USG CORP
Form 11-K
March 28, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

ANNUAL REPORT

PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark one)

X ---- Annual Report pursuant to 15(d) of the Securities Exchange Act of 1934 (Fee required)

For the fiscal year ended December 31, 2002.

OR

---- Transition report pursuant to Section 15(d) of the Securities Exchange Act of 1934 (No fee required)

For the transition period from ---------------- to -------------

Commission file number 1-8864.

A. Full title of the Plan:

USG CORPORATION INVESTMENT PLAN (Formerly USG CORPORATION INVESTMENT PLAN FOR SALARIED EMPLOYEES)

B. Name of the issuer of the securities held pursuant to the plan and the address of its principal executive office:

USG CORPORATION, 125 SOUTH FRANKLIN STREET, CHICAGO, ILLINOIS 60606

REQUIRED INFORMATION

Financial Statements:

Plan financial statements and schedules prepared in accordance with the financial reporting requirements of ERISA attached hereto, including a Consent of Independent Public Auditors with respect to Form S-8 for 2002.

Pursuant to the requirements of the Securities and Exchange Act of 1934, the members of the Pension and Investment Committee administering the Plan have duly caused this annual report to be signed by the undersigned thereunto duly authorized.

USG CORPORATION INVESTMENT PLAN

By: /s/ Peter K. Maitland

Peter K. Maitland
Vice President, Compensation,
Benefits and Administration

Date: March 27, 2003

USG CORPORATION
INVESTMENT PLAN

REPORT ON AUDITED
FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES

YEARS ENDED DECEMBER 31, 2002 AND 2001

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MEMBER OF THE
ILLINOIS CPA
SOCIETY

MEMBER OF THE
AMERICAN INSTITUTE
OF CERTIFIED
PUBLIC ACCOUNTANTS

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116 South Michigan Avenue - 11th Floor
Chicago, Illinois 60603
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INDEPENDENT AUDITORS' REPORT

PENSION AND INVESTMENT COMMITTEE
USG CORPORATION

We have audited the accompanying statements of net assets available for benefits of the USG Corporation Investment Plan as of December 31, 2002 and 2001, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2002 and 2001, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of investments held at year end as of December 31, 2002, and reportable transactions for the year ended December 31, 2002, are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

March 14, 2003

USG CORPORATION INVESTMENT PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2002 AND 2001

	2002	2001
ASSETS:		
Investments, at market	$336,413,983	$337,667,612
Receivables:		
Employee loans Receivable	25,110,551	22,416,796
Employer contributions Receivable	20,755,665	---
Interest and Dividends receivable	71,643	66,182
Total Receivables	45,937,859	22,482,978
Total Assets	382,351,842	360,150,590
LIABILITIES:		
Accrued administrative Fees	177,595	186,813
Total Liabilities	177,595	186,813
NET ASSETS AVAILABLE FOR BENEFITS	$382,174,247	$359,963,777

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

USG CORPORATION INVESTMENT PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001

NET ASSETS AVAILABLE FOR BENEFITS, beginning of year	$ 359,963,777	$ 394,376,344
ADD (DEDUCT):		
Corporation contributions	32,239,836	8,478,636
Employee contributions	31,793,149	30,681,531
	64,032,985	39,160,167
Income from investments:		
Dividend income	1,723,247	1,625,064
Interest income	11,553,884	12,142,488
Realized gain (loss) on sale of investments	(9,911,879)	(7,970,701)
Unrealized depreciation for the year	(21,497,946)	(30,047,663)
	(18,132,694)	(24,250,812)
Benefit payments and participant withdrawals	(22,503,535)	(48,470,451)
Net transactions due to loans	(11,911)	133,086
Administrative expenses	(1,174,375)	(984,557)
Net increase (decrease) in assets during the year	22,210,470	(34,412,567)
NET ASSETS AVAILABLE FOR BENEFITS, end of year	$ 382,174,247	$ 359,963,777

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

USG CORPORATION
INVESTMENT PLAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

1. DESCRIPTION OF THE PLAN

The USG Corporation Investment Plan, also known as the USG Corporation Investment Plan for Salaried Employees prior to January 1, 1989 ("The Plan"), was approved by the stockholders of the Corporation on May 11, 1977, and became effective on July 1, 1977. The Plan was subsequently amended and completely restated effective as of January 1, 1989 and most recently as of July 1, 1997 ("restated Plan"). The amendments and restatements incorporate all prior amendments to the Plan and make changes to reflect the merger of the USG Corporation Savings Plan for Hourly Employees and change the name of the Plan to the USG Corporation Investment Plan, effective January 1, 1989; and to implement the daily valuation of investments in the participants' accounts at fair market value on each business day effective July 1, 1997.

The Plan was established to provide a means for eligible hourly and salaried employees to participate in the earnings of the Corporation, to build a supplemental retirement fund and to provide additional disability and death benefits.

The Plan provides, among other things, that participants may contribute up to 20% (9% for highly compensated employees) of their eligible pay to the Plan through payroll deductions on a before-tax basis during the year effective January 1, 2002, 15% from January 1, 1998 to December 31, 2001, 12% from July 1, 1997 to December 31, 1997, 9% from January 1, 1989 to June 30, 1997, 15% from October 1, 1985 to December 31, 1988 and 12% prior to October 15, 1985. The amount of distributions to be made upon withdrawal from the Plan is dependent upon the participant's and the Corporation's contributions. The Plan requires completion of three years of credited service, effective January 1, 2002 (five years previously), in order to be 100% vested in the Corporation contribution. Employee contributions are always 100% vested. In addition, the Plan contains provisions under which the entire amount credited to a participant's account is distributable upon a participant's retirement, disability, or death.

Employee contributions are invested by the Trustee in any one or a combination of nine funds: (a) common stock of USG Corporation (USG Common Stock Fund), (b) an equity index fund which provides investment results that are designed to correspond to the performance of publicly traded common stocks, as represented by the Standard & Poor's 500 Composite Stock Price Index (Equity Index Fund), (c) a balanced fund which invests in several broadly diversified asset classes, including domestic and foreign common stock and bonds, preferred stocks and cash (Balanced Fund), (d) a growth fund which invests primarily in equity securities of large market capitalization companies with earnings that are expected to grow at an above-average rate, but may be further diversified by investment of a small portion of the assets in domestic bonds, foreign common stocks and bonds, and cash (Growth Fund), (e) a small cap equity fund which seeks maximum long-term growth of capital by investing in common stock of rapidly growing U.S. companies with market capitalization of less than $1 billion at the time of initial investment (Small Cap Equity Fund), (f) a large cap value fund which seeks to provide long-term growth of principal and income by investing in common stocks of companies that

appear to be temporarily undervalued by the stock market but have a favorable outlook for long-term growth (Large Cap Value Fund), (g) an international equity fund which seeks long-term capital appreciation through investments in common stock of established non-U.S. companies

(International Equity Fund), (h) a bond fund which seeks to provide current income and preservation of capital by investing in investment grade corporate debt securities, government bonds and mortgages in both U.S. and foreign markets, (Bond Fund) or (i) a managed separate account which seeks to preserve principal and income while maximizing current income by investing in a diversified pool of Guaranteed Investment Contracts (GICs), separate account GICs, synthetic GICs or Structured Investment Contracts (SICs) and Bank Investment Contracts (BICs) of varying maturity, size and yield (Stable Value Fund).

The Equity Index Fund is invested in the Vanguard Institutional Index Fund.

The Balanced Fund is invested in the Fidelity Puritan Fund.

The Growth Fund is invested in the AXP New Dimensions Fund - Class Y.

The Small Cap Equity Fund is invested in the Franklin Small-Mid Cap Growth Fund - Class A.

The Large Cap Value Fund is invested in the Dodge & Cox Stock Fund.

The International Equity Fund is invested in the Templeton Foreign Fund - Class A.

The Bond Fund is invested in the PIMCO Total Return Fund - Institutional Class.

The Stable Value Fund is managed by PRIMCO Capital Management. At December 31, 2002, the Stable Value Fund was primarily composed of group annuity contracts maintained by banks and insurance companies.

Participants may elect to have their contributions invested in 1% increments in any fund or combination of funds and to change their contribution rate, suspend or resume their contributions, change their investment allocations, transfer their investments from one fund to another and apply for a loan by calling the USG Investment Plan Connection, an automated telephone service, on any day. Certain Executive officers of the Corporation must pre-clear any transfer out of the USG Common Stock Fund with the USG Corporate Secretary.

The Corporation made a regular 50% matching contribution up to the first 6% of the participants' eligible pay contributed to the Plan, credited to the participants' accounts each pay period starting June 1, 2001. From January 1, 2001 to May 31, 2001 the Corporation made a regular 25% matching contribution up to the first 6% of each participant's eligible pay contributed to the Plan.

The Plan was amended effective January 1, 1999 to provide for immediate eligibility and enrollment to join the Plan for newly hired employees and current employees who are in their one year waiting period as of January 1, 1999, unless the employee elects not to join the Plan.

The fifth amendment to the Plan, effective November 8, 2000, does not allow additional participant or employer contributions to the USG Common Stock Fund. The amendment also does not allow the transfer of any portion of a participant's interest from any other fund into the USG Common Stock Fund.

The sixth amendment to the Plan, effective June 1, 2001, increased the regular matching contribution on the first 6% of participant's eligible pay contributed to the Plan to 50% from 25%, credited to the participant's account each pay period.

The seventh amendment, effective January 1, 2002, made several technical changes in conjunction with the underlying Internal Revenue Code as to contribution limits and distribution periods and limits, increasing the employee contribution rate to 20%, increasing the annual basic contribution limit to $11,000, increasing the plan year earnings limit to $200,000, and increasing the maximum annual addition to $40,000. This amendment also changed participant vesting in Corporation contributions to three years from five and changed the Corporation matching formula to attainment of certain EBITDAR goals from the previous consolidated earnings goals.

The eighth amendment to the Plan, effective January 1, 2003 allows for catch-up contributions for participants who will have attained age 50 by the end of the plan year. The catch-up contribution limits are in accordance with, and subject to the limitations of, Section 414(v) of the Internal Revenue Code. The catch-up contributions are not taken into account for purposes of determining compliance with other contribution limits of the Plan.

If the Trustee is unable to invest any contributions immediately, the funds are temporarily invested in short-term investment funds and any earnings in the fund are credited to the participants' accounts.

The Plan funds are administered under the terms of a Trust agreement with The Northern Trust Company. The Trust agreement provides, among other things, that the Trustee shall keep account of all investments, receipts and disbursements and other transactions and shall provide annually a report setting forth such transactions and the status of the funds at the end of the period.

The Plan is administered by the Pension and Investment Committee, which consists of five members appointed by the Corporation. Administrative expenses and other fees of the Plan are shared by the Corporation and the participants.

At December 31, 2002 and 2001, there were approximately 12,238 and 12,089 participants in the Plan, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The amounts in the accompanying statements were accumulated from the reports of the Trustee (Note 1). The financial statements of the Plan are prepared under the accrual method of accounting. Contributions to the Plan are made throughout the year and adjustments are made to the financial statements to accrue for the portion of annual contributions unpaid at year-end.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

The Plan's investments are stated at market value except for its group annuity contracts with insurance companies, which are valued at contract value because they are fully benefit responsive. For example, participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. There are no reserves against contract value for credit risk of the contract issuers. Market value and cost are equal for the group annuity contracts and short-term investments. Shares of registered investment companies are valued at quoted market prices which represent the net asset value of shares held by the Plan at year-end. The Company stock is valued at its quoted market price. Participant loans receivable are valued at cost which approximates fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized gains or losses on the sale of investments are calculated based upon the historical average cost of the investments. Unrealized appreciation or depreciation of investments of the Plan represents the change between years in the difference between the market value and cost of the investments.

The guaranteed investment contracts in the Stable Value Fund earned guaranteed interest at rates varying from 1.44% to 7.47% at December 31, 2002. The rates for 2001 ranged from 4.50% to 7.47%. The guaranteed investment contracts earnings are calculated net of administrative fees.

For the USG Common Stock Fund, cost was $23,326,234 and $26,311,866 as of December 31, 2002 and 2001, respectively. For the Equity Index Fund, cost exceeded market value by $7,123,086 at December 31, 2002 and market value exceeded cost by $5,999,385 at December 31, 2001. For the Balanced Fund, cost exceeded market value by $2,921,244 and $1,069,695 at December 31, 2002, and 2001, respectively. For the Growth Fund, cost exceeded market value by $13,006,764 and $5,165,244 at December 31, 2002, and 2001, respectively. For the Small Cap Equity Fund, cost exceeded market value by $5,738,888 and $3,724,992 at December 31, 2002 and 2001, respectively. Cost exceeded market value by $654,672 for the Large Cap Value Fund at December 31, 2002. Cost exceeded market value by $90,878 and $96,428 for the International Equity Fund at December 31, 2002, and 2001, respectively. For the Bond Fund, cost exceeded market value by $24,756 and $130,079 at December 31, 2002, and 2001, respectively.

Pending transactions due to loans represent reconciliations of the loan amounts between the Trustee and recordkeeper at year-end, which will be posted to the Trustee's records in the subsequent year.

Benefits are recorded when paid.

3. TAX STATUS

The Plan, as amended and restated, effective July 1, 1997, meets the requirements of Section 401(a) of the Internal Revenue Code and, accordingly, its income is exempt from Federal income tax under Section 501(a). Employer contributions and the income of the Plan are not taxable to the participants until distributions are made.

4. EMPLOYER CONTRIBUTIONS

The Corporation will make a formula matching contribution with respect to each eligible participant only if at least 80% of the USG Companies EBITDAR goal is met for that plan year. In 2001 and years prior to that, the formula used in the matching contribution calculation is the consolidated earnings goal, which is based on the net sales of the USG Companies less cost of sales and selling and administrative expenses. Beginning January 1, 2002, the Plan uses EBITDAR (Consolidated Net Earnings of the USG Companies before Interest, Taxes, Depreciation, Amortization, Reorganization expenses and other income and expense items) as the target to measure performance attainment to be consistent with other USG incentive plans.

Beginning January 1, 2002, the Corporation formula matching contribution schedule was set as follows: each 1% increase in goal attainment from 80% to 100% of goal results in a corresponding 1.5% increase in the profit sharing match, starting at a 10% match with the attainment of 80% of earnings goal. Each 1% increase in goal attainment from 100% to 140% of goal will result in a 1% increase in the profit sharing match, starting from a 40% match with attainment of 100% of goal earnings. There is no additional increase in matching percentage for achieving an EBITDAR goal beyond 140%.

Employer contribution amounts forfeited by terminated employees are applied as a credit against future Corporate contributions or used to pay administrative expenses and other fees of the Plan and are held in the Forfeiture Cash Account.

5. DISTRIBUTION ON TERMINATION OF THE PLAN

In the event of termination of the Plan, the account balances of all affected participants shall become non-forfeitable.

6. INVESTMENTS

The following is a summary of the Plan's investments as well as the net realized and unrealized appreciation (depreciation) for 2002 and 2001:

	2002		2001	
	FAIR VALUE	NET APPRECIATION (DEPRECIATION) IN FAIR VALUE	FAIR VALUE	NET APPRECIATION (DEPRECIATION) IN FAIR VALUE
Common Stock:				

USG Common Stock	$ 4,839,349	$ 1,650,999	$ 3,693,161	($ 12,227,850
Mutual Funds:				
Vanguard Index Trust	43,804,332	(13,696,593)	58,731,580	(9,319,893
Fidelity Puritan Fund	19,758,185	(2,548,063)	23,074,841	(1,010,979
AXP New Dimensions Fund	35,894,239	(10,326,773)	47,972,711	(9,376,406
Franklin Small-Mid Cap Growth Fund	13,038,488	(5,672,594)	18,097,052	(5,626,225
Dodge & Cox Stock Fund	7,141,212	(927,772)	---	---
Templeton Foreign Fund	6,254,958	(607,795)	7,111,988	(723,026
PIMCO Total Return Fund	16,860,651	694,596	10,398,032	266,015
	142,752,065	(33,084,994)	165,386,204	(25,790,514
Mortgages, Notes, Contracts	178,789,884	24,170	157,394,326	---
Collective Short-Term Investment Fund	10,032,685	---	11,193,921	---
TOTAL INVESTMENTS	$ 336,413,983	($ 31,409,825)	$ 337,667,612	($ 38,018,364

All investments in the Plan are participant-directed investments.

At December 31, 2002 and 2001, the following investments (participant-directed) exceeded 5% of the net assets available for Plan benefits:

	2002	2001
Vanguard Index Trust	$ 43,804,332	$ 58,731,580
Fidelity Puritan Fund	19,758,185	23,074,841
AXP New Dimension Fund	35,894,239	47,972,711
Franklin Small-Mid Cap Growth Fund	13,038,488	18,097,052

Allstate Insurance Company Contract 77032	11,696,347	18,792,949
Monumental Life Insurance Company Contract 00246TR	22,478,371	19,007,928
State Street Bank & Trust Contract 99010	15,461,787	23,270,179
UBS, Contract 5021	33,775,598	23,428,895

7. PARTICIPANT LOANS

Effective October 1, 1993, and as revised on July 1, 1997, a participant can obtain loans from the Plan. Under the Plan's loan provisions, the maximum loan allowable is one half of a participant's vested account balance or $50,000, whichever is less. The minimum loan amount is $1,000. Additional amounts can be taken in $1 increments. A participant must have a vested account balance of at least $2,000 before he or she can apply for a loan. The Plan restricts the participant to no more than two loans outstanding at a time. Most loans can be repaid by the participant over a five-year period, or sooner, in full, with interest at the prime rate in effect at the time of requesting the loan. A residential loan can be repaid over a period of up to 30 years. Default on a loan by a participant is treated as a hardship withdrawal and subject to IRS penalties.

SCHEDULE I

USG CORPORATION
INVESTMENT PLAN

SCHEDULE OF INVESTMENTS HELD AT YEAR END
DECEMBER 31, 2002

	PRINCIPAL AMOUNT/NUMBER OF SHARES	COST	FAIR VALUE
COMMON STOCK			
USG Corporation	572,704	$ 23,326,234	$ 4,839,349
Vanguard Index Trust	544,491	50,927,418	43,804,332
Fidelity Puritan Fund	1,251,310	22,679,429	19,758,185
AXP New Dimensions Fund	1,862,701	48,901,003	35,894,239
Franklin Small-Mid Cap Growth Fund	594,009	18,777,376	13,038,488
Dodge & Cox Stock Fund	81,104	7,795,884	7,141,212
Templeton Foreign Fund	752,703	6,345,836	6,254,958
TOTAL COMMON STOCK		178,753,180	130,730,763

CORPORATE BONDS			
PIMCO Total Return Fund	1,580,192	16,885,407	16,860,651
CONTRACTS			
Allstate, 77184	$ 18,872,984	18,872,984	18,872,984
Allstate, 77032	$ 11,696,347	11,696,347	11,696,347
Bank of America, 99-061	$ 8,966,896	8,966,896	8,966,896
Caisse des Deposts, 1077-01	$ 14,913,982	14,913,982	14,913,982
ING Life & Annuity, 14621	$ 4,039,047	4,039,047	4,039,047
ING Life & Annuity, 60035	$ 2,005,422	2,005,422	2,005,422
John Hancock Mutual Life Insurance Co., GAC 9532	$ 10,678,493	10,678,493	10,678,493
JP Morgan Chase Contract 401748-G	$ 1,235,324	1,235,324	1,235,324
JP Morgan Chase Contract AUSG01	$ 17,271,451	17,271,451	17,271,451
Monumental Life Insurance Company, MDA0158FR	$ 3,676,303	3,676,303	3,676,303
Monumental Life Insurance Company, 00232TR	$ 1,249,867	1,249,867	1,249,867
Monumental Life Insurance Company, 00218TR	$ 2,485,190	2,485,190	2,485,190
Monumental Life Insurance Company, 00246TR	$ 22,478,371	22,478,371	22,478,371
Prudential, 10092-211	$ 3,449,987	3,449,987	3,449,987
State Street Bank & Trust Contract 98203	$ 2,528,602	2,528,602	2,528,602
State Street Bank & Trust Contract 99010	$ 15,461,787	15,461,787	15,461,787
UBS, 5126	$ 4,004,233	4,004,233	4,004,233
UBS, 5021	$ 33,775,598	33,775,598	33,775,598
TOTAL CONTRACTS	$178,789,884	178,789,884	178,789,884
SHORT-TERM INVESTMENTS			
Collective Short-Term Investment Fund	$ 10,032,685	10,032,685	10,032,685
TOTAL INVESTMENTS		$384,461,156	$336,413,983

SCHEDULE II

USG CORPORATION
INVESTMENT PLAN

SCHEDULE OF REPORTABLE TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2002

SERIES OF TRANSACTIONS IN THE SAME SECURITY:

DESCRIPTION OF SECURITY	TOTAL NUMBER OF PURCHASES	COST OF ASSET	TOTAL NUMBER OF SALES	CURRENT VALUE OF SALES
None				