

USG CORP
Form 424B5
September 24, 2007

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The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are part of an effective registration statement filed with the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities, and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed pursuant to Rule 424(b)(5)
Registration Statement No. 333-146262

SUBJECT TO COMPLETION, DATED SEPTEMBER 24, 2007

**Prospectus Supplement
September , 2007**

(To Prospectus dated September 24, 2007)

\$

USG Corporation

% Senior Notes due

We are offering \$ principal amount of our % Senior Notes due . The notes will bear interest at a rate of % per year and will mature on . We will pay interest on the notes on and of each year, beginning , 2008. The interest rate payable on the notes will be subject to adjustment from time to time if the debt ratings assigned to the notes increase or decrease. See Description of the Notes Interest Rate Adjustment.

We may redeem the notes at our option at any time, in whole or in part, at the redemption price described under the heading Description of the Notes Optional Redemption in this prospectus supplement. We may also be required to offer to repurchase the notes in the event of a Change of Control Triggering Event as specified under the heading Description of the Notes Repurchase upon Change of Control Triggering Event in this prospectus supplement.

The notes will be our senior unsecured obligations and will rank equally with all of our other existing and future unsecured senior indebtedness.

The notes will not be listed on any national securities exchange or inter-dealer quotation system. Currently, there is no public market for the notes.

Investing in the notes involves risks. See Risk Factors beginning on page S-6 of this prospectus supplement to read about important factors you should consider before buying the notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the

accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Note	Total
Price to public(1)	%	\$
Underwriting discount	%	\$
Proceeds, before expenses, to USG Corporation(1)	%	\$

(1) Plus accrued interest, if any, from September , 2007, if settlement occurs after that date.

The underwriters expect to deliver the notes in book-entry form only through the facilities of The Depository Trust Company on or about September , 2007.

Banc of America Securities LLC	<i>Joint Book-Running Managers</i>	JPMorgan
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You should rely only on the information contained in or incorporated by reference into this prospectus supplement, the accompanying prospectus and any communication from us or the underwriters specifying the final terms of the offering. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should assume that the information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus is accurate only as of any date on the front cover of this prospectus supplement, the accompanying prospectus or the date of the document incorporated by reference, as applicable. Our business, financial condition, results of operations and prospects may have changed since those dates.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus. This summary may not contain all of the information that you should consider before investing in the notes. You should carefully read this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference, which are described under the heading "Incorporation by Reference of Certain Documents" in the accompanying prospectus. Unless we state otherwise or the context indicates otherwise, references to USG, we, our, us and the company in this prospectus supplement and the accompanying prospectus refer to USG Corporation, a Delaware corporation. In the discussion of our business in this prospectus supplement and the accompanying prospectus, we, our and us also refer to our subsidiaries.

USG Corporation

Through our subsidiaries, we are 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.

Our operations are organized into three segments:

North American Gypsum: North American Gypsum manufactures and markets gypsum and related products in the United States, Canada and Mexico and includes United States Gypsum Company, or U.S. Gypsum, in the United States, the gypsum business of CGC Inc., or CGC, in Canada and USG Mexico, S.A. de C.V., or USG Mexico, in Mexico. U.S. Gypsum is the largest manufacturer of gypsum wallboard in the United States and accounted for approximately 30% of total domestic gypsum wallboard sales in 2006. CGC is the largest manufacturer of gypsum wallboard in eastern Canada, and USG Mexico is the largest manufacturer of gypsum wallboard in Mexico.

Worldwide Ceilings: Worldwide Ceilings manufactures and markets interior systems products worldwide and includes USG Interiors, Inc., the international interiors 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. We estimate that it is the largest manufacturer of ceiling grid and the second-largest manufacturer/marketer of acoustical ceiling tile in the world.

Building Products Distribution: Building Products Distribution consists of L&W Supply Corporation, or L&W Supply, the leading specialty building products distribution business in the United States. In 2006, L&W Supply distributed approximately 12% of all gypsum wallboard sold in the United States, including approximately 32% of U.S. Gypsum's wallboard production.

