terms and conditions hereinafter set forth; and

WHEREAS, the Executive, in the course of the Executive's employment with the Corporation, has become and shall continue to become familiar with the Corporation's near-permanent relationships with its customers, trade secrets and other confidential information concerning the Corporation, including the information referred to in Paragraph 7 hereof, and the Executive's services have been and shall be of special, unique and extraordinary value to the Corporation.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. Employment and Term. The Corporation hereby employs the Executive, and the Executive hereby accepts employment by the Corporation, for an initial term extending through the close of business on December 31, 2000 (herein, as the same may be extended as provided in the next sentence, referred to as the "term of this Agreement"), with such title and in such capacity and in the performance of such executive and managerial duties as may be determined or assigned to the Executive from time to time by or under the authority of the Board of Directors of the Corporation. The term of this Agreement shall be automatically extended for successive two-year terms expiring at the

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close of business on the second December 31st following the commencement of each such extended term unless the Corporation has notified the Executive of its election not to extend the term of this Agreement not less than 120 days before the expiration of the then current term, in which case this Agreement shall terminate at the expiration of the then current term.

2. Performance. The Executive agrees to devote the Executive's full attention and best efforts throughout the term of this Agreement to the performance of the duties assigned to the Executive by or under the authority of the Board of Directors of the Corporation, all in the interest of the Corporation and the successful operation of its business. The Executive shall not directly or indirectly engage in any other business or commercial activity during the Executive's employment hereunder without the prior consent of the Board of Directors or Chief Executive Officer of the Corporation or his designee, as appropriate. It is understood, however, that the Executive may serve from time to time as a director of other business corporations and as a director, trustee, or in other responsible capacities with charitable and public services organizations, provided only that, absent approval of the Board of Directors or Chief Executive Officer of the Corporation or his designee, as appropriate, the same does not materially conflict or interfere with the performance of the Executive's duties hereunder.

3. Compensation. The Corporation shall pay to the Executive as compensation for the Executive's services hereunder a salary at the rate of not less than _____ dollars and _____ cents (\$, .) per annum in regular pay installments at regular pay intervals. Such rate shall be increased to any greater salary, if any, that shall have been fixed for the Executive by the Board of Directors or Chief Executive Officer of the Corporation or his designee, as appropriate. During such time, if any, as the Executive is deemed a "continuing employee" under Paragraph 5 below, such salary shall also include annual incentive awards, computed based solely on the par award opportunity under the applicable Annual Management Incentive Programs (which shall be based upon the opportunity applicable in the year of termination), prorated for partial years. Additionally, the Executive, during the Executive's employment hereunder, shall be entitled to participate in all benefits in which he normally would be entitled to participate as an employee and key executive of the Corporation, including, but not limited to, all retirement, investment, stock ownership, stock option and other equity incentive plans, all life, health and disability insurance, and all salary continuation plans,

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together with bonuses and such other grants of additional compensation or supplemental benefits as may be granted from time to time by the Board of Directors or Chief Executive Officer of the Corporation, as appropriate.

4. Vacations; Business Expenses. The Executive shall be entitled to normal vacations consistent with the present practices of the Corporation, as the same may be altered from time to time. The Corporation shall pay or reimburse all of the reasonable expenses incurred by the Executive in furtherance of or in connection with the business of the Corporation, including, but not limited to, all such travel and entertainment expenses. If any such expenses are paid in the first instance by the Executive, the Corporation will make reimbursement therefor upon submission of vouchers or other documents supporting such expenses and their relationship to the business of the Corporation.

5. Termination. In the event the Executive during the term of this

Agreement is discharged from employment by the Corporation without cause and is not promptly appointed or elected by the Corporation or any related or affiliated company to a position which carries with it salary and benefits at least equal to those contemplated by this Agreement, or is constructively discharged by the Corporation, the Executive may at the Executive's option treat such action as a material breach and violation of the provisions of this Agreement. For purposes of this Agreement, "constructive discharge" means any circumstance in which the Executive elects to terminate the Executive's employment with the Corporation because (i) the Corporation has committed a material breach of this Agreement, (ii) the Executive has given the Corporation written notice of such material breach, (iii) the Corporation has failed to fully remedy such material breach within thirty (30) days of delivery of the Executive's written notice, and (iv) the Executive by written notice to the Corporation within ninety (90) days of the expiration of such thirty (30) days period terminates the Executive's employment. In any such case, the Executive shall be deemed a "continuing employee" of the Corporation, whether or not the Executive is permitted by the Corporation to render services under this Agreement, and the Executive then shall be entitled to continuation of salary payable in the manner specified in Paragraph 3 above and at the then existing rate (but in no event less than the rate specified in said Paragraph 3), such continuation to be for the balance of the then current term of this Agreement or a period of two (2) years, whichever is greater. If deemed a "continuing employee" under the immediately preceding sentence, the Executive additionally shall be entitled to continuation of all

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other benefits specified in Paragraph 3 above (subject to periodic changes in such benefits as are applicable generally to all participants in the plans) for the balance of the then current term of this Agreement or a period of two (2) years, whichever is greater (and, in the event that, with respect to any of such benefits, the Corporation is unable to provide the continuation of one or more of such benefits described above, the Corporation shall provide benefits comparable to those which the Executive would otherwise be entitled to receive under such plans and programs to the Executive at the Corporation's expense). For purposes of the foregoing, (a) any stock option granted to the Executive under any long-term equity plan of the Corporation ("Equity Plan") but not yet exercisable, (b) any restricted stock granted to the Executive under any Equity Plan and not yet freed of restrictions, and (c) any other equity awards or incentives shall be dealt with, for time and performance vesting and all other purposes, on the assumption that the Executive has continued as an employee of the Corporation during the period in which the Executive is a continuing employee under this Agreement. The Corporation shall also reimburse the Executive for all reasonable legal fees and expenses incurred by the Executive in order to enforce this Agreement for a right or benefit wrongfully denied by the Corporation, provided, however, that legal fees incurred by the Executive for general advice of counsel in the absence of such wrongful denial are not reimbursable by the Corporation. The provisions of the four immediately preceding sentences shall constitute the Executive's sole remedy in the event of discharge without cause (or constructive termination). In the event discharge is for cause, none of such provisions shall apply. For purposes of this Paragraph 5, "cause" shall mean (a) willful and continued failure by the Executive to substantially perform the Executive's duties after a demand for substantial performance has been delivered by the Chief Executive Officer of the Corporation specifically identifying the manner in which it is believed the Executive has not substantially performed the Executive's duties, or (b) willful misconduct by the Executive which is materially injurious to the Corporation or any related or affiliated company. The right of the Executive to receive all continued benefits to which the Executive may be entitled under this Paragraph 5 is further contingent upon the Executive's compliance with the terms of this Agreement,

including Paragraphs 7, 8, 9 and 10.

6. Disability or Death. If during the term of this Agreement the Executive shall become unable to perform the Executive's duties hereunder by reason of disability resulting from illness or other incapacity and such disability shall continue for six (6) consecutive months, then compensation payable under Paragraph 3 above shall be continued at the rate in effect immediately prior to such disability and for the remainder of the period of disability (but

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not beyond the end of the unexpired current term of this Agreement); provided, however, that any disability payments otherwise payable pursuant to this Paragraph 6 shall be reduced by the amount of any other payments received under any retirement plan or other disability or income plan or policy maintained in force and effect by the Corporation during such period. In the event of the Executive's death during the term of this Agreement, salary payments specified under Paragraph 3 above shall cease as of the end of the month in which death has occurred, and, in addition to any other payments made under any group life or other plan, the Corporation thereafter shall make payments to the beneficiary or beneficiaries designated in writing by the Executive (or if there be none, to the Executive's estate) at a rate equal to fifty percent (50%) of the full rate of salary in effect at the time of such death (without regard to any prior reduction in rate under the disability provisions of this Paragraph 6), such payments to be made at regular pay intervals and to be continued through the remainder of the then current term of this Agreement.

7. Covenant Not to Compete. The Executive acknowledges that in the course of the Executive's employment with the Corporation, the Executive has become and shall continue to become familiar with the Corporation's near-permanent relationships with its customers, trade secrets and other confidential information concerning the Corporation, including, but not limited to, information, data, and plans, both technical and business in nature, such as customer lists and records, sales records and marketing plans, research and technical reports and records, formulas, processes, inventions, patent applications, designs and drawings, instructions and training manuals, business and financial information, salary information, contracts and other legal documents, and correspondence to which the Corporation has been a party, and that the Executive's services have been and shall be of special, unique and extraordinary value to the Corporation. Therefore, while employment continues under this Agreement (including any period in which the Executive is deemed a "continuing employee" pursuant to Paragraph 5 above) and for a period of eighteen (18) months thereafter (the "Non-Compete Period"), the Executive shall not engage or participate, directly or indirectly, as a partner, officer, director, employee, advisor, or otherwise, in any corporation, business, or activity which competes or is then competitive with the Corporation or any of its affiliated companies in the manufacture or sale of any line of products in any state of the United States, any province of Canada and any state of Mexico where the Corporation then does business, provided, however, that the foregoing restriction shall not be construed to prevent the Executive from owning or acquiring less than five percent (5%) of the publicly traded voting stock of a competing corporation; and

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provided, further, that if any court of competent jurisdiction should hereafter determine in the course of litigation that the provisions of this Paragraph 7 are unreasonable with respect to length of time, geographic areas or activities restrained, then this Paragraph 7 shall be construed to operate only for such period of time, in such geographic areas, and in respect of such activities as said court shall determine to be the maximum reasonable restraint in the circumstances.

8. Confidential Information. The Executive shall not during the term of this Agreement or at any time thereafter use for the Executive's benefit or the benefit of others or disclose to others any information, data, or plans, whether technical or business in nature, which are treated as confidential by the Corporation, except to the extent such use or disclosure is required by or necessarily incident to performance of duties by the Executive under this Agreement and except to the extent such information, data, or plans have become a matter of public knowledge other than as a result of the Executive's breach of this Agreement. For purposes of this Paragraph 8, such information, data, or plans shall include, but not be limited to, research and technical reports and records, formulas, processes, inventions, patent applications, designs and drawings, instructions and training manuals, business and financial information, customer lists and records, sales records and marketing plans, salary information, contracts and other legal documents, and correspondence to which the Corporation has been a party. The Executive shall deliver to the Corporation at the termination of the Executive's employment period or at any other time the Corporation may request, all memoranda, notes, plans, records, reports, computer tapes, printouts and software and other documents and data (and copies thereof) relating to the confidential information, Work Product (as defined below) or the business of the Corporation which the Executive may then possess or have under the Executive's control.

9. Inventions and Patents. The Executive hereby assigns to the Corporation all right, title, and interest to all patents and patent applications, all inventions, innovations, improvements, developments, methods, designs, analyses, drawings, reports and all similar or related information (in each case whether or not patentable), all copyrights and copyrightable works, all trade secrets, confidential information and know-how, and all other intellectual property rights that are conceived, reduced to practice, developed or made by the Executive while employed by the Corporation and that (i) relate to the Corporation's actual or anticipated business, research and development or existing or future products or services; or (ii) are conceived, reduced to practice, developed or made using any of the equipment, supplies,

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facilities, assets or resources of the Corporation (including, but not limited to, intellectual property rights) ("Work Product"). The Executive shall promptly disclose such Work Product to the Corporation and perform all actions reasonably requested by the Corporation (whether during or after the Executive's period of employment with the Corporation) to establish and confirm the Corporation's ownership (including, without limitation, assignments, consents, powers of attorney, applications and other instruments).

10. Non-Solicitation. The Executive acknowledges that in the course of the Executive's employment with the Corporation, the Executive has become and shall become familiar with the Corporation's near-permanent relationships with its customers, trade secrets and other confidential information concerning the Corporation, including, but not limited to information, data, and plans, both technical and business in nature, such as customer lists and records, sales records and marketing plans, research and technical reports and records, formulas, processes, inventions, patent applications, designs and drawings,

instructions and training manuals, business and financial information, salary information, contracts and other legal documents, and correspondence to which the Corporation has been a party, and that the Executive's services have been and shall be of special, unique and extraordinary value to the Corporation. Therefore, while employment continues under this Agreement (including any period in which the Executive is deemed a "continuing employee" pursuant to Paragraph 5 above) and for eighteen (18) months thereafter, the Executive shall not directly or indirectly through another entity (other than in connection with the performance of the Executive's duties for the Corporation) (i) induce or attempt to induce any employee of the Corporation to leave the employ of the Corporation, or in any way interfere with the relationship between the Corporation and any employee thereof, (ii) hire any person who was an employee of the Corporation at any time during the Executive's period of employment with the Corporation or (iii) induce or attempt to induce any customer, supplier, licensee, licensor, franchisee or other business relation of the Corporation to cease doing business with the Corporation or in any way interfere with the relationship between any such customer, supplier, licensee, licensor, franchisee or business relation and the Corporation, including, without limitation, by making any negative statements or communications about the Corporation.

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11. Acknowledgments by Executive. Executive hereby agrees and acknowledges (i) that the Corporation has a protectable interest in the information, data, and plans, both technical and business in nature, which are treated as confidential by the Corporation, as well as the goodwill and specialized knowledge acquired by the Executive during the course of the Executive's employment with the Corporation; (ii) that the provisions of Paragraphs 7, 8, 9 and 10 of this Agreement are in consideration of (a) employment with the Corporation, (b) employment for a fixed period of time, (c) eligibility to participate in the Corporation's benefit plans and enter into this extended Employment Agreement and any extended termination compensation agreement with the Corporation, (d) access to and use of confidential information, including but not limited to information, data, and plans, both technical and business in nature, such as customer lists and records, sales records and marketing plans, research and technical reports and records, formulas, processes, inventions, patent applications, designs and drawings, instructions and training manuals, business and financial information, salary information, contracts and other legal documents, and correspondence to which the Corporation has been a party, (e) access to and the Executive's development on behalf of the Corporation of near-permanent relationships with the Corporation's customers, and (f) additional good and valuable consideration as set forth in this Agreement; (iii) that the restrictions contained in Paragraphs 7, 8, 9 and 10 do not preclude the Executive from earning a livelihood, nor do they unreasonably impose limitations on the Executive's ability to earn a living, and that the potential harm to the Corporation of the non-enforcement of Paragraphs 7, 8, 9 and 10 outweighs any harm to the Executive of their enforcement by injunction or otherwise; and (iv) that the Executive has carefully read this Agreement, has given careful consideration to the restraints imposed upon the Executive by this Agreement and is in full accord as to their necessity for the reasonable and proper protection of the Corporation's near permanent customer relationships and confidential information, data and plans, and that each and every restraint imposed by this Agreement is reasonable with respect to subject matter, time period and geographical area.

12. Specific Performance. In the event of the Executive's breach or threatened breach of Paragraph 7, 8, 9 or 10 of this Agreement, the Executive acknowledges that such breach would give rise to irreparable harm to the Corporation incapable of compensation by money damages, and therefore agrees that the Corporation shall be entitled to a temporary restraining order and an

injunction and may pursue all other available remedies for such breach or threatened breach. The Executive further acknowledges that, if the Corporation shall prevail in demonstrating any

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such breach or threatened breach or obtaining any such remedy, the Corporation shall be entitled to recover from the Executive all reasonable legal fees and expenses incurred by the Corporation in enforcing its rights under this Agreement.

13. Assignment and Delegation. The Corporation may assign all rights and delegate all duties under this Agreement to a parent corporation, subsidiary, affiliated company or successor to all or a portion of its business which assumes in writing all obligations imposed by this Agreement. Apart from the foregoing, this Agreement is personal between the parties, and neither party shall assign rights or attempt to delegate duties hereunder without the prior written consent of the other.

14. Modifications and Waivers; Entire Agreement. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in a writing signed by the Executive and the Chief Executive Officer of the Corporation. No waiver by either party hereto at any time of any breach by the other party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of the same or similar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. This Agreement supersedes and replaces and by its own force terminates any prior Employment Agreement between the Executive and the Corporation or a subsidiary or affiliate thereof. It is understood and agreed, however, that all rights of the Executive under any termination compensation agreement or severance plan or agreement to which the Corporation and the Executive are parties shall endure. It is further understood and agreed that any rights of the Executive under this Agreement shall be assertable or operative in the alternative and not in addition to any rights of the Executive under any such termination compensation agreement or severance plan or agreement.

15. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

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16. Governing Law. The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the State of Illinois.

17. Notices. Any and all notices which may be given hereunder by either party to the other shall be sufficient if in writing and sent by registered mail to such other party at their last known address.

* * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above stated.

USG CORPORATION:

By: _____

Brian J. Cook
Vice President,
Human Resources

ATTEST:

Dean H. Goossen
Corporate Secretary

EXECUTIVE:

Name:

WITNESS:

Name:

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EXHIBIT 10 (1)

1999
ANNUAL
MANAGEMENT INCENTIVE
PROGRAM

USG CORPORATION

PURPOSE

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

INTRODUCTION

This Annual Management Incentive Program is in effect from January 1, 1999 through December 31, 1999.

ELIGIBILITY

Individuals eligible for participation in this Program are those officers and other key employees occupying management positions in Broadband 13 or higher

(775 or more points). Employees who participate in any other annual incentive program of the Corporation or any of its subsidiaries are not eligible to participate in this Program.

GOALS

For the 1999 Annual Management Incentive Program, Net Earnings, Goal Income and Strategic Targets for USG Corporation, Subsidiaries and Profit Centers will be determined by the Grants and Awards Subcommittee of the Compensation and Organization Committee of the USG Board of Directors (the "Subcommittee") after considering recommendations submitted from USG Corporation and Operating Subsidiaries. Except in the case of a Named Executive Officer (as defined in the Administrative Guidelines below), Profit Center goals may be adjusted by the Chairman of USG Corporation if business conditions or other significant unforeseen circumstances beyond the control of the Profit Center have a major impact on opportunity.

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AWARD VALUES

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

	POSITION TARGET INCENTIVE
Chairman & CEO - USG Corporation	70%
President & COO, USG Corporation; President & CEO, L&W Supply Corporation	60%
Executive Vice President & Chief Financial Officer	50%
Senior Vice President & General Counsel	
Senior Vice President & Chief Administrative Officer	
Vice President, USG Corporation; President & CEO, U.S. Gypsum Company	
Vice President, USG Corporation; President & CEO, USG Interiors, Inc	
USG CORPORATION & OPERATING SUBSIDIARIES	
OFFICERS AND MANAGERS	
Vice President, USG Corporation; Executive Vice President Strategic Mfg & Capital Investments, North American Gypsum and Worldwide Ceilings	45%
Executive Vice President - Operations, North American Gypsum	
Senior Vice President & Controller, USG Corporation; Executive Vice President Financial Operations North American Gypsum and Worldwide Ceilings	
Vice President Research & Technology, USG Corporation	40%

Executive Vice President & COO, L&W Supply Corporation
 Sr Vice President International, USG Interiors, Inc.
 Vice President, Human Resources, USG Corporation
 President & CEO, CGC, Inc.
 Vice President & Chief Information Officer, USG Corporation
 Vice President Communications, USG Corporation

 USG CORPORATION, OPERATING SUBSIDIARIES & PROFIT CENTERS

OFFICERS AND MANAGERS

Position Reference Point: \$148,980 and over	35%
Position Reference Point: \$132,720 - \$148,979	25%
Position Reference Point: \$118,380 - \$132,719	20%
Position Reference Point: \$94,860 - \$118,379	15%
Position Reference Point: \$91,320 - \$94,859	10%

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AWARDS

Incentive awards for all participants in the 1999 Annual Management Incentive Program will be reviewed and approved by the Subcommittee.

THE TOTAL OF ALL INCENTIVE AWARDS PAID UNDER THIS PROGRAM WILL NOT EXCEED 4.0% OF USG CORPORATION'S 1999 CONSOLIDATED GOAL INCOME. IN THE EVENT THAT AWARDS OTHERWISE PAYABLE PURSUANT TO THE ANNUAL MANAGEMENT INCENTIVE PROGRAM EXCEED SUCH AMOUNT, ALL AWARDS WILL BE REDUCED PRORATA TO AN AGGREGATE AMOUNT EQUAL TO 4.0%.

For all participants, the annual incentive award opportunity is the annualized salary in effect at the beginning of the calendar year (March 1 of the calendar year for the twenty-two most senior executives) multiplied by the applicable position target incentive value percent.

Incentive awards for 1999 will be based on:

NET EARNINGS: 20% - 60% OF INCENTIVE
 based on the Corporation's year-end financial statements.

GOAL INCOME: 20% - 60% OF INCENTIVE
 (net sales less cost of sales and selling and administrative
 expenses) based on the Corporation's year-end financial
 statements.

STRATEGIC FOCUS TARGET: 20% OF INCENTIVE

PERSONAL PERFORMANCE: 20% OF INCENTIVE
 (except in the case of the twenty-two (22) most senior executives whose
 awards are based solely on degree of achievement of Net Earnings and/or
 Goal Income (60%) and Strategic Focus Target (40%) results).

Except in the case of a Named Executive Officer, other appropriate performance measures as approved by the Subcommittee.

1. For participants to qualify for the NET EARNINGS and/or GOAL INCOME segment comprising 60% of their award, their respective organization (e.g. Corporation/Group/ Subsidiary, etc. as described on page 6) must achieve 75% or higher of its net earnings or goal income target.
2. NET EARNINGS and GOAL INCOME segment award amounts will be determined

according to the following schedule:

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

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3. For participants to qualify for the STRATEGIC FOCUS TARGET segment comprising 20% (40% for the twenty-two most senior executives) of their incentive award, their respective organization must achieve a minimum level of performance related to the specified strategic focus. The Strategic Focus Targets will be measurable, verifiable and derived from the formal strategic planning process (e.g., cost reduction, sales growth, market share gain, margins, etc.). The award adjustment factor for this segment will range from 0.5 (after achieving minimum performance levels) to 2.0 for maximum attainment. Participants will receive schedules of Strategic Focus Targets upon approval by the Subcommittee.
4. Except with respect to the twenty-two (22) most senior executives (including the Named Executive Officers) whose awards are based solely on achievement of Net Earnings, Goal Income and Strategic Focus Targets, participants will have a third segment comprising 20% of their incentive award based upon their individual Personal Performance Rating according to the following schedule:

Personal Performance Rating	Personal Performance Adjustment Range
Far Exceeded Expectations	1.70 - 2.00
Exceeded Expectations	1.20 - 1.50
Achieved Expectations	1.00 - 1.10
Partially Achieved Expectations	0.80 - 0.90

THE MAXIMUM INCENTIVE AWARD INCLUDING ALL SEGMENTS OF THIS PROGRAM IS 200% OF THE TARGET INCENTIVE OPPORTUNITY.

The Subcommittee may eliminate awards to any participant who fails to receive a Personal Performance Rating of "Partially Achieved Expectations" or better under the Corporation's Performance Planning and Review (PPR) system.

5. Target incentive award opportunities and calculations of awards for participants will be based on the achievement of specific Corporate, Group, Subsidiary and/or Profit Center net earnings, goal income and strategic focus targets as displayed on the following page or as otherwise may be established subject to approval of the Chairman:

PARTICIPANTS	BASIS FOR FINANCIAL MEASURES INCENTIVE AWARD (60% OF TARGET INCENTIVE)	BASIS FOR STRATEGIC FOCUS INCENTIVE AWARD
USG CORPORATION		
Senior Executive Management USG Corporation Staff	60% Net Earnings, USG Corporation 60% Net Earnings, USG Corporation	40% 20%
NORTH AMERICAN GYPSUM		
- VP, USG Corporation President & CEO, U.S. Gypsum Co. - Exec. VP - Operations, NAG	20% Net Earnings, USG Corporation 40% Goal Income, U.S. Gypsum Co.	40%
- General Mgr - IGD - General Mgr - Materials Division - Profit Center Staff	10% Goal Income, North American Gypsum 20% Goal Income, U.S. Gypsum Company 30% Goal Income, Profit Center/Division	20%
- President & CEO, CGC, Inc	20% Net Earnings, USG Corporation 20% Goal Income, North American Gypsum 20% Goal Income, CGC, Inc	40%
- President & General Mgr, YPSA	25% Goal Income, North American Gypsum 35% Goal Income, YPSA	20%
- Customer Service Staff	20% Net Earnings, USG Corporation 20% Goal Income, U.S. Gypsum Company 20% Goal Income, USG Interiors, Inc.	20%
- U.S. Gypsum Staff	25% Goal Income, North American Gypsum 35% Goal Income, U.S. Gypsum Company	20%
- CGC, Inc Staff	20% Goal Income, North American Gypsum 40% Goal Income, CGC, Inc	20%
WORLDWIDE CEILINGS		
- VP USG Corporation President & CEO, USG Interiors - Sr VP International, USG Interiors	20% Net Earnings, USG Corporation 40% Goal Income, Worldwide Ceilings	40%
USG Interiors, Inc Staff	25% Goal Income, Worldwide Ceilings 35% Goal Income, USG Interiors, Inc	20%
L&W SUPPLY CORPORATION		
Exec VP & COO, L&W Supply	20% Net Earnings, USG Corporation 20% Goal Income, North American Gypsum 20% Goal Income, L&W Supply	40%
L&W Supply Corporation Staff	20% Goal Income, North American Gypsum 40% Goal Income, L&W Supply	20%
	10% Goal Income, North American Gypsum 20% Goal Income, L&W Supply Corporation 30% Goal Income, Profit Center (Business Unit)	20%

6. SPECIAL AWARDS

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

GENERAL PROVISIONS

1. The Subcommittee shall review and approve the awards recommended for officers and other employees who are eligible participants in the 1999 Annual Management Incentive Program. The Subcommittee shall submit to the Board of Directors, for their ratification, a report of the awards for all eligible participants including corporate officers approved by the Subcommittee in accordance with the provisions of the Program.
2. The Subcommittee shall have full power to make the rules and regulations with respect to the determination of achievement of goals and the distribution of awards. No awards will be made until the Subcommittee has certified goal achievement and applicable awards in writing.
3. The judgement of the Subcommittee in construing this Program or any provisions thereof, or in making any decision hereunder, shall be final and conclusive and binding upon all employees of the Corporation and its subsidiaries whether or not selected as beneficiaries hereunder, and their heirs, executors, personal representatives and assigns.
4. Nothing herein contained shall limit or affect in any manner or degree the normal and usual powers of management, exercised by the officers and the Board of Directors or committees thereof, to change the duties or the character of employment of any employee of the Corporation or to remove the individual from the employment of the Corporation at any time, all of which rights and powers are expressly reserved.
5. No award will be paid to a Program participant who is not a regular full-time employee in good standing at the end of the calendar year to which the award applies; except an award which would otherwise be payable based on goal achievement may be recommended in the event of retirement, disability or death or in the event the participant is discharged without cause from the employment of the company during the year.
6. The awards made to employees shall become a liability of the Corporation or the appropriate subsidiary as of December 31, 1999 and all payments to be made hereunder will be made as soon as practicable after said awards have been approved.

ADMINISTRATIVE GUIDELINES

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

2. As provided by the Program, no award is to be paid any participant who is not a regular full-time employee in good standing at the end of the calendar year to which the award applies. However, in the event an eligible participant with three (3) or more months of active service in the Program

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year subsequently retires, becomes disabled or dies, or is discharged from the employment of the Company without cause, the participant (or beneficiary) may receive an award which would otherwise be payable based on goal achievement, prorated for the actual months of active service during the year.

3. Employees participating in any other incentive or bonus program of the parent Corporation or a Subsidiary who are transferred during the year to a position covered by the Annual Management Incentive Program (other than a Named Executive Officer) will be eligible to receive a potential award prorated for actual full months of service in the two positions with the respective incentive program and target incentive values to apply. For example, a Marketing Manager promoted to Director, Marketing on August 1, will be eligible to receive a prorata award for seven months based on the Marketing Manager Plan provisions and values, and for five months under the Annual Management Incentive Program provisions and target incentive values.
4. In the event of transfer of an employee (other than a Named Executive Officer) from an assignment which does not qualify for participation in any incentive or bonus plan to a position covered by the 1999 Annual Management Incentive Program, the employee is eligible to participate in the Annual Incentive Program with any potential award prorated for the actual months of service in the position covered by the Program during the year. A minimum of three months of service in the eligible position is required.
5. Participation during the current Program year for individuals employed from outside the Corporation is possible with any award to be prorated for actual full months of service in the eligible position. A minimum of three full months of service is required for award consideration.
6. Exceptions to established administrative guidelines can only be made by the Subcommittee and only with respect to participants other than Named Executive Officers.
7. For purposes of this Program, a "NAMED EXECUTIVE OFFICER" will include any executive officer who is deemed a "named executive officer" for 1999 under Item 402 (a) (3) of Regulation S-K under the Securities Exchange Act of 1934 and was employed by the Corporation or a Subsidiary on the last day of the year.

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EXHIBIT 13

USG CORPORATION
FINANCIAL REVIEW

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

CONSOLIDATED RESULTS

NET SALES

1999 was another record-setting year for USG due to continued strong demand from all sectors of the construction industry in North America. Net sales of \$3.60 billion represented a new record level, the eighth consecutive year of higher sales and a 15% increase from the previous record of \$3.13 billion in 1998. Growth in repair and remodeling and new residential construction resulted in record shipments and selling prices for USG's SHEETROCK brand gypsum wallboard. Increased opportunity from nonresidential construction led to record shipments of DONN brand suspension grid and solid demand for USG's ceiling tile products. Similar market trends resulted in a 9% increase in 1998 net sales as compared with 1997.

GROSS PROFIT

Gross profit as a percentage of net sales increased to 29.7% in 1999, compared with 28.2% in 1998 and 27.4% in 1997. The improved margin in 1999 reflects higher selling prices for SHEETROCK brand gypsum wallboard, which more than offset increased asbestos-related costs and a \$22 million charge related to a

plant closing.

Asbestos charges in 1999 totaled \$80.5 million compared with \$26 million in 1998. See "Legal Contingencies" below and "Note 16. Litigation" for additional information on asbestos-related costs.

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses increased to \$338 million in 1999, from \$299 million in 1998 and \$281 million in 1997. However, these expenses as a percentage of net sales improved to 9.4% in 1999, from 9.6% in 1998 and 9.8% in 1997. The increase in expense dollars in 1999 primarily related to incentive compensation and information technology initiatives. The increase in 1998 versus 1997 was primarily attributable to higher levels of expenses related to marketing programs and information technology initiatives.

INTEREST EXPENSE

Interest expense amounted to \$53 million in both 1999 and 1998 as the level of total debt remained relatively constant over the two-year period. Interest expense in 1998 was down 12% from \$60 million in 1997 as a result of a lower average level of debt in 1998.

INCOME TAXES

Income tax expense amounted to \$263 million in 1999, compared with \$202 million in 1998 and \$172 million in 1997. The Corporation's effective tax rates for 1999, 1998 and 1997 were 38.4%, 37.8% and 53.9%, respectively.

In 1997, the Corporation's income tax expense was computed based on pretax earnings excluding the amortization of excess reorganization value, which was not deductible for income tax purposes. Excess reorganization value was established in 1993 in connection with a financial restructuring. Excluding the amortization of excess reorganization value, the Corporation's 1997 effective tax rate was 38.6%. See "Note 14. Income Taxes" for additional information.

NET EARNINGS

Net earnings in 1999 were a record \$421 million, up 27% from \$332 million in 1998. This increase marked the fifth consecutive year of improved earnings. Diluted earnings per share were \$8.39 in 1999 versus \$6.61 in 1998.

In 1997, net earnings of \$148 million, or \$3.03 per diluted share, were net of the amortization of excess reorganization value of \$127 million, or \$2.60 per diluted share.

{Bar Graphs}

USG Corporation - Net Sales (millions of dollars) \$2,874, \$3,130 and \$3,600 for 1997, 1998 and 1999, respectively.

USG Corporation - Net Earnings (millions of dollars) \$275 (excludes amortization of excess reorganization value of \$127 million), \$332 and \$421 for 1997, 1998 and 1999, respectively.

CORE BUSINESS RESULTS

(millions)	Net Sales			Operating Profit (Loss)		
	1999	1998	1997	1999	1998	1997*
NORTH AMERICAN GYPSUM:						
U.S. Gypsum Company	\$ 2,034	\$ 1,732	\$ 1,565	\$ 597	\$ 494	\$ 376
CGC Inc. (gypsum)	161	134	124	27	18	2
Other subsidiaries	108	95	95	27	22	24
Eliminations	(122)	(135)	(116)	-	-	-
Total	2,181	1,826	1,668	651	534	402
WORLDWIDE CEILINGS:						
USG Interiors, Inc.	455	446	425	60	53	(1)
USG International	212	237	229	-	9	(3)
CGC Inc. (ceilings)	39	37	34	3	3	3
Eliminations	(58)	(63)	(54)	-	-	-
Total	648	657	634	63	65	(1)
BUILDING PRODUCTS DISTRIBUTION:						
L&W Supply Corporation	1,345	1,103	981	87	40	29
Corporate	-	-	-	(64)	(54)	(49)
Eliminations	(574)	(456)	(409)	(7)	-	(2)
TOTAL USG CORPORATION	3,600	3,130	2,874	730	585	379

*Operating profit (loss) in 1997 includes the amortization of excess reorganization value of \$127 million (\$60 million for North American Gypsum, \$65 million for Worldwide Ceilings and \$2 million for Building Products Distribution).

Effective with this annual report, USG's operations are organized into three operating segments - North American Gypsum, Worldwide Ceilings and Building Products Distribution. Previously, L&W Supply Corporation was a component of North American Gypsum. Because of the growth of L&W Supply, it is now presented as a separate operating segment.

Following is a discussion of the results for each of USG's operating segments beginning with North American Gypsum.

NORTH AMERICAN GYPSUM

Net sales in 1999 were \$2.18 billion, up 19% from 1998. Operating profit in 1999 was \$651 million, up 22% from 1998. Net sales in 1998 increased 9% versus 1997. Operating profit in 1998 rose 33% due in part to the absence of amortization of excess reorganization value of \$60 million recorded in 1997.

United States Gypsum Company: With its plants running at full capacity, shipments of SHEETROCK brand gypsum wallboard totaled a record 9.2 billion square feet in 1999, up 5% from 8.8 billion square feet in 1998. Shipments in 1997 totaled 8.4 billion square feet. The average selling price of SHEETROCK brand gypsum wallboard in 1999 was a record \$153.40 per thousand square feet, up 18% compared with the 1998 average price of \$129.50. The average price in 1997 was \$122.65. These improved results for wallboard were complemented by record shipments of SHEETROCK brand joint compound and DUROCK brand cement board in 1999. U.S. Gypsum's manufacturing costs for SHEETROCK brand gypsum wallboard

were higher in 1999 largely due to higher prices for wastepaper, the primary raw material of wallboard paper. Lower unit costs in 1998 versus 1997 were largely due to lower prices for wastepaper. U.S. Gypsum's plants operated at 100% of capacity in 1999, compared with the estimated average rate of 98% for the U.S. wallboard industry.

CGC Inc.: The gypsum business of Canada-based CGC

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experienced improved net sales and operating profit in both 1999 and 1998. Increased levels of housing starts in eastern Canada resulted in greater demand and higher selling prices for CGC's SHEETROCK brand gypsum wallboard in each year. Improved results in 1998 versus 1997 also reflected a higher level of exports to the United States.

{Bar Graphs}

North American Gypsum - Net Sales (millions of dollars) \$1,668, \$1,826 and \$2,181 for 1997, 1998 and 1999, respectively.

North American Gypsum - Operating Profit (millions of dollars) \$462 (excludes amortization of excess reorganization value of \$60 million), \$534 and \$651 for 1997, 1998 and 1999, respectively.

WORLDWIDE CEILINGS

Net sales in 1999 were \$648 million, down slightly from 1998. Operating profit in 1999 was \$63 million, compared with \$65 million in 1998. Record sales and operating profit for USG Interiors, Inc., record domestic shipments of DONN brand suspension grid and solid demand for ceiling tile products were attributable to increased opportunity from the U.S. nonresidential construction market (both new construction and renovation). Operating profit in 1999 for USG Interiors also benefited from reduced manufacturing costs. However, these results were offset by weak economic conditions in Eastern Europe and in the Asia Pacific region.

Comparing 1998 with 1997, net sales increased 4% to \$657 million as sales improved for ceiling tile and DONN brand suspension grid. Operating profit of \$65 million in 1998 was favorably affected by higher volume and selling prices, reduced manufacturing costs and improved international operating efficiencies. An operating loss of \$1 million in 1997 reflected the amortization of excess reorganization value of \$65 million.

{Bar Graphs}

Worldwide Ceilings - Net Sales (millions of dollars) \$634, \$657 and \$648 for 1997, 1998 and 1999, respectively.

Worldwide Ceilings - Operating Profit (millions of dollars) \$64 (excludes amortization of excess reorganization value of \$65 million), \$65 and \$63 for 1997, 1998 and 1999, respectively.

BUILDING PRODUCTS DISTRIBUTION

Net sales and operating profit for L&W Supply, the leading specialty building products distributor in the United States, reached record levels in 1999. Net sales exceeded \$1.3 billion, a 22% increase over 1998. Operating profit totaled \$87 million, more than double the 1998 level of \$40 million. This performance reflects record sales of gypsum wallboard and complementary building materials such as drywall metal, ceiling products and joint compound. During 1999, L&W Supply had a net increase of six locations, bringing the total to 193, representing 37 states. Net sales and operating profit in 1998 increased 12% and 38%, respectively, versus 1997. Operating profit in 1997 for L&W Supply was lowered by the amortization of excess reorganization value of \$2 million.

{Bar Graphs}

Building Products Distribution - Net Sales (millions of dollars) \$981, \$1,103

and \$1,345 for 1997, 1998 and 1999, respectively.

Building Products Distribution - Operating Profit (millions of dollars) \$31 (excludes amortization of excess reorganization value of \$2 million), \$40 and \$87 for 1997, 1998 and 1999, respectively.

MARKET CONDITIONS AND OUTLOOK

Overall market conditions were robust in 1999, and management is optimistic about key market fundamentals in 2000.

Industry shipments of wallboard in the United States grew in 1999 to an estimated 31.0 billion square feet, a record level and a 10% rise from 1998. This increase was supported by growth in new residential construction and repair and remodel activity. Strong demand from nonresidential construction was also a contributing factor.

Based on preliminary data issued by the U.S. Bureau of the Census, U.S. housing starts in 1999 were an estimated 1.665 million units, up 3% over 1998. Although management believes that new residential construction may not maintain this high level in 2000, housing starts are expected to approximate the healthy pace of the past several years. In addition, demand for larger homes with higher ceilings and more amenities, and whose purchasers are less affected by interest rate changes, remains strong. Housing starts totaled 1.617 million units in 1998 and 1.474 million units in 1997.

Repair and remodel is the fastest-growing market

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for USG and accounts for the second-largest portion of its sales. Opportunity from repair and remodel activity continued to grow in 1999, increasing approximately 10%. Sales of existing homes were a record 5.2 million units in 1999. Because many buyers remodel an existing home within two years of purchase, the residential repair and remodel market should be healthy over the next several years. Lease rates, government tax receipts and other factors should support continued renovation of nonresidential space, such as offices and schools. Repair and remodel activity of all types is expected to continue to account for an increasing proportion of USG's sales.

Sales of USG products to the new nonresidential construction market increased in 1999 and are expected to remain strong in 2000. Future demand for USG products from new nonresidential construction is gauged by floor space for which contracts are signed. Installation of gypsum and ceilings products follows signing of the construction contract by about a year. Floor space for which contracts were signed rose 13% in 1998 and increased another 3% in 1999.

While market conditions continue to be good in the United States and Canada, certain international markets remain weak. Most of USG's sales outside of North America come from Western Europe, Latin America and the Asia Pacific region. USG's exposure to the economic problems of Asia and Eastern Europe is small. Business conditions continue to be soft in Asia and parts of Europe, but have remained solid in Latin America.

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL STRATEGY

USG is focused on building long-term stockholder value through dividends, share repurchases and the five elements of its strategic growth plan.

Dividends: In 1999, USG paid cash dividends of \$0.10 per share in the first, second and third quarters. Because of record earnings in 1999 and the forecast of a stronger performance in 2000, USG increased its quarterly dividend to \$0.15 in the fourth quarter of 1999.

Share Repurchases: USG has purchased nearly 1.7 million shares since its multiyear share-repurchase program began in the fourth quarter of 1998. Under the program, USG may repurchase up to 5 million shares. Share repurchases are

being made in the open market or through privately negotiated transactions and are being funded with available cash from operations.

Strategic Growth Plan: USG is investing in its businesses under five central strategies - building for growth by adding capacity and lowering production costs (see "Capital Expenditures" below), leading in product innovation, expanding its building products distribution business, enhancing customer service and promoting its brand names.

CAPITAL EXPENDITURES

Capital spending amounted to \$426 million in 1999, compared with \$309 million in 1998. As of December 31, 1999, capital expenditure commitments for the replacement, modernization and expansion of operations amounted to \$260 million, compared with \$481 million as of December 31, 1998. USG's capital expenditures program includes the following projects:

Wallboard Capacity Modernization and Expansion: To meet growing demand, USG is investing in state-of-the-art manufacturing facilities. New production capacity will serve to meet the demands of USG's customers and improve profitability. Upon completion of the five projects described below, USG will have added more than 2 billion square feet of net new capacity with lower operating costs than those of the old facilities it is replacing.

In the Southeast, construction of a new plant in Bridgeport, Ala., was successfully completed. This facility, which has more than 700 million square feet of SHEETROCK brand gypsum wallboard manufacturing capacity, began operation in the second quarter of 1999.

In the Midwest, U.S. Gypsum completed construction of a new production line for SHEETROCK brand gypsum wallboard at its East Chicago, Ind., plant. This new line replaced an existing high-cost line and began operation in the fourth quarter of 1999.

In the Northeast, U.S. Gypsum is building a new SHEETROCK brand gypsum wallboard plant in Aliquippa, Pa. Construction of this facility is expected to be completed in the second quarter of 2000.

In the Northwest, ground was broken during 1999 for a new SHEETROCK brand gypsum wallboard plant in Rainier, Ore. A significant portion of the new capacity provided by this plant will replace existing USG shipments into the region from plants as far away as Iowa, Texas and Ontario, Canada. This facility is expected to be fully operational in 2001.

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In the Southwest, construction began in 1999 on a new production line for SHEETROCK brand gypsum wallboard at U.S. Gypsum's plant in Plaster City, Calif., which will replace a 41-year-old, high-cost production line. This facility also is expected to be fully operational in 2001.

Gypsum Fiber Project: Construction was completed on a facility to manufacture FIBEROCK brand gypsum fiber panels, USG's newest product platform. This production line, which is located at the Gypsum, Ohio, wallboard plant, began operation in late 1999.

ACQUISITION OF SYBEX, INC.

On November 30, 1999, USG acquired Sybex, Inc., the holding company of Beadex Manufacturing Company, Inc. and The Synkoloid Company of Canada. Sybex operates joint compound and paper-faced metal corner bead plants in the United States and Canada. With annual sales of approximately \$58 million, Sybex is the leader in joint compound in the Pacific Northwest and western Canada and the leader in paper-faced metal corner bead in North America.

USG continues to evaluate potential acquisitions of companies in the building products industry, as well as divestitures and joint ventures, on an ongoing basis. USG has external sources of capital available and adequate

financial resources and liquidity to fund future growth opportunities such as new products, acquisitions and joint ventures.

SHUTDOWN OF PLASTERCO

In the third quarter of 1999, U.S. Gypsum announced the planned shutdown of 350 million square feet of high-cost manufacturing capacity at its 90-year-old Plasterco, Va., plant. In conjunction with the announcement, U.S. Gypsum recorded a \$22 million pretax (\$14 million after-tax; \$0.27 per share) charge to cost of products sold for expenses related to the closing of the plant and adjacent gypsum mine. The Plasterco facility was closed on December 23, 1999, following the start-up of U.S. Gypsum's new plant in Bridgeport, Ala., earlier in the year.

WORKING CAPITAL

Working capital (current assets less current liabilities) as of December 31, 1999, amounted to \$382 million, compared with \$368 million as of December 31, 1998. The ratio of current assets to current liabilities was 1.78 to 1 as of December 31, 1999, compared with 1.86 to 1 as of December 31, 1998.

Receivables increased to \$361 million as of December 31, 1999, from \$349 million as of December 31, 1998. Inventories increased to \$256 million from \$234 million, and accounts payable rose to \$172 million from \$157 million. These variations reflect an increased level of business in 1999 as compared with 1998.

Cash and cash equivalents as of December 31, 1999, amounted to \$197 million, up from \$152 million as of December 31, 1998. During 1999, net cash flows from operating activities totaled \$631 million. Net cash flows to investing activities of \$498 million primarily reflect capital spending of \$426 million and the acquisition of Sybex, Inc. Net cash flows to financing activities of \$88 million primarily reflect \$72 million used for stock repurchases and \$22 million used for cash dividends, partially offset by \$12 million received from the exercise of stock options.

DEBT

As of December 31, 1999, total debt amounted to \$593 million, down slightly from \$596 million at December 31, 1998. During 1999, USG retired \$25 million of 8.75% debentures due 2017, \$25 million of Canadian credit facility borrowings and \$24 million of old higher-cost industrial revenue bonds ("IRBs"). These retirements were offset by a \$64 million increase in IRBs associated with the Gypsum, Ohio, and East Chicago, Ind., capital projects and a \$7 million increase in short-term and long-term notes payable.

Available Liquidity

USG has additional liquidity available through several financing arrangements. Revolving credit facilities in the United States, Canada and Europe allow the Corporation to borrow up to an aggregate of \$602 million (including a \$125 million letter of credit subfacility in the United States), under which, as of December 31, 1999, outstanding revolving loans totaled \$85 million and letters of credit issued and outstanding amounted to \$15 million, leaving the Corporation with \$502 million of unused and available credit.

USG had additional borrowing capacity of \$50 million as of December 31, 1999, under a revolving accounts receivable facility. See "Note 10. Financing Arrangements."

A shelf registration statement filed with the Securities and Exchange Commission allows the Corporation to offer from time to time debt securities, shares of preferred and common stock or warrants to purchase shares of common stock, all having an aggregate initial offering price not to exceed \$300

million. As of the filing date of USG's 1999 Annual Report on Form 10-K, no securities had been issued pursuant to this registration.

{Bar Graphs}

USG Corporation - Capital Spending (millions of dollars) \$172, \$309 and \$426 for 1997, 1998 and 1999, respectively.

USG Corporation - Debt (as of December 31, millions of dollars) \$620, \$596 and \$593 for 1997, 1998 and 1999, respectively.

OTHER MATTERS

MARKET RISK

In the normal course of business, USG uses financial instruments, including fixed and variable rate debt, to finance its operations. In addition, USG uses derivative instruments to manage well-defined interest rate, energy cost and foreign currency exposures. USG does not use derivative instruments for trading purposes.

Interest Rate Risk: The table below provides information about USG's financial instruments that are sensitive to changes in interest rates, specifically debt obligations and interest rate swaps. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on implied forward rates at the reporting date. The information is presented in U.S. dollar equivalents, which is USG's reporting currency.

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(dollars in millions)	Maturity Date						Total	Fair Value
	2000	2001	2002	2003	2004	Thereafter		
DEBT								
U.S. Dollar:								
Fixed rate	-	\$ 150	-	-	-	\$ 278	\$ 428	\$ 417
Average interest rate	-	9.3%	-	-	-	5.8%	6.4%	-
Variable rate	\$ 2	-	\$ 25	\$ 40	\$ 40	-	\$ 107	\$ 107
Average interest rate	8.5%	-	7.4%	7.3%	7.4%	-	7.4%	-
Canadian Dollar:								
Variable rate	-	-	\$ 44	-	-	-	\$ 44	\$ 44
Average interest rate	-	-	6.9%	-	-	-	6.9%	-
European Multicurrency Line:								
Variable rate	\$ 14	-	-	-	-	-	\$ 14	\$ 14
Average interest rate	4.7%	-	-	-	-	-	4.7%	-
INTEREST RATE SWAPS								
U.S. Dollar:								
Notional amount	\$ 25	-	-	-	-	-	\$ 25	-
Average pay rate	7.2%	-	-	-	-	-	7.2%	-
Average receive rate	6.2%	-	-	-	-	-	6.2%	-
Canadian Dollar:								
Notional amount	-	\$ 28	-	-	-	-	\$ 28	-
Average pay rate	-	5.5%	-	-	-	-	5.5%	-
Average receive rate	-	6.3%	-	-	-	-	6.3%	-

Foreign Currency Exchange Risk: The table below summarizes USG's foreign currency hedge contracts as of December 31, 1999. The table presents the notional amounts (in millions of U.S. dollar equivalents) and weighted average contract rates. Virtually all outstanding foreign currency hedge contracts mature within 12 months.

Currency Sold	Currency Purchased	Notional Value	Contract Rate
Forward Contracts:			
U.S. Dollars	Canadian Dollars	\$24	\$ 1.48
British Pounds	Euros	7	0.68
U.S. Dollars	Euros	3	1.05
Australian Dollars	New Zealand Dollars	2	1.24
Australian Dollars	U.S. Dollars	2	0.65
Singapore Dollars	U.S. Dollars	2	1.65
Option Contracts:			
Australian Dollars	U.S. Dollars	1	0.63

Commodity Price Risk: USG uses natural gas swap contracts to manage price exposure on anticipated natural gas purchases. A sensitivity analysis has been prepared to estimate the potential loss in fair value of such instruments assuming a hypothetical 10% increase in market prices. The sensitivity analysis includes the underlying exposures that are being hedged. Based on the results of the sensitivity analysis, which may differ from actual results, USG's potential loss in fair value is \$17 million.

See "Note 1. Significant Accounting Policies" and "Note 11. Financial Instruments and Risk Management" for additional information on USG's financial exposures.

YEAR 2000 COMPLIANCE

In 1996, USG began an evaluation of its computer-based systems to determine the extent of the modifications required to make those systems year 2000 compliant and to devise a plan to complete such modifications prior to January 1, 2000. The plan was divided into five phases: identification (a basic inventory of all systems), assessment, remediation, testing and completion. The plan encompassed all of USG's computer systems including mainframe,

midrange, client server and desktop systems as well as all specialized control systems for plant operations or other facilities including those that are considered embedded systems. USG's mainframe systems are responsible for most of the information processing done by the Corporation and have received a majority of the efforts dedicated to this project as well as a majority of the budget allocated to it. All plan phases have been completed.

Current Status: USG's computer-based systems did not experience any disruptions on the critical date of January 1, 2000. The USG plan contemplates that the Corporation will continue to monitor its internal operating systems and continue the ongoing contacts regarding year 2000 matters with its critical suppliers at least through early 2000. Furthermore, there may be potential computer problems related to year 2000 that may not surface until after January 2000 (e.g., software applications affected by the leap day, software applications that are run only on a quarterly or annual basis, or automatic shutdown of embedded systems and any related processes based on failure to perform timely maintenance.)

Suppliers and Customers: USG's year 2000 compliance plan also included an analysis and survey of critical third-party suppliers of material and services to determine their year 2000 compliance status. As of the filing date of USG's Annual Report on Form 10-K, no disruption to USG's business has occurred as a result of performance issues affecting suppliers. However, there continues to be a small degree of uncertainty as to whether there will be, or the extent of, any significant disruption due to third-party supplier failures. USG also has been in contact with most of its major customers on the status of each party's year 2000 compliance plans and expects to continue such information exchanges beyond January 1, 2000, in order to maintain those business relationships and to obtain updated information for its own ongoing planning. Based on the survey responses received to date, these ongoing contacts, internal review of its collection history from major customers, the steps taken to prepare for the critical period and USG's experience since January 1, 2000, USG does not expect to experience any lack of liquidity which would affect its ability to continue business operations in whatever circumstances should come about.

Costs: The cost of carrying out USG's compliance plan is currently estimated at \$11 million, a reduction of \$1 million from the previous estimate. As of December 31, 1999, about 82% of this amount has been incurred. Much of the balance may be expended in early 2000.

Contingency Plans: While USG has not to date experienced any significant systems or other year 2000 problems, it is still possible that USG might later experience significant disruptions due to year 2000 problems that affect the operating environment in which it conducts business. The inability of USG or its critical suppliers and customers to effectuate solutions to their respective year 2000 issues on a timely and cost-effective basis could still have a material adverse effect on USG.

In view of the continuing uncertainty, albeit much reduced, that USG faces with respect to year 2000 issues, it maintains its ability to implement its contingency plan to provide for continuation of its operations in the event of possible year 2000 disruptions. The plan will be continually evaluated and modified as required by developments and circumstances that may emerge through the course of 2000.

USG's contingency plan provides for the continuation of its business and operations in the period following January 1, 2000. The planning process involved detailed reviews by operating personnel of all of the information that has been gathered concerning critical suppliers, customers and internal systems to determine all foreseeable risks to the continuation of business operations. Based on that review process, USG prepared a set of operating procedures for dealing with the identified risks. These procedures provide for flexible responses to conditions, as they may be expected to develop after the critical date of January 1, 2000.

Worst-Case Scenario: In the view of USG's year 2000 contingency planning team, the most reasonably likely worst-case scenario is that there might be a local or regional disruption to its plant production due to disruptions in the supply chain. However, as of the filing date of its Annual Report on Form 10-K, USG has not experienced any local or regional disruption to its plant production due to disruptions in the supply chain.

Conclusion: While USG will continue to maintain its contingency plan even beyond January 1, 2000,

management believes that, in terms of the Corporation's internal operating systems, it has been and will be able to continue its operations without material disruption. Based on management's present knowledge, it also does not foresee any significant disruptions to USG's businesses from external causes.

EURO CURRENCY CONVERSION

Effective January 1, 1999, 11 of the 15 countries that are members of the European Union introduced a new, single currency unit, the euro. Prior to full implementation of the new currency for the participating countries on January 1, 2002, there is a three-year transition period during which parties may use either the existing currencies or the euro. However, during the transition period, all exchanges between currencies of the participating countries are required to be first converted through the euro.

USG has conducted a comprehensive analysis to address the euro currency issue. USG's efforts are focused on two phases. The first phase addresses USG's European operations during the transition period. The second phase covers full conversion of these operations to the euro. The Corporation was ready for the transition period that began on January 1, 1999, and expects to be ready for full conversion by January 1, 2002, the mandatory conversion date. USG also is prepared to deal with its critical suppliers and customers during the transition period and will communicate with them as appropriate. The Corporation does not expect the introduction of the euro currency to have a material adverse impact on its business, results of operations or financial position.

LEGAL CONTINGENCIES

One of the Corporation's subsidiaries, U.S. Gypsum, is a defendant in asbestos lawsuits alleging both property damage and personal injury. Asbestos charges in 1999 totaled \$80.5 million compared with \$26 million in 1998. Although new personal injury cases were filed in 1999 at a significantly lower rate than that at which cases were filed in 1998, asbestos charges to results of operations have been higher in 1999 because the estimated cost of resolving cases pending during 1998 will, when expended, consume all of U.S. Gypsum's remaining insurance. As a result, the estimated liability from new case filings is currently being charged against reported earnings.

U.S. Gypsum expects that periodic charges will continue to be necessary in the future in amounts that could be higher or lower than recent quarters, and which could be material to the period in which they are taken. The amount of future periodic charges will depend upon factors that include, but may not be limited to, the rate at which new asbestos-related claims are filed, the potential imposition of medical criteria, the impact of changes in membership of the Center for Claims Resolution (of which U.S. Gypsum is a member), U.S. Gypsum's settlement cost and the estimated cost of resolving pending claims, and the necessity of higher-cost settlements in particular jurisdictions. In addition, U.S. Gypsum will continue to evaluate whether its probable liability for future personal injury cases can be reasonably estimated. The ability to make such an estimate will require an assessment of the impact on future case filings and settlement values of a number of uncertainties. When such an estimate can be made, it is probable that an additional charge to results of operations will be necessary. Although the timing and amount of the resulting charge cannot presently be determined, the amount is expected to be material to results of operations in the period in which it is taken. However, the asbestos litigation is not expected to have a significant impact on the Corporation's liquidity or cash flows. See "Note 16. Litigation" for additional information on asbestos 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. The Corporation believes that neither these matters nor any other known governmental proceeding regarding environmental matters will have a material adverse effect upon its results of operations or financial position. See "Note 16. Litigation" for additional information on environmental litigation.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements related to management's expectations about future conditions. Actual business or other conditions may differ significantly from management's expectations and accordingly affect the

Corporation's sales and profitability or other results. Actual results may differ due to factors over which the Corporation has no control, including economic activity such as new housing construction, interest rates and consumer confidence; competitive activity such as price and

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product competition; increases in raw material and energy costs; risk of disruption due to year 2000 issues such as those described above; euro currency issues such as the ability and willingness of third parties to convert affected systems in a timely manner and the actions of governmental agencies or other third parties; and the outcome of contested asbestos-related litigation, the rate of new asbestos-related filings and the other factors described herein. The Corporation assumes no obligation to update any forward-looking information contained in this report.

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CONSOLIDATED STATEMENT OF EARNINGS

(dollars in millions, except per share data)	Years Ended December 31,		
	1999	1998	1997
Net sales	\$ 3,600	\$ 3,130	\$ 2,874
Cost of products sold	2,532	2,246	2,087
Gross profit	1,068	884	787
% of net sales	29.7	28.2	27.4
Selling and administrative expenses	338	299	281
Amortization of excess reorganization value	-	-	127
Operating profit	730	585	379
Interest expense	53	53	60
Interest income	(10)	(5)	(3)
Other expense, net	3	3	2
Earnings before income taxes	684	534	320
Income taxes	263	202	172
Net earnings	421	332	148
Net Earnings Per Common Share:			
Basic	8.48	6.81	3.19
Diluted	8.39	6.61	3.03

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

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CONSOLIDATED BALANCE SHEET

(dollars in millions, except per share data)

As of December 31,

	1999	1998
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 197	\$ 152
Receivables (net of reserves of \$18 and \$18)	361	349
Inventories	256	234
Current and deferred income taxes	59	62
Total current assets	873	797
Property, plant and equipment, net	1,568	1,214
Other assets	332	346
Total assets	2,773	2,357
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	172	157
Accrued expenses	303	237
Notes payable	16	10
Current portion of long-term debt	-	25
Total current liabilities	491	429
Long-term debt	577	561
Deferred income taxes	138	169
Other liabilities	700	680
Stockholders' Equity:		
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 48,859,531 and 49,524,952 shares (after deducting 1,125,691 and 296,235 shares held in treasury)	5	5
Treasury stock	(56)	(10)
Capital received in excess of par value	316	317
Deferred currency translation	(33)	(30)
Reinvested earnings	635	236
Total stockholders' equity	867	518
Total liabilities and stockholders' equity	2,773	2,357

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(millions)	Years Ended December 31,		
	1999	1998	1997
OPERATING ACTIVITIES			
Net earnings	\$ 421	\$ 332	\$ 148
Adjustments to Reconcile Net Earnings to Net Cash:			
Amortization of excess reorganization value	-	-	127
Depreciation, depletion and amortization	91	81	70
Current and deferred income taxes	(31)	7	(2)
(Increase) Decrease in Working Capital:			
Receivables	(4)	(52)	(23)
Inventories	(15)	(26)	(23)
Payables	12	11	5
Accrued expenses	58	17	20
(Increase) decrease in other assets	(20)	6	(10)
Increase in other liabilities	121	-	19
Other, net	(2)	(2)	1
Net cash from operating activities	631	374	332
INVESTING ACTIVITIES			
Capital expenditures	(426)	(309)	(172)
Net proceeds from asset dispositions	2	2	2
Acquisition of business, net of acquired cash	(74)	-	-
Net cash to investing activities	(498)	(307)	(170)
FINANCING ACTIVITIES			
Issuance of debt	65	78	116
Repayment of debt	(50)	(107)	(265)
Short-term borrowings (repayments), net	(21)	9	(3)
Issuances of common stock	12	48	18
Purchases of common stock	(72)	(10)	-
Cash dividends paid	(22)	(5)	-
Net cash (to) from financing activities	(88)	13	(134)
NET INCREASE IN CASH AND CASH EQUIVALENTS	45	80	28
Cash and cash equivalents at beginning of period	152	72	44
Cash and cash equivalents at end of period	197	152	72
Supplemental Cash Flow Disclosures:			
Interest paid	56	56	64
Income taxes paid	281	186	168

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(millions)	Years Ended December 31,		
	1999	1998	1997
Common Stock:			
Balance at January 1	\$ 5	\$ 5	\$ 5
Balance at December 31	5	5	5
Treasury Stock:			
Balance at January 1	(10)	-	-
Purchases of common stock	(72)	(10)	-
Stock option and restricted stock activity, net	26	-	-
Balance at December 31	(56)	(10)	-
Capital Received in Excess of Par Value:			
Balance at January 1	317	258	231
Stock option and restricted stock activity, net	(1)	19	25
Warrants exercised	-	40	2
Balance at December 31	316	317	258
Reinvested Earnings (Deficit):			
Balance at January 1	236	(91)	(239)
Net earnings	421	332	148
Cash dividends paid	(22)	(5)	-
Balance at December 31	635	236	(91)
Accumulated Other Comprehensive Income:			
Balance at January 1	(30)	(25)	(20)
Other comprehensive income	(3)	(5)	(5)
Balance at December 31	(33)	(30)	(25)
Total stockholders' equity	867	518	147

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(millions)	Years Ended December 31,		
	1999	1998	1997
Net earnings	\$ 421	\$ 332	\$ 148
Other Comprehensive Income (net of tax):			
Foreign currency translation adjustments	(3)	(5)	(15)
Minimum pension liability	-	-	10
	(3)	(5)	(5)
Total comprehensive income	418	327	143

The notes to financial statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Through its subsidiaries, USG Corporation ("USG" or "the Corporation") is a leading manufacturer and distributor of building materials, producing a wide range of products for use in new residential, new nonresidential and repair and remodel construction, as well as products used in certain industrial processes. USG's operations are organized into three operating segments: North American Gypsum, which manufactures and markets SHEETROCK brand gypsum wallboard and related products in the United States, Canada and Mexico; Worldwide Ceilings, which manufactures and markets ceiling tile, DONN brand suspension grid and other interior systems products worldwide; and Building Products Distribution, which distributes gypsum wallboard, drywall metal, ceiling products, joint compound and other building products throughout the United States. USG's products also are distributed through building materials dealers, home improvement centers and other retailers, specialty wallboard distributors, and contractors.

CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation.

USE OF ESTIMATES

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

RECLASSIFICATIONS

Certain amounts in the prior years' financial statements and notes thereto have

been reclassified to conform with the 1999 presentation.

REVENUE RECOGNITION

Revenue is recognized upon the shipment of products to customers.

EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share includes the dilutive effect of the potential exercise of outstanding stock options and warrants under the treasury stock method.

COMPREHENSIVE INCOME

The components of comprehensive income for USG include net earnings, foreign currency translation gain or loss adjustments and, in 1997, a minimum pension liability adjustment. Taxes related to the minimum pension liability adjustment in 1997 were \$7 million. There was no tax impact on the foreign currency translation adjustments.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less.

INVENTORY VALUATION

Most of the Corporation's domestic inventories are valued under the last-in, first-out ("LIFO") method. The remaining inventories are stated at the lower of cost or market under the first-in, first-out ("FIFO") or average production cost methods. Inventories include material, labor and applicable factory overhead costs.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, except for those assets that were revalued under fresh start accounting in May 1993. Provisions for depreciation of property, plant and equipment are determined principally on a straight-line basis over the expected average useful lives of composite asset groups. Depletion is computed on a basis calculated to spread the cost of gypsum and other applicable resources over the estimated quantities of material recoverable.

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EXCESS REORGANIZATION VALUE

In the third quarter of 1997, the remaining balance of excess reorganization value was eliminated. The \$83 million balance, which would have been amortized through April 1998, was offset by the elimination of a valuation allowance in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7"). See "Note 14. Income Taxes" for additional information. Excess reorganization value was recorded in 1993 in connection with a comprehensive restructuring of the Corporation's debt under the principles of fresh start accounting as required by SOP 90-7.

GOODWILL

Goodwill is amortized on a straight-line basis over a period of 40 years. On a periodic basis, the Corporation estimates the future undiscounted cash flows of the businesses to which goodwill relates in order to ensure that the carrying value of goodwill has not been impaired. Goodwill is included in other assets on the consolidated balance sheet.

FINANCIAL INSTRUMENTS

The Corporation uses derivative instruments to manage well-defined interest rate, energy cost and foreign currency exposures. The Corporation does not use

derivative instruments for trading purposes. The criteria used to determine if hedge accounting treatment is appropriate are (i) the designation of the hedge to an underlying exposure (ii) whether or not overall uncertainty is being reduced and (iii) if there is a correlation between the value of the derivative instrument and the underlying obligation.

Interest Rate Derivative Instruments: The Corporation utilizes interest rate swap agreements to manage the impact of interest rate changes on its underlying floating-rate debt. These agreements are designated as hedges and qualify for hedge accounting. Amounts payable or receivable under these swap agreements are accrued as an increase or decrease to interest expense on a current basis. To the extent the underlying floating-rate debt is reduced, the Corporation terminates swap agreements accordingly so as not to be in an overhedged position. In such cases, the Corporation recognizes gains and/or losses in the period in which the agreement is terminated.

Energy Derivative Instruments: The Corporation uses swap agreements to hedge anticipated purchases of fuel to be utilized in the manufacturing processes for gypsum wallboard and ceiling tile. Under these swap agreements, the Corporation receives or makes payments based on the differential between a specified price and the actual closing price for the current month's energy price contract. These contracts are designated as hedges and qualify for hedge accounting. Amounts payable or receivable under these swap agreements are accrued as an increase or decrease to cost of products sold, along with the actual spot energy cost of the corresponding underlying hedge transaction, the combination of which amounts to the predetermined specified contract price.

Foreign Exchange Derivative Instruments: The Corporation has operations in a number of countries and due to intercompany and third-party transactions is exposed to changes in foreign currency exchange rates. The Corporation manages these exposures on a consolidated basis, which allows netting of certain exposures to take advantage of any natural offsets. To the extent the net exposures are hedged, forward and/or option contracts are used. Gains and/or losses on these foreign currency hedges are included in net earnings in the period in which the exchange rates change.

RESEARCH AND DEVELOPMENT

Research and development expenditures are charged to earnings as incurred and amounted to \$21 million, \$20 million and \$19 million in the years ended December 31, 1999, 1998 and 1997, respectively.

RECENT ACCOUNTING PRONOUNCEMENT

In 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") 133, "Accounting for Derivative Instruments and Hedging Activities." The effective date of this statement was delayed under SFAS 137 to fiscal years beginning after June 15, 2000, and cannot be applied retroactively. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Corporation plans to adopt SFAS 133 effective January 1, 2001, and will determine both the method and impact of adoption prior to that date.

2. ACQUISITION OF SYBEX, INC.

On November 30, 1999, USG acquired Sybex, Inc., the holding company of Beadex Manufacturing Company, Inc. and The Synkoloid Company of Canada. Sybex operates joint compound and paper-faced metal corner bead plants in the United States and Canada and has annual sales of approximately \$58 million.

3. SHUTDOWN OF PLASTERCO

In the third quarter of 1999, U.S. Gypsum announced the planned shutdown of its Plasterco, Va., plant. In conjunction with the announcement, U.S. Gypsum recorded a \$22 million pretax (\$14 million after-tax; \$0.27 per share) charge to cost of products sold for expenses related to the closing of the plant and adjacent gypsum mine. The Plasterco facility was closed on December 23, 1999, following the start-up of U.S. Gypsum's new plant in Bridgeport, Ala., earlier in the year.

4. EARNINGS PER SHARE

The reconciliation of basic earnings per share to diluted earnings per share is shown in the following table:

(millions, except share data)	Net Earnings	Average Shares (000)	Per Share Amount

1999:			
Basic earnings	\$ 421	49,697	\$8.48
Effect of Dilutive Securities:			
Options		519	

Diluted earnings	421	50,216	8.39
=====			
1998:			
Basic earnings	332	48,710	6.81
Effect of Dilutive Securities:			
Options		861	
Warrants		613	

Diluted earnings	332	50,184	6.61
=====			
1997:			
Basic earnings	148	46,269	3.19
Effect of Dilutive Securities:			
Options		930	
Warrants		1,528	

Diluted earnings	148	48,727	3.03
=====			

5. COMMON STOCK

Changes in outstanding common stock are summarized as follows:

(shares in thousands)	1999	1998	1997
Common Stock:			
Balance at January 1	49,525	46,781	45,725
Stock option and restricted stock activity, net	165	536	973
Warrants exercised	-	2,455	101
Treasury stock	(830)	(247)	(18)
Balance at December 31	48,860	49,525	46,781
Treasury Stock:			
Balance at January 1	(296)	(49)	(31)
Purchases of common stock	(1,425)	(225)	-
Stock option and restricted stock activity, net	595	(22)	(18)
Balance at December 31	(1,126)	(296)	(49)

STOCK REPURCHASES

In the fourth quarter of 1998, USG initiated a multiyear stock-repurchase program, under which up to 5 million shares of common stock may be purchased. Stock repurchases are being made in the open market or through privately negotiated transactions and are being financed with available cash from operations.

STOCKHOLDER RIGHTS PLAN

The Corporation's stockholder rights plan which will expire on March 27, 2008, has four basic provisions. First, if an acquirer buys 15% or more of USG's outstanding common stock, the plan allows other stockholders to buy, with each right, additional USG shares at a 50% discount. Second, if USG is acquired in a merger or other business combination transaction, rights holders will be entitled to buy shares of the acquiring company at a 50% discount. Third, if an acquirer buys between 15% and 50% of USG's outstanding common stock, the Corporation can exchange part or all of the rights of the other holders for shares of the Corporation's stock on a one-for-one basis, or shares of a new junior preferred stock on a one-for-one-hundredth basis. Fourth, before an acquirer buys 15% or more of USG's outstanding common stock, the rights are redeemable for \$0.01 per right at the option of the board of directors. This provision permits the board to enter into an acquisition transaction that is determined to be in the best interests of stockholders. The board is authorized to reduce the 15% threshold to not less than 10%.

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WARRANTS

In 1998, the Corporation received cash proceeds of \$40 million from the exercise of 2,455,383 warrants issued in connection with a financial restructuring implemented in 1993. Each warrant 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, at any time prior to the May 6, 1998, expiration date. The proceeds from the exercises were added to the cash resources of the Corporation and used for general corporate purposes.

6. INVENTORIES

As of December 31, 1999 and 1998, the LIFO values of domestic inventories were \$191 million and \$168 million, respectively, and would have been \$3 million

higher for 1999 and \$1 million lower for 1998 if they were valued under the FIFO and average production cost methods. The LIFO value of U.S. domestic inventories exceeded that computed for U.S. federal income tax purposes by \$30 million as of December 31, 1999 and 1998. Inventory classifications as of December 31 were as follows:

(millions)	1999	1998
Finished goods and work in progress	\$164	\$151
Raw materials	77	69
Supplies	15	14
Total	256	234

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment classifications as of December 31 were as follows:

(millions)	1999	1998
Land and mineral deposits	\$ 79	\$ 63
Buildings and realty improvements	423	331
Machinery and equipment	1,439	1,118
	1,941	1,512
Reserves for depreciation and depletion	(373)	(298)
Total	1,568	1,214

8. LEASES

The Corporation leases certain of its offices, buildings, machinery and equipment, and autos under noncancelable operating leases. These leases have various terms and renewal options. Lease expense amounted to \$62 million, \$59 million and \$51 million in the years ended December 31, 1999, 1998 and 1997, respectively. Future minimum lease payments required under operating leases with initial or remaining noncancelable terms in excess of one year as of December 31, 1999, were \$45 million in 2000, \$37 million in 2001, \$31 million in 2002, \$19 million in 2003 and \$15 million in 2004. The aggregate obligation subsequent to 2004 was \$23 million.

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9. DEBT

Total debt, including debt maturing within one year, as of December 31 consisted of the following:

Millions.	1999	1998
European line of credit due 2000	\$ 14	\$ 10
9.25% senior notes due 2001	150	150
U.S. revolving credit facility due 2002	25	25
Canadian credit facility due 2002	44	69
Receivables facility due 2003 and 2004	80	80
9.5% senior notes due 2005	150	150
Industrial revenue bonds	124	84
6.75% sinking fund debentures	-	25
Other	6	3
Total	593	596

U.S. REVOLVING CREDIT FACILITY

USG maintains a \$500 million unsecured revolving credit facility, which includes a \$125 million letter of credit subfacility, with a syndicate of banks under a credit agreement. The revolving credit facility expires in 2002 with no required amortization prior to maturity.

As of December 31, 1999, outstanding revolving loans totaled \$25 million, and letters of credit issued and outstanding amounted to \$15 million, leaving the Corporation with \$460 million of available credit under the revolving credit facility.

The revolving loans bear interest at the London Interbank Offered Rate ("LIBOR") as determined from time to time plus an applicable spread based on the Corporation's net debt to EBITDA ratio (as defined in the credit agreement) for the preceding four quarters. As of December 31, 1999, the applicable spread was 0.4%. The average rate of interest on the revolving loans was 5.7% during 1999 and 6.0% during 1998. See "Note 11. Financial Instruments and Risk Management" for information on instruments used by the Corporation to manage the impact of interest rate changes on LIBOR-based bank debt.

The credit agreement contains restrictions on the operation of the Corporation's business, including covenants pertaining to liens, sale and leaseback transactions, and mergers with and acquisitions of businesses not related to the building industry.

CANADIAN CREDIT FACILITY

USG maintains through CGC Inc. a \$76 million (U.S.) (\$110 million Canadian), parent-guaranteed Canadian credit facility due 2002.

As of December 31, 1999, outstanding loans totaled \$44 million (U.S.), leaving \$32 million (U.S.) of available credit under this facility.

The method of calculating interest and the covenants related to this facility are virtually the same as those for the U.S. facility described above. The average rate of interest on the Canadian loans was 5.8% during 1999 and 6.0% during 1998.

EUROPEAN LINE OF CREDIT

USG maintains a parent-guaranteed, multicurrency (\$20 million U.S. equivalent) European line of credit. As of December 31, 1999, short-term borrowings outstanding under this line of credit amounted to \$14 million (U.S.). The average rate of interest on these borrowings was 3.3% during 1999 and 4.2% during 1998.

INDUSTRIAL REVENUE BONDS

Industrial revenue bonds reflected in the above table had interest rates ranging from 5.5% to 8.8%, with maturities through 2034.

USG uses industrial revenue bonds to finance certain capital projects. Proceeds from these bonds are deposited into construction escrow accounts. The bonds are recorded incrementally on USG's books as funds are drawn from the escrow accounts throughout the construction process. In 1999, USG issued \$140 million of industrial revenue bonds, of which \$10 million were drawn and recorded. Industrial revenue bonds issued in 1998 totaling \$54 million were also

drawn and recorded in 1999.

OTHER INFORMATION

The fair market value of total debt outstanding was \$582 million and \$619 million as of December 31, 1999 and 1998, respectively, based on indicative market prices as of those dates.

Aggregate scheduled maturities of debt during the five years subsequent to December 31, 1999, are \$16 million in 2000, \$150 million in 2001, \$69 million in 2002, \$40 million in 2003 and \$40 million in 2004.

10. FINANCING ARRANGEMENTS

ACCOUNTS RECEIVABLE FACILITY

The Corporation has an accounts receivable facility in which USG Funding Corporation, a special-purpose subsidiary of the Corporation formed under Delaware law, entered into agreements with U.S. Gypsum and USG Interiors, Inc. These agreements provide that USG Funding purchases trade receivables (excluding intercompany receivables owed by L&W Supply) of U.S. Gypsum and USG Interiors as generated, in a transaction

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designed to be a "true sale" under applicable law. USG Funding is a party to a Master Trust arrangement (the "Master Trust") under which the purchased receivables are then transferred to Chase Manhattan Bank as trustee to be held for the benefit of certificate holders in such trust. A residual interest in the Master Trust is owned by USG Funding through subordinated certificates. Under a supplement to the Master Trust, certificates representing an ownership interest in the Master Trust of up to \$130 million have been issued to Citicorp Securities, Inc. Debt issued under the receivables facility has a final maturity in 2004 but may be prepaid at any time. The underlying interest rate on this facility is based on the commercial paper index. However, the interest rate on such debt was fixed at 8.2% through December 31, 1999, through a long-term interest rate swap that expired on that date. Pursuant to the applicable reserve and eligibility requirements, the maximum amount of debt issuable under the receivables facility as of December 31, 1999 and 1998, (including \$80 million outstanding as of each date) was \$108 million and \$112 million, respectively.

Under the foregoing agreements and related documentation, USG Funding is a separate corporate entity with its own separate creditors that will be entitled to be satisfied out of USG Funding's assets prior to distribution of any value to its shareholder.

As of December 31, 1999 and 1998, the outstanding balance of receivables sold to USG Funding and held under the Master Trust was \$192 million and \$189 million, respectively, and debt outstanding under the receivables facility was \$80 million as of each date. Receivables and debt outstanding in connection with the receivables facility remain in receivables and long-term debt, respectively, on the consolidated balance sheet.

SHELF REGISTRATION

In 1996, the Securities and Exchange Commission declared effective a shelf registration statement that allows the Corporation to offer from time to time (i) debt securities (ii) shares of \$1.00 par value preferred stock (iii) shares of \$0.10 par value common stock and/or (iv) warrants to purchase shares of common stock, all having an aggregate initial offering price not to exceed \$300 million. As of the filing date of the Corporation's 1999 Annual Report on Form 10-K, no securities had been issued pursuant to this registration.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The amounts reported below as fair values represent the market value as obtained from broker quotations. Any negative fair values are estimates of the amounts

USG would need to pay to cancel the contracts or transfer them to other parties.

INTEREST RATE RISK MANAGEMENT

USG uses interest rate swap agreements to manage the impact of interest rate changes on the underlying floating-rate debt. USG's swap portfolio consists of pay fixed/receive floating swaps, which effectively convert floating-rate obligations into fixed-rate instruments. As of December 31, 1999 and 1998, USG had swap agreements in place to convert \$53 million and \$131 million, respectively, of notional principal from floating-rate to fixed-rate instruments. As of December 31, 1999, all swap agreements mature within two years. The fair values of these swap agreements as of December 31, 1999 and 1998, were zero and \$(8) million, respectively.

ENERGY RISK MANAGEMENT

USG uses swap agreements to hedge anticipated purchases of fuel to be utilized in its manufacturing processes. As of December 31, 1999 and 1998, USG had swap agreements to exchange monthly payments on notional amounts of energy amounting to \$53 million and \$57 million, respectively. These agreements mature within three years. The fair values of these swap agreements as of December 31, 1999 and 1998, were zero and \$(6) million, respectively.

FOREIGN EXCHANGE RISK MANAGEMENT

As of December 31, 1999 and 1998, USG had a number of foreign currency contracts in place (primarily Canadian dollars and euros) to hedge its exposure to exchange rate fluctuations on foreign currency transactions. These foreign exchange contracts mature on the anticipated cash requirement date of the hedged transaction, virtually all within 12 months. The notional amounts of foreign currency contracts as of December 31, 1999 and 1998, were \$41 million and \$60 million, respectively. The fair values of these contracts as of December 31, 1999 and 1998, were zero and \$(1) million, respectively.

COUNTERPARTY RISK

USG is exposed to credit losses in the event of nonperformance by the counterparties on its financial instruments. All counterparties have investment grade credit standing; accordingly, USG anticipates that these counterparties will be able to satisfy fully their obligations under the contracts. USG does not obtain collateral or other security to support financial instruments subject to credit risk but monitors the credit standing of all

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counterparties.

12. EMPLOYEE RETIREMENT PLANS

The Corporation and most of its subsidiaries have defined benefit pension plans for all eligible employees. Benefits of the plans are generally based on years of service and employees' compensation during the final years of employment. The Corporation also 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 retiree health care benefits is shared with retirees.

The components of net pension and postretirement benefit costs are summarized in the following tables:

(millions)	Pension Benefits		
	1999	1998	1997
Service cost of benefits earned	\$ 19	\$ 14	\$ 12
Interest cost on projected benefit obligation	43	39	36
Expected return on plan assets	(49)	(44)	(39)
Net amortization	2	1	-
Net pension cost	15	10	9

(millions)	Postretirement Benefits		
	1999	1998	1997
Service cost of benefits earned	7	6	6
Interest cost on projected benefit obligation	15	14	15
Net amortization	-	(1)	-
Net postretirement cost	22	19	21

The following tables summarize pension and postretirement benefit obligations, plan assets and funded status as of December 31:

(millions)	Pension		Postretirement	
	1999	1998	1999	1998

Change in Benefit Obligation:				
Benefit obligation				
as of January 1	\$ 633	\$ 528	\$ 214	\$ 219
Service cost	19	14	7	6
Interest cost	43	39	15	14
Employee contributions	9	9	2	2
Benefits paid	(49)	(47)	(12)	(13)
Plan amendment	2	3	(7)	-
Actuarial (gain) loss	(28)	90	(24)	(14)
Foreign currency rate change	3	(3)	-	-

Benefit obligation				
as of December 31	632	633	195	214
=====				
Change in Plan Assets:				
Fair value as of January 1	597	554	-	-
Actual return on plan assets	97	79	-	-
Employer contributions	9	7	-	-
Employee contributions	9	9	-	-
Benefits paid	(49)	(47)	-	-
Foreign currency rate change	4	(5)	-	-

Fair value as of December 31	667	597	-	-
=====				
Funded Status:				
As of December 31	35	(36)	(195)	(214)
Unrecognized prior service cost	7	4	(6)	1
Unrecognized net (gain) loss	(65)	14	(48)	(23)

Net balance sheet liability	(23)	(18)	(249)	(236)
=====				
Assumptions as of December 31:				
Discount rate	7.75%	6.75%	7.75%	6.75%
Pension plans expected return	9%	9%	-	-
Compensation increase rate	5%	5%	5%	5%

The assumed health-care-cost trend rate used in measuring the accumulated postretirement benefit obligation was 6% as of December 31, 1999, and 7% as of December 31, 1998, with a rate gradually declining to 5% by 2000 and remaining at that level thereafter. A one-percentage-point change in the assumed health-care-cost trend rate would have the following effects:

(millions)	One Percentage Point Increase	One Percentage Point Decrease
Effect on total service and interest cost components	\$ 4	\$ (3)
Effect on postretirement benefit obligation	34	(27)

13. STOCK-BASED COMPENSATION

The Corporation has issued stock options from three successive plans under its

long-term equity program. Under each of the plans, options were granted at an exercise price equal to the market value on the date of grant. All options granted under the plans have 10-year terms and vesting schedules of two or three years. The options expire on the 10th 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.

The Corporation accounts for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 and discloses such compensation under the provisions of SFAS 123, "Accounting for Stock-Based Compensation."

The fair value of each option grant was estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for options granted:

	1999	1998	1997
Expected life (years)	7.4	7.4	7.4
Risk-free interest rate	6.5%	5.7%	6.8%
Expected volatility	31.4%	30.7%	29.6%
Dividend yield	.88%	-	-

The weighted average fair value of options granted on January 2, 1999, was \$22.05. The weighted average fair values of options granted on January 2 and January 19, 1998, were \$22.32 and \$24.53, respectively. The weighted average fair value of options granted during 1997 was \$15.61.

If the Corporation had elected to recognize compensation cost for stock-based compensation grants consistent with the method prescribed by SFAS No. 123, net earnings and net earnings per common share would have changed to the following pro forma amounts:

(millions, except per share data)	1999	1998	1997
Net Earnings: As reported	\$421	\$332	\$148
Pro forma	416	328	144
Basic EPS: As reported	8.48	6.81	3.19
Pro forma	8.38	6.73	3.12
Diluted EPS: As reported	8.39	6.61	3.03
Pro forma	8.29	6.54	2.96

Stock option activity was as follows:

(options in thousands)	1999	1998	1997
Options:			
Outstanding, January 1	2,034	2,049	2,565
Granted	316	413	378
Exercised	(553)	(388)	(882)
Canceled	(7)	(40)	(12)
Outstanding, December 31	1,790	2,034	2,049
Exercisable, December 31	1,087	1,292	1,339
Available for grant, December 31	566	1,122	1,671
Weighted Average Exercise Price:			
Outstanding, January 1	\$30.43	\$25.54	\$21.71
Granted	30.87	48.44	34.60
Exercised	22.29	22.72	18.20
Canceled	48.99	40.53	32.00
Outstanding, December 31	36.49	30.43	25.54
Exercisable, December 31	28.05	23.80	22.06

The following table summarizes information about stock options outstanding as of December 31, 1999:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options (000)	Weighted Average Remaining Contractual Life (yrs.)	Weighted Average Exercise Price	Options (000)	Weighted Average Exercise Price
\$ 5 - 15	157	3.4	\$10	157	\$10
15 - 25	121	4.6	22	121	22
25 - 35	809	5.7	32	809	32
35 - 55	703	8.5	50	-	-
Total	1,790	6.5	36	1,087	28

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14. INCOME TAXES

Earnings before income taxes consisted of the following:

(millions)	1999	1998	1997
U.S.	\$633	\$487	\$301
Foreign	51	47	19
Total	684	534	320

Income taxes consisted of the following:

(millions)	1999	1998	1997
Current:			
Federal	\$246	\$165	\$147
Foreign	10	12	10
State	47	29	26
	303	206	183
Deferred:			
Federal	(38)	(3)	(12)
Foreign	5	(1)	2
State	(7)	-	(1)
	(40)	(4)	(11)
Total	263	202	172

Differences between actual provisions for income taxes and provisions for income taxes at the U.S. federal statutory rate (35%) were as follows:

(millions)	1999	1998	1997
Taxes on income at federal statutory rate	\$240	\$187	\$112
Excess reorganization value amortization	-	-	44
Foreign sales corporation	(1)	(1)	-
Foreign earnings subject to different tax rates	-	(1)	2
State income tax, net of federal benefit	26	19	16
Percentage depletion	(4)	(3)	(3)
Other, net	2	1	1
Provision for income taxes	263	202	172
Effective income tax rate	38.4%	37.8%	53.9%

Significant components of deferred tax (assets) liabilities as of December 31 were as follows:

(millions)	1999	1998
Property, plant and equipment	\$189	\$173
Other	-	1
Deferred tax liabilities	189	174
Pension and postretirement benefits	(93)	(87)
Reserves not deductible until paid	(178)	(137)
Other	(7)	-
Deferred tax assets	(278)	(224)
Net deferred tax assets	(89)	(50)

A valuation allowance of \$90 million, which had been provided for deferred tax assets relating to pension and postretirement benefits prior to the Corporation's financial restructuring in 1993, was eliminated in the third quarter of 1997. The elimination of this allowance reflected a change in management's judgment regarding the realizability of these assets in future years as a result of the Corporation's pretax earnings levels and improved capital structure over the prior three years. In accordance with SOP 90-7, the benefit realized from the elimination of this allowance was used to reduce the balance of excess reorganization value to zero in the third quarter of 1997.

The Corporation does not provide for U.S. income taxes on the portion of undistributed earnings of foreign subsidiaries that are intended to be permanently reinvested. The cumulative amount of such undistributed earnings totaled approximately \$196 million as of December 31, 1999. These earnings would become taxable in the United States upon the sale or liquidation of these foreign subsidiaries or upon the remittance of dividends. It is not practicable to estimate the amount of the deferred tax liability on such earnings.

OPERATING SEGMENTS

(millions)	1999	1998	1997
US:	(C)	(C)	(C)
Net Sales:			
North American Gypsum	\$2,181	\$1,826	\$1,668
Worldwide Ceilings	848	657	634
Building Products Distribution	1,345	1,103	951
Eliminations	(574)	(456)	(409)
Total	3,600	3,130	2,874

Amortization of Excess
Reorganization Value:

North American Gypsum	-	-	60
Worldwide Ceilings	-	-	65
Building Products Distribution	-	-	2
Total	-	-	127

Operating Profit (Loss):

North American Gypsum	651	534	402
Worldwide Ceilings	63	65	(1)
Building Products Distribution	87	40	29
Corporate	(64)	(54)	(49)
Eliminations	(7)	-	(2)
Total	730	585	379

Depreciation, Depletion
and Amortization:

North American Gypsum	57	50	44
Worldwide Ceilings	49	18	17
Building Products Distribution	6	5	4
Corporate	9	8	5
Total	91	81	70

Capital Expenditures:

North American Gypsum	397	260	121
Worldwide Ceilings	20	39	45
Building Products Distribution	8	9	5
Corporate	1	1	1
Total	426	309	172

Assets:

North American Gypsum	1,721	1,350	1,085
Worldwide Ceilings	425	434	398
Building Products Distribution	309	258	213
Corporate	410	383	289
Eliminations	(92)	(68)	(59)
Total	2,773	2,357	1,926

GEOGRAPHIC SEGMENTS

(millions)	1999	1998	1997
Net Sales:			
United States	\$3,262	\$2,829	\$2,511
Canada	240	206	184
Other Foreign	246	256	251
Geographic transfers	(148)	(161)	(131)
Total	3,600	3,130	2,874

Long-Lived Assets:

United States	1,473	1,094	869
Canada	198	155	156
Other Foreign	102	83	71
Total	1,773	1,332	1,096

Effective with this annual report, USG's operations are organized into three

operating segments - North American Gypsum, Worldwide Ceilings and Building Products Distribution. Previously, L&W Supply Corporation was a component of North American Gypsum. Because of the growth of L&W Supply, it is now presented as a separate operating segment.

Transactions between operating and geographic segments are accounted for at transfer prices that are approximately equal to market value. Intercompany transfers between operating segments (shown above as Eliminations) largely reflect intercompany sales from U.S. Gypsum to L&W Supply. No single customer accounted for 10% or more of consolidated net sales. Revenues are attributed to geographic areas based on the location of the assets producing the revenues. Export sales to foreign unaffiliated customers represent less than 10% of consolidated net sales. Segment operating profit (loss) includes all costs and expenses directly related to the segment involved and an allocation of expenses that benefit more than one segment. Segment operating profit (loss) for 1997 also includes the noncash amortization of excess reorganization value, which had the impact of reducing operating profit for North American Gypsum, Worldwide Ceilings and Building Products Distribution.

Corporate assets include the assets of USG Funding, which represent the outstanding balances of receivables purchased from U.S. Gypsum and USG Interiors, net of reserves. As of December 31, 1999, 1998 and 1997, such receivables, net of reserves, amounted to \$125 million, \$141 million and \$128 million, respectively, including \$97 million, \$106 million and \$95 million purchased from U.S. Gypsum and \$28 million, \$35 million and \$33 million purchased from USG Interiors as of the respective dates.

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16. LITIGATION

ASBESTOS AND RELATED INSURANCE LITIGATION

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

Property Damage Cases: U.S. Gypsum is a defendant in 11 Property Damage Cases, most of which involve multiple buildings. One of the cases is a conditionally certified class action 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.). The Company anticipates that few additional Property Damage Cases will be filed, as a result of the operation of statutes of limitations and the impact of certain other factors, although if the class action referred to above is decertified, as sought by the Company, it is likely that some colleges and universities will file individual Property Damage Cases against U.S. Gypsum. It is possible that any cases that are filed will seek substantial damages.

In total, U.S. Gypsum has settled approximately 115 Property Damage Cases involving 245 plaintiffs, in addition to four class action settlements. Twenty-four cases have been tried to verdict, 16 of which were won by U.S. Gypsum and five lost; three other cases, one won at the trial level and two lost, were settled during appeals. In the cases lost, compensatory damage awards against U.S. Gypsum totaled \$11.5 million. Punitive damages totaling \$5.5 million were entered against U.S. Gypsum in four trials. Two of the punitive damage awards, totaling \$1.45 million, were paid, and two were settled during

the appellate process.

In 1999, no new Property Damage Cases were filed against U.S. Gypsum, one case was settled, and 11 were pending at year end. U.S. Gypsum expended \$5 million for the defense and resolution of Property Damage Cases and received insurance payments of \$24 million. In 1998, two Property Damage Cases were filed against U.S. Gypsum, two cases were dismissed before trial, four were settled, and 12 were pending at year end. U.S. Gypsum expended \$29.5 million for the defense and resolution of Property Damage Cases (most of which consisted of payments for settlements agreed to in the prior year) and received insurance payments of \$22.0 million in 1998. In 1997, one Property Damage Case was filed against U.S. Gypsum, three cases were dismissed before trial, six were settled, one closed case was reopened, and 16 were pending at year end. U.S. Gypsum expended \$7.6 million for the defense and resolution of Property Damage Cases and received insurance payments of \$15.5 million in 1997. A substantial portion of the insurance payments received during the years 1997-1999 constituted reimbursement for amounts expended in connection with Property Damage Cases in prior years.

U.S. Gypsum's estimated cost of resolving pending Property Damage Cases is discussed below (see "Estimated Cost").

Personal Injury Cases: U.S. Gypsum is also a defendant in approximately 93,000 Personal Injury Cases pending at December 31, 1999, as well as an additional approximately 59,000 cases that have been settled but will be closed over time. Filings of new Personal Injury Cases totaled approximately 48,000 claims in 1999, compared to 80,000 claims in 1998, and 23,500 claims in 1997. The Company believes that the higher rate of personal injury case filings in 1998 resulted, at least in part, from a Supreme Court ruling striking down a class action settlement that included an injunction against the filing of certain Personal Injury Cases from September 1994 until July 1997. It is anticipated that Personal Injury Cases will continue to be filed in substantial numbers for the foreseeable future, although the percentage of such cases filed by claimants with little or no physical impairment is expected to remain high.

U.S. Gypsum's average settlement cost for Personal Injury Cases over the past several years has been approximately \$1,800 per claim, exclusive of defense costs. In 1999, U.S. Gypsum (through the Center for Claims Resolution, discussed below) agreed to settlements of approximately 76,000 Personal Injury Cases, including 39,000 cases that will be closed in future years at an average cost of approximately \$1,250 per case, and 37,000 claims closed during 1999 for an average settlement of approximately \$2,500 per case. The higher cost of settlements of those cases actually closed in 1999 was due

primarily to more costly settlements in particular jurisdictions, and an increase in the number of such claims that came from individuals alleging serious illness, due in part to the courts' accelerated treatment of such claims. Management anticipates that the average settlement cost for most pending claims will continue to be moderated by opportunities for block settlements of large numbers of claims and the apparently high percentage of claims that appear to have been brought by individuals with little or no physical impairment. However, other factors, including the litigation strategies of certain co-defendants and an increasingly adverse litigation environment in particular jurisdictions, are expected to have an adverse impact on settlement costs for some pending and future cases and, therefore, on U.S. Gypsum's overall settlement costs.

U.S. Gypsum is a member, together with 14 other former producers of asbestos-containing products, of the Center for Claims Resolution (the "Center"), which has assumed the handling of all Personal Injury Cases pending against U.S. Gypsum and the other members of the Center. Costs of defense and settlement are shared among the members of the Center pursuant to predetermined

sharing formulae. Most of U.S. Gypsum's personal injury liability and defense costs have been paid by its insurance carriers. Punitive damages have never been awarded against U.S. Gypsum in a Personal Injury Case; whether such an award would be covered by insurance would depend on state law and the terms of the individual policies.

During 1999, three companies left the Center and the membership of another company was terminated by the Center's Board. U.S. Gypsum and other Center members have stated their intention to pursue alternatives to the current tort system, including settlements with plaintiffs' firms that include agreements to resolve over time the firms' pending claims, as well as the firms' agreement to recommend to their future clients that they defer filing, or accept nominal payments on, personal injury claims that do not meet established disease criteria. The Center reached several such agreements in 1999 and will continue to attempt to negotiate similar agreements in the future. The impact of such agreements, and of the changes in the Center's membership, cannot be determined at this time.

During 1999, approximately 48,000 Personal Injury Cases were filed against U.S. Gypsum, and approximately 37,000 were settled or dismissed. U.S. Gypsum incurred expenses of \$100 million in 1999 with respect to the settlement and defense of Personal Injury Cases, of which approximately \$85 million was paid by insurance. During 1998, approximately 80,000 Personal Injury Cases were filed against U.S. Gypsum, and 21,000 were settled or dismissed. U.S. Gypsum incurred expenses of \$61.1 million in 1998 with respect to the resolution and defense of Personal Injury Cases, of which \$45.5 million was paid by insurance. During 1997, approximately 23,500 Personal Injury Cases were filed against U.S. Gypsum, approximately 5,000 claims were refiled or amended to add U.S. Gypsum as a defendant, and approximately 14,000 were settled or dismissed. U.S. Gypsum incurred expenses of \$31.6 million in 1997 with respect to Personal Injury Cases, of which \$27.2 million was paid by insurance.

U.S. Gypsum's estimated cost of resolving the pending Personal Injury Cases is discussed below (see "Estimated Cost").

Insurance Coverage Action: U.S. Gypsum sued its insurance carriers in 1983 to obtain coverage for asbestos cases (the "Coverage Action") and has settled all disputes with its solvent carriers. As of December 31, 1999, after deducting insolvent coverage and insurance paid out to date, and taking into account recent settlements, approximately \$142 million of insurance remained with 8 carriers, all of which have agreed, subject to certain limitations and conditions, to cover asbestos-related costs.

Insurance payments to U.S. Gypsum for all asbestos-related matters, including property damage, personal injury, insurance coverage litigation and related expenses, exceeded asbestos-related expenses by \$6 million for 1999 and \$0.7 million in 1997 due primarily to nonrecurring reimbursement for amounts expended in prior years. However, U.S. Gypsum's total asbestos-related expenditures exceeded aggregate insurance payments by \$24 million in 1998.

Insolvent Carriers: Four of U.S. Gypsum's domestic insurance carriers, as well as underwriters of portions of various policies issued by Lloyds and other London market companies, providing a total of approximately \$106 million of coverage, are insolvent. Because these policies would already have been consumed by U.S. Gypsum's asbestos expenses to date if the carriers had been solvent, the insolvencies will not adversely affect U.S. Gypsum's coverage for future asbestos-related costs. However, U.S. Gypsum is pursuing claims for reimbursement from the insolvent estates and other sources and expects to recover a presently indeterminable portion of the policy amounts from these sources.

Estimated Cost: The asbestos litigation involves numerous uncertainties that affect U.S. Gypsum's ability to estimate reliably its probable liability in the Personal Injury and Property Damage Cases. In the Property Damage Cases,

such uncertainties include the identification and volume of asbestos-containing products in the buildings at issue in each case, which is often disputed; the claimed damages associated therewith; the viability of statute of limitations, product identification and other defenses, which varies depending upon the facts and jurisdiction of each case; the amount for which such cases can be resolved, which normally (but not uniformly) has been substantially lower than the claimed damages; and the viability of claims for punitive and other forms of multiple damages. Uncertainties in the Personal Injury Cases include the number, characteristics and venue of Personal Injury Cases that are filed against U.S. Gypsum; the Center's ability to continue to resolve claims at historical or acceptable levels; the level of physical impairment of claimants; the viability of claims for punitive damages; the effect of recent changes in membership in the Center and any future changes in Center membership; and the ability to negotiate settlements or develop other mechanisms that defer or reduce claims from unimpaired claimants. As a result, any estimate of U.S. Gypsum's liability, while based upon the best information currently available, may not be an accurate prediction of actual costs and is subject to revision as additional information becomes available and developments occur.

Subject to the above uncertainties, and based in part on information provided by the Center, U.S. Gypsum estimates that it is probable that Property Damage and Personal Injury Cases pending at December 31, 1999, can be resolved for an amount totaling between \$342 million and \$485 million, including defense costs. Most of these amounts are expected to be expended over the next three to five years, although settlements of some Personal Injury Cases will be consummated over periods as long as seven years. Significant insurance funding is available for these costs, as detailed below, although resolution of the pending cases will consume U.S. Gypsum's remaining insurance. At this time, U.S. Gypsum does not believe that the number and severity of asbestos-related cases that ultimately will be filed in the future can be predicted with sufficient accuracy to provide the basis for a reasonable estimate of the liability that will be associated with such cases, although, as noted below, the Company is actively engaged in examining the feasibility of such an estimate with the objective of providing such information when possible.

Accounting for Asbestos Liability: As of December 31, 1999, U.S. Gypsum had reserved \$342 million for liability from pending Property Damage and Personal Injury Cases (equaling the lower end of the estimated range of costs provided above). U.S. Gypsum had a corresponding receivable from insurance carriers of approximately \$142 million, the estimated portion of the reserved amount that is expected to be paid or reimbursed by insurance. As of December 31, 1999, U.S. Gypsum had an additional \$32 million reserved for asbestos liabilities and asbestos-related expenses.

U.S. Gypsum compares its estimates of liability to then-existing reserves and available insurance assets and from time to time adjusts its reserves as appropriate. The Company historically has accrued \$18 million annually (\$4.5 million per quarter) for asbestos costs. In view of the increased level of personal injury filings beginning in 1998, U.S. Gypsum accrued an additional \$8 million (or a total of \$12.5 million) in both the fourth quarter of 1998 and the first quarter of 1999. U.S. Gypsum charged results of operations a total of \$30 million in the second quarter of 1999, \$20 million in the third quarter, and \$18 million in the fourth quarter, based largely on new filings in those quarters. Although new Personal Injury Cases were filed in 1999 at a rate significantly below the rate at which cases were filed in 1998, asbestos charges to results of operations have been higher in 1999 because the estimated cost of resolving cases pending during 1998 will, when expended, consume all of U.S. Gypsum's remaining insurance; as a result, the estimated liability from new case filings is currently being charged against reported earnings. Accordingly, the Company expects that additional periodic charges will be necessary in the future, in amounts that could be higher or lower than recent quarters, and which could be material to the period in which they are taken. The amount of future periodic charges will depend upon factors that include, but may not be limited to, the rate at which new asbestos-related claims are filed, the potential imposition of

medical criteria, the impact of changes in membership of the Center, changes in U.S. Gypsum's settlement cost and the estimated cost of resolving pending claims, and the necessity of higher-cost settlements in particular jurisdictions.

In addition, U.S. Gypsum will continue to evaluate whether its probable liability for future Personal Injury Cases can be reasonably estimated. The ability to make such an estimate will require an assessment of the impact on future case filings and settlement values of the uncertainties identified above, including the outcome of negotiations currently underway between the Center and certain plaintiffs' firms concerning settlements that would, among other things, apply medical criteria to the firm's future Personal Injury Cases. When such an estimate can be made, it is probable that an additional charge to results of operations will be necessary. Although the timing and

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amount of the resulting charge cannot presently be determined, the amount is expected to be material to results of operations in the period in which it is taken.

Conclusion: The above estimates and reserves are re-evaluated periodically as additional information becomes available. Additional charges to results of operations are expected to be necessary in light of future events, and such charges could be material to results of operations in the period in which they are taken. However, it is management's opinion, taking into account all of the above information and uncertainties, including currently available information concerning U.S. Gypsum's liabilities, reserves and probable insurance coverage, that the asbestos litigation will not have a material adverse effect on the liquidity or 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 most 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 continuously reviews its accruals as additional information becomes available. Such reserves take into account all known or estimated costs associated with these sites, including site investigations and feasibility costs, site cleanup and remediation, legal costs, and fines and penalties, if any. In addition, environmental costs connected with site cleanups on USG-owned property also are 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 results of operations or financial position.

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REPORT OF MANAGEMENT

Management of USG Corporation is responsible for the preparation, integrity and fair presentation of the financial information included in this report. The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include certain amounts that are based on management's estimates and judgment.

Management is responsible for maintaining a system of internal accounting

controls to provide reasonable assurance as to the integrity and reliability of the financial statements, the proper safeguarding and use of assets, and the accurate execution and recording of transactions. Such controls are based on established policies and procedures and are implemented by trained personnel. The system of internal accounting controls is monitored by the Corporation's internal auditors to confirm that the system is proper and operating effectively. 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 Corporation's financial statements have been audited by Arthur Andersen LLP, independent public accountants. Their audit was conducted in accordance with generally accepted auditing standards and included consideration of the Corporation's internal control system. Management has made available to Arthur Andersen LLP all the Corporation's financial records and related data, as well as minutes of the meetings of the Board of Directors. Management believes that all representations made to Arthur Andersen LLP were valid and appropriate.

The Board of Directors, operating through its Audit Committee composed entirely of nonemployee directors, provides oversight to the financial reporting process. The Audit Committee meets periodically with management, the internal auditors and Arthur Andersen LLP, jointly and separately, to review financial reporting matters, internal accounting controls and audit results to assure that all parties are properly fulfilling their responsibilities. Both Arthur Andersen LLP and the internal auditors have unrestricted access to the Audit Committee.

William C. Foote
Chairman, Chief Executive Officer and President

Richard H. Fleming
Executive Vice President and Chief Financial Officer

Raymond T. Belz
Senior Vice President and Controller

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of USG Corporation:

We have audited the accompanying consolidated balance sheets of USG Corporation (a Delaware corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of earnings, cash flows, stockholders' equity and comprehensive income for the years ended December 31, 1999, 1998 and 1997. These consolidated 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USG Corporation and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for the years ended December 31, 1999, 1998 and 1997, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP
Chicago, Illinois

January 27, 2000

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
1999					
Net sales	\$ 823	\$ 895	\$ 952	\$ 930	\$ 3,600
Gross profit	231	265	283	289	1,068
Operating profit	154	183	198	195	730
Net earnings	86	104	116	115	421
Per Common Share:					
Net earnings (a) - basic	1.73	2.09	2.34	2.34	8.48
- diluted	1.71	2.07	2.32	2.32	8.39
Price range (b) - high	58.375	64.500	60.750	52.375	64.500
- low	44.750	51.438	46.438	41.125	41.125
Cash dividends paid	0.10	0.10	0.10	0.15	0.45
1998					
Net sales	\$ 735	\$ 775	\$ 814	\$ 806	\$ 3,130
Gross profit	196	221	233	234	884
Operating profit	124	147	158	156	585
Net earnings	67	82	91	92	332
Per Common Share:					
Net earnings (a) - basic	1.42	1.68	1.83	1.85	6.81
- diluted	1.35	1.63	1.80	1.83	6.61
Price range (b) - high	56.750	58.000	58.750	51.625	58.750
- low	47.000	49.500	41.375	35.500	35.500
Cash dividends paid	-	-	-	0.10	0.10

(a) Basic earnings per share is calculated using average shares outstanding during the period. Diluted earnings per share is calculated using average shares and common stock equivalents outstanding during the period. Consequently, the sum of the four quarters is not necessarily the same as the total for the year.

(b) Stock price ranges are for transactions on the New York Stock Exchange (trading symbol USG), which is the principal market for these securities. Stockholders of record as of January 31, 2000: Common - 4,463; Preferred - none.

FIVE-YEAR SUMMARY (UNAUDITED)

(dollars in millions, except per share data)		Years Ended December 31,				
		1999	1998	1997	1996	1995
EARNINGS STATEMENT DATA:						
Net sales	\$	3,600	\$ 3,130	\$ 2,874	\$ 2,590	\$ 2,444
Gross profit		1,068	884	787	645	603
Selling and administrative expenses		338	299	281	268	244
Amortization of excess reorganization value		-	-	127	169	169
Operating profit		730	585	379	208	190
Interest expense		53	53	60	75	99
Interest income		(10)	(5)	(3)	(2)	(6)
Other expense, net		3	3	2	3	32
Income taxes		263	202	172	117	97
Net earnings (loss)		421	332	148	15	(32)
Net Earnings (Loss) Per Common Share:						
Basic		8.48	6.81	3.19	0.32	(0.71)
Diluted		8.39	6.61	3.03	0.31	(0.71)
BALANCE SHEET DATA (as of the end of the period):						
Working capital		382	368	264	159	167
Current ratio		1.78	1.86	1.70	1.41	1.46
Property, plant and equipment, net		1,568	1,214	982	887	842
Total assets		2,773	2,357	1,926	1,864	1,927
Total debt (a)		593	596	620	772	926
Total stockholders' equity (deficit)		867	518	147	(23)	(37)
OTHER INFORMATION:						
Capital expenditures		426	309	172	120	147
Gross margin %		29.7	28.2	27.4	24.9	24.7
Stock price (per common share) (b)		47.13	50.94	49.00	33.88	30.00
Cash dividends paid (per common share)		0.45	0.10	-	-	-
Average number of employees		14,300	13,700	13,000	12,500	12,400

- (a) 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 consolidated balance sheets as of December 31, 1996 and 1995, were \$755 million and \$907 million, respectively.
- (b) Stock price per common share reflects the closing price on December 31.

EXHIBIT 21

SUBSIDIARIES

The companies listed below are the primary subsidiaries of the Corporation.
The financial data for these subsidiaries, as well as for other subsidiaries

which are not considered to be significant and are therefore excluded from this exhibit, comprised the Corporation's consolidated financial statements.

NAME OF COMPANY	ORGANIZED UNDER LAWS OF
Domestic:	
United States Gypsum Company(a).....	Delaware
USG Interiors, Inc. (a).....	Delaware
L&W Supply Corporation (a)(b).....	Delaware
USG International, Ltd.....	Delaware
USG Foreign Investments, Ltd. (a).....	Delaware
USG Interiors International, Inc.....	Ohio
USG Funding Corporation.....	Delaware
La Mirada Products Co., Inc.....	Ohio
USG Foreign Sales Corporation.....	Virgin Islands
Gypsum Engineering Company.....	Delaware
Alabaster Assurance Company, Ltd.....	Vermont
H & B Gypsum, Inc.....	Oklahoma
USG Latin America.....	Delaware
Sybex, Inc.....	Delaware
Beadex Investments Company, Inc.....	Delaware
Beadex Manufacturing Company, Inc.....	Delaware
Beadex Foreign Sales Corporation, Inc.	Guam
International:	
CGC Inc. (a).....	Canada
USG Canadian Mining Ltd.....	Ontario
Gypsum Transportation Limited.....	Bermuda
Yeso Panamericano, S.A. de C.V.....	Mexico
Grupo Yeso de Mexico, S.A. de C.V.....	Mexico
Exploracion de Yeso, S.A. de C.V.....	Mexico
USG Manufacturing Worldwide, Ltd.....	Caymans
USG Interiors (Donn) S.A.....	Belgium
Donn Products GmbH.....	Germany
USG Interiors Eastern Manufacturing Baulemente GmbH.....	Germany
USG Interiors East Innenausbau-vertriebsgesellschaft mbH.....	Germany
USG (U.K.) Ltd.....	United Kingdom
USG France S.A.....	France
USG (Netherlands) B.V.....	Netherlands
USG Interiors (Europe) S.A.....	Belgium
USG Interiors Coordination Centre S.A.....	Belgium
USG Europe, S.A.....	Belgium
USG Belgium Holdings S.A.....	Belgium
USG Asia Pacific Holdings Pty. Ltd.....	Singapore
USG Interiors Pacific Ltd.....	New Zealand
USG Interiors Australia Pty. Ltd.....	Australia
USG Interiors (Far East) SDN BHD.....	Malaysia
Shenzhen USG Zhongbei Building Materials Co. (60% ownership).....	China
Alabaster Engineering (Nederland) B.V.....	Netherlands
Red Top Technology (Nederland) B.V.....	Netherlands
The Synkoloid Company of Canada.....	British Columbia
Synko Leasing Company, Ltd.	British Columbia
Synkoloid ULC.....	Nova Scotia

(a) Accounts for material revenues.

(b) As of December 31, 1999, L&W Supply conducted its business out of 193 locations in 37 states using various names registered under applicable

assumed business name statutes.

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated January 27, 2000, included in this Form 10-K for the year ended December 31, 1999, into the Corporation's previously filed Registration Statements Nos. 33-60563 and 33-64217 on Form S-3 and 33-22581, as amended, 33-36303, 33-52715, 33-63554, 33-65383, 333-34147, 333-29137 and 33-11496 on Form S-8. It should be noted that we have not audited any financial statements of the company subsequent to December 31, 1999 or performed any audit procedures subsequent to the date of our report.

/s/Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Chicago, Illinois
February 29, 2000

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose name appears below constitutes and appoints Richard H. Fleming, Raymond T. Beiz, and Dean H. Goossen and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for and in his or her name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the year ending December 31, 1999, of USG Corporation and any or all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitutes, may lawfully do or cause to be done by virtue hereof.

This power of attorney has been signed as of the 9th day of February, 2000, by the following persons:

/s/ William C. Foote

/s/ W.H. Clark

William C. Foote,
Director, President, Chairman of
the Board and Chief Executive Officer

/s/ P.J. O'Bryan

P.J. O'Bryan,
Director and Vice Chairman

/s/ Robert L. Barnett

Robert L. Barnett,
Director

/s/ Keith A. Brown

Keith A. Brown,
Director

/s/ David W. Fox

David W. Fox,
Director

/s/ Valerie B. Jarrett.

Valerie B. Jarrett,
Director

/s/ Marvin E. Lesser

Marvin E. Lesser
Director

W. H. Clark,
Director

/s/ James C. Cotting

James C. Cotting,
Director

/s/ Lawrence M. Crutcher

Lawrence M. Crutcher,
Director

/s/ W. Douglas Ford

W. Douglas Ford,
Director

/s/ John B. Schwemm

John B. Schwemm,
Director

/s/ Judith A. Sprieser

Judith A. Sprieser,
Director

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