Our principal executive offices are located at 550 West Adams Street, Chicago, Illinois 60661-3676, and our telephone number is (312) 436-4000. We maintain an Internet website at <http://www.usg.com>. Except for the documents incorporated by reference in this prospectus supplement and the accompanying prospectus as described under the heading "Incorporation by Reference of Certain Documents" in the accompanying prospectus, the information and other content contained on our website are not incorporated by reference in this prospectus supplement or the accompanying prospectus, and you should not consider them to be a part of this prospectus supplement or the accompanying prospectus.

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The Offering

The following summary contains basic information about this offering. For a more complete understanding of this offering, we encourage you to read this entire prospectus supplement, including Description of the Notes, and the accompanying prospectus, including Description of the Debt Securities.

Issuer	USG Corporation
Securities Offered	\$ initial aggregate principal amount of % Senior Notes due .
Maturity Date	.
Interest	Interest will accrue on the notes from September , 2007 and will be payable on and of each year, beginning on , 2008.
Ranking	The notes will be our senior unsecured obligations and will rank equally with all of our other existing and future unsecured senior indebtedness.
Interest Rate Adjustment	The interest rate payable on the notes will be subject to adjustments from time to time if any of Moody's Investor Services, Inc., referred to as Moody's, or Standard & Poor's Ratings Services, a division of McGraw-Hill, Inc., referred to as S&P, or any substitute rating agency downgrades (or subsequently upgrades) the debt rating assigned to the notes. See Description of the Notes Interest Rate Adjustment.
Optional Redemption	<p>We may redeem the notes at our option at any time, in whole or in part, at a redemption price equal to the greater of:</p> <p style="padding-left: 40px;">100% of the principal amount of the notes being redeemed; and</p> <p style="padding-left: 40px;">the sum of the present value of the remaining scheduled payments of principal and interest on the notes being redeemed on the redemption date (not including any portion of any payments of interest accrued to the redemption date) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus basis points.</p> <p>We will also pay any accrued and unpaid interest on the notes to the redemption date.</p>
Mandatory Offer to Repurchase	If a Change of Control Triggering Event occurs, we will be required to make an offer to purchase the notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest, if any, to the date of repurchase. See Description of the Notes Repurchase upon Change of Control Triggering Event.
Covenants	The indenture governing the notes will contain certain restrictions, including a limitation that restricts our ability and the ability of certain of

our subsidiaries to create or incur secured indebtedness. Certain sale and leaseback transactions are similarly limited. See Description of the Debt Securities Covenants Contained in the Indenture in the accompanying prospectus.

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Use of Proceeds	We intend to add the net proceeds from the sale of the notes offered hereby to our general funds and use those proceeds to repay a portion of the amounts outstanding under the term loan facility of our credit agreement. See Use of Proceeds.
Risk Factors	You should carefully read and consider the information set forth in Risk Factors beginning on page S-6 of this prospectus supplement and the risk factors set forth in our annual report on Form 10-K for the fiscal year ended December 31, 2006, before investing in the notes.
Additional Notes	We may, without the consent of the holders, issue additional notes and thereby increase the principal amount of the notes in the future, on the same terms and conditions (other than the issue price, interest accrual date and, in some cases, the first interest payment date) and with the same CUSIP number as the notes we offer by this prospectus supplement.
Form and Denomination	The notes will be issued in fully registered form without interest coupons in minimum denominations of \$2,000 and in integral multiples of \$1,000 in excess thereof.
Trustee	Wells Fargo Bank, National Association is the trustee under the indenture.
Governing Law	The indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York.

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The following table sets forth summary consolidated financial information as of and for the fiscal years ended December 31, 2002, 2003, 2004, 2005 and 2006 and as of and for the six months ended June 30, 2006 and 2007. The information as of and for the fiscal years ended December 31, 2002, 2003, 2004, 2005 and 2006 was derived from our audited annual consolidated financial statements. The information as of and for the three months ended June 30, 2006 and 2007 was derived from our unaudited interim consolidated financial statements and include, in the opinion of management, all normal and recurring adjustments necessary to present fairly the information for such periods. The results of operations for the six months ended June 30, 2007 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2007. You should read the following summary consolidated financial information together with Management's Discussion and Analysis of Results of Operations and Financial Condition and our historical consolidated financial statements, including the related notes, in each case, in our annual report on Form 10-K for the fiscal year ended December 31, 2006 and our quarterly report on Form 10-Q for the quarterly period ended June 30, 2007, which are incorporated by reference in this prospectus supplement. See Where You Can Find More Information and Incorporation by Reference of Certain Documents in the accompanying prospectus.

	Six Months Ended			Year Ended December 31,			
	June 30, 2007	2006	2006	2005	2004	2003	2002
	(in millions)						
Consolidated statement of operations data:							
Net sales	\$ 2,667	\$ 3,038	\$ 5,810	\$ 5,139	\$ 4,509	\$ 3,666	\$ 3,468
Cost of products sold	2,253	2,281	4,440	4,037	3,672	3,121	2,884
Gross profit	414	757	1,370	1,102	837	545	584
Selling and administrative expenses	216	202	419	352	317	324	312
Provision for restructuring	15						
Asbestos claims provision (reversal)		(27)	(44)	3,100			
Chapter 11 reorganization expenses		8	10	4	12	11	14
Operating profit (loss)	183	574	985	(2,354)	508	210	258
Interest expense(a)	63	523	555	5	5	6	8
Interest income	(13)	(7)	(43)	(10)	(6)	(4)	(4)
Other income expense, net	(2)		(3)			(9)	(2)
Income taxes (benefit)	38	23	188	(924)	197	79	117
Earnings (loss) before cumulative effect of accounting change	97	35	288	(1,425)	312	138	139
Cumulative effect of accounting change				(11)		(16)	(96)
Net earnings (loss)	\$ 97	\$ 35	\$ 288	\$ (1,436)	\$ 312	\$ 122	\$ 43

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	As of June 30, 2007	2006	As of December 31, 2005 2004 2003 2002			
			(dollars in millions)			
Consolidated balance sheet data:						
Working capital	\$ 942	\$ 943	\$ 1,579	\$ 1,220	\$ 1,084	\$ 939
Current ratio	2.51	1.53	3.63	3.14	3.62	3.14
Cash and cash equivalents(b)	\$ 380	\$ 565	\$ 936	\$ 756	\$ 700	\$ 649
Property, plant and equipment, net	\$ 2,386	\$ 2,210	\$ 1,946	\$ 1,853	\$ 1,818	\$ 1,788
Total assets	\$ 4,666	\$ 5,365	\$ 6,142	\$ 4,278	\$ 3,799	\$ 3,636
Long-term debt(c)(d)	\$ 1,239	\$ 1,439	\$	\$ 1	\$ 2	\$ 2
Liabilities subject to compromise(d)	\$	\$	\$ 5,340	\$ 2,242	\$ 2,243	\$ 2,272
Total stockholders' equity (deficit)	\$ 2,104	\$ 1,534	\$ (302)	\$ 1,024	\$ 689	\$ 535
Other data:						
Ratio of earnings to fixed charges(e)	2.9x	1.9x	(f)	102.8x	37.2x	33.0x

- (a) Interest expense for 2006 included post-petition interest and fees of \$528 million related to pre-petition obligations. In accordance with bankruptcy accounting rules, interest expense on pre-petition debt and other obligations had not been accrued or recorded from June 25, 2001, the date on which we filed our Chapter 11 petition for reorganization, through December 31, 2005.
- (b) Cash, cash equivalents and restricted cash totaled \$571 million as of December 31, 2006. Cash, cash equivalents, restricted cash and marketable securities totaled \$1.249 billion as of December 31, 2004 and \$1.577 billion as of December 31, 2005.
- (c) Total debt as of June 30, 2007 was \$1.239 billion. In March 2007, we repaid our \$1.065 billion tax bridge loan with the proceeds of a \$1.057 billion federal income tax refund and cash on hand and repaid \$200 million of borrowings under our term loan facility.
- (d) Liabilities subject to compromise included \$1.005 billion of debt as of December 31, 2005, 2004, 2003 and 2002.
- (e) For purposes of computing our ratio of earnings to fixed charges, (1) earnings consist of earnings (loss) before income taxes and cumulative effect of accounting change plus interest expensed; and (2) fixed charges consist of interest expensed and interest capitalized.
- (f) As a result of a \$3.1 billion pretax provision for asbestos claims, the amount of the coverage deficiency for 2005 was \$2.3 billion.

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RISK FACTORS

An investment in the notes involves significant risks. You should carefully consider the risks and uncertainties described below and the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus, including the risk factors set forth in our annual report on Form 10-K for the fiscal year ended December 31, 2006, before deciding to invest in the notes. The risks and uncertainties described below or incorporated by reference herein are not the only ones relating to our business, financial condition or operating results or the notes. Additional risks and uncertainties that are not presently known to us or that we do not currently believe to be material also could materially and adversely affect our business, financial condition or operating results and the value of the notes. The occurrence of any of the following risks could significantly harm our business, financial condition or operating results or the notes. In that case, you could lose all or part of your investment in the value of the notes.

Risks Relating to Our Leverage

Our substantial indebtedness may adversely affect our business, financial condition and results of operations and impair or prevent us from fulfilling our obligations under the notes.

We have a substantial amount of indebtedness. As of June 30, 2007, we had approximately \$1.239 billion of outstanding debt. We expect our current debt balance to be unchanged immediately after this offering and the application of the net proceeds of the offering as described in Use of Proceeds.

Our substantial indebtedness may have material adverse effects on our business, including to:

- make it more difficult for us to satisfy our debt service obligations, including those relating to the notes;
- limit our ability to obtain additional financing to fund our working capital requirements, capital expenditures, acquisitions, investments, debt service obligations and other general corporate requirements;
- require us to dedicate a substantial portion of our cash flows from operations to payments on our indebtedness, including payments on the notes, thereby reducing the availability of our cash flows to fund working capital, capital expenditures and other general operating requirements;
- restrict us from making strategic acquisitions or taking advantage of favorable business opportunities;
- place us at a relative competitive disadvantage compared to our competitors that have proportionately less debt;
- limit our flexibility to plan for, or react to, changes in our business and the industries in which we operate, which may adversely affect our results of operations and ability to meet our debt service obligations with respect to our outstanding indebtedness, including those relating to the notes;
- increase our vulnerability to adverse general economic and industry conditions, including recessions; and
- limit our ability or increase the cost to refinance indebtedness.

If we do incur additional indebtedness, the risks related to our substantial indebtedness may intensify.

We require a significant amount of liquidity to service our indebtedness and fund operations, capital expenditures, research and development efforts, acquisitions and other corporate expenses.

Our ability to make payments on our indebtedness, including the notes, and to fund operations, capital expenditures, research and development efforts, acquisitions and other corporate expenses depends on our ability to generate cash through future operating performance, which is subject to economic, financial, competitive, legislative, regulatory and other factors. Many of these factors are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will

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be available to us in an amount sufficient to enable us to pay our indebtedness, including amounts due on the notes, or to fund our other needs.

If we are unable to generate sufficient cash flow to enable us to pay our indebtedness or fund our other needs, we may need to pursue one or more alternatives, such as to:

curtail operations;

reduce or delay planned capital expenditures, research and development or acquisitions;

obtain additional financing or restructure or refinance all or a portion of our indebtedness, including the notes, on or before maturity;

sell assets or businesses; and

sell additional equity.

Any curtailment of operations, reduction or delay in planned capital expenditures, research and development or acquisitions or sales of assets or businesses may materially and adversely affect our future revenue prospects. In addition, we cannot assure you that we will be able to raise additional equity capital, restructure or refinance any of our indebtedness or obtain additional financing on commercially reasonable terms or at all. Finally, we cannot assure you that any of the above actions would provide sufficient cash to repay our indebtedness, including amounts due on the notes.

Covenant restrictions under our credit agreement and the indenture governing the notes may limit our ability to pursue business activities or otherwise operate our business.

Our credit agreement and the indenture governing the notes contain, among other things, covenants that limit our ability and our subsidiaries' ability to finance future operations or capital needs or to engage in other business activities, including our ability to:

incur additional indebtedness;

make guarantees;

sell assets or make other fundamental changes;

engage in mergers and acquisitions;

make investments;

enter into transactions with our affiliates;

change our business purposes; and

enter into sale and leaseback transactions.

In addition, we are subject to agreements that require us to meet and maintain certain financial ratios and tests, which may require us to take action to reduce our debt or to act in a manner contrary to our business objectives. Events

beyond our control, including changes in general business and economic conditions, may affect our ability to comply with these covenants or meet those financial ratios and tests. We may not meet those ratios and tests. A breach of any of these covenants or failure to maintain the required ratios and meet the required tests may result in an event of default under those agreements. This may allow the counterparties to those agreements to declare all amounts outstanding under those agreements, together with accrued interest, to be immediately due and payable. If this occurs, we may not be able to finance the accelerated indebtedness on favorable terms, or at all, or repay the accelerated indebtedness, including amounts due on the notes.

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Risks Relating to the Notes

The notes are unsecured and, therefore, are effectively subordinated to borrowings under our credit agreement to the extent these borrowings become secured.

The notes are not secured by any of our assets or those of our subsidiaries. As a result, if the indebtedness under our credit agreement becomes secured by any of our assets, the notes would be effectively subordinated to such indebtedness to the extent of the value of the assets securing that indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our secured debt (including indebtedness under our credit agreement to the extent it becomes secured) may assert rights against the secured assets in order to receive full payment of their debt before the assets may be used to pay the holders of the notes. While the indebtedness under our credit agreement is not currently secured, the covenant described under Description of the Debt Securities Covenants Contained in the Indenture Limitation on Liens in the accompanying prospectus does not limit or establish conditions on our ability to secure that indebtedness. As of August 31, 2007, we had \$500 million of borrowings outstanding under our credit agreement, all of which was borrowed under the term loan facility.

The notes are effectively subordinated to any secured obligations that we may have outstanding and to the obligations of our subsidiaries.

The notes represent our unsecured obligations. Accordingly, our secured creditors will have claims that are superior to your claims as holders of the notes to the extent of the value of the assets securing other indebtedness. In the event of any distribution or payment of our assets in foreclosure, dissolution, winding-up, liquidation, reorganization or other bankruptcy proceeding, our secured creditors will have a superior claim to those of our assets that constitute their collateral. If any of the foregoing events occur, we cannot assure you that there will be sufficient assets to pay amounts due on the notes. Holders of the notes will participate ratably with all holders of our other unsecured senior indebtedness, and with all of our other general senior creditors, based upon the respective amounts owed to each holder or creditor, in our remaining assets. As a result, holders of the notes may receive less, ratably, than our secured creditors. The indenture governing the notes restricts, subject to a number of exceptions, our ability to incur indebtedness secured by our assets. See Description of the Debt Securities Covenants Contained in the Indenture Limitation on Liens in the accompanying prospectus.

Our obligations under the notes are the general unsecured obligations of USG and are not being guaranteed by our subsidiaries. As a result, the notes will rank equally in right of payment with our other senior unsecured indebtedness, including indebtedness under our credit agreement, but you will not have any claim as a creditor against our subsidiaries. As of August 31, 2007, we had approximately \$1.239 billion of outstanding indebtedness that will rank equally in right of payment with the notes offered hereby. In addition, all direct indebtedness and liabilities of our subsidiaries, including trade payables, will effectively be senior to any right of the holders of the notes to realize any value from our subsidiaries. Our subsidiaries will have no obligation to pay any amounts due on the notes or to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. Any payments to us by our subsidiaries will also be contingent upon our subsidiaries' earnings and business considerations and could be subject to statutory or contractual restrictions. As a result of the foregoing, we cannot assure you that there will be sufficient assets to pay amounts due on the notes.

We may not have the funds to repurchase the notes upon a change of control triggering event as required by the indenture governing the notes.

Upon a change of control triggering event, as defined in the indenture, subject to certain conditions, we are required to offer to repurchase all outstanding notes at 101% of the principal amount of the notes, plus accrued and unpaid interest to the date of repurchase. The source of funds for that repurchase of notes will be our available cash or cash

generated from our subsidiaries' operations or other potential sources, including borrowings, sales of assets or sales of equity. We cannot assure you that sufficient funds from those sources will be available at the time of any change of control triggering event to make required repurchases of

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notes tendered. In addition, the terms of our credit agreement provide that specified change of control events constitute an event of default under the credit agreement. Our future debt agreements may contain similar restrictions and provisions. If the holders of the notes exercise their right to require us to repurchase all their notes upon a change of control triggering event, the financial effect of this repurchase could cause a default under our other debt agreements, even if the change of control itself would not cause a default.

Accordingly, it is possible that we will not have sufficient funds at the time of the change of control triggering event to make the required repurchase of our other debt and the notes or that restrictions in our credit agreement will not allow such repurchases. See [Description of the Notes](#) [Repurchase upon Change of Control Triggering Event](#) for additional information.

There is no established trading market for the notes, which means there are uncertainties regarding the price and terms on which a holder could dispose of the notes, if at all.

The notes will constitute a new issue of securities with no established trading market. We have not applied to list the notes on any national securities exchange or inter-dealer quotation system. As a result, we are unable to assure you as to the presence or the liquidity of any trading market for the notes.

We cannot assure you that you will be able to sell your notes at a particular time or that the prices that you receive when you sell your notes will be favorable. We also cannot assure you as to the level of liquidity of the trading market for the notes if one develops. Future trading prices of the notes will depend on many factors, including:

our operating performance and financial condition;

the interest of securities dealers in making a market and the number of available buyers; and

the market for similar securities.

You should not purchase any of the notes unless you understand and know you can bear all of the investment risks involving the notes.

USE OF PROCEEDS

We estimate that our proceeds from the sale of the notes, less underwriting discounts and expenses, will be approximately \$. We intend to add the net proceeds from the sale of the notes offered hereby to our general funds and use those proceeds to repay a portion of the amounts outstanding under the term loan facility of our credit agreement.

As of August 31, 2007, we had \$500 million of borrowings outstanding under our credit agreement, all of which was borrowed under the term loan facility. The term loan facility matures on August 2, 2012 and bears interest at LIBOR plus a specified margin (0.625% at August 31, 2007).

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The following table shows our cash and cash equivalents and our capitalization as of June 30, 2007 on an actual basis and as adjusted to give effect to this offering and the application of approximately \$ million of net proceeds from this offering. See Use of Proceeds. You should read this table together with the information under the heading

Management's Discussion and Analysis of Results of Operations and Financial Condition and our audited annual consolidated financial statements and related notes and other financial information incorporated by reference in this prospectus supplement from our annual report on Form 10-K for the fiscal year ended December 31, 2006 and our quarterly report on Form 10-Q for the quarterly period ended June 30, 2007.

	As of June 30, 2007	
	Actual	As Adjusted
	(in millions)	
Cash and cash equivalents	\$ 380	\$
Short-term debt	\$	\$
Senior notes offered hereby		
Other long-term debt	1,239	
Total debt	1,239	
Stockholders' equity	2,104	
Total capitalization	\$ 3,343	\$

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The following description of the notes offered hereby supplements, and to the extent inconsistent therewith replaces, the description of the general terms and provisions of the debt securities set forth under the heading "Description of the Debt Securities" in the accompanying prospectus. The following description does not purport to be complete and is subject to the detailed provisions of, and qualified in its entirety by reference to, the indenture, including any terms deemed to be a part thereof by the Trust Indenture Act of 1939, as amended. Capitalized terms used herein without definition have the respective meanings given such terms in the indenture. You may obtain a copy of the indenture upon request.

As used under this heading "Description of the Notes," the words "company," "we," "our," "ours" and "us" refer to USG Corporation, the issuer of the notes, and not to any of its consolidated subsidiaries.

General

The notes will be issued under, and entitled to the benefits of, an indenture dated as of November 1, 2006, as supplemented and it may be further supplemented by one or more supplemental indenture relating to the notes, between us and Wells Fargo Bank, National Association, as trustee.

The notes will be our general unsecured and senior obligations. We are initially offering the notes in the initial principal amount of \$ million. We may, without the consent of the holders, issue additional notes and thereby increase the principal amount of the notes in the future, on the same terms and conditions (other than the issue price, interest accrual date and, in some cases, the first interest payment date) and with the same CUSIP number as the notes we offer by this prospectus supplement.

The notes will be issued in minimum denominations of \$2,000 and in integral multiples of \$1,000 in excess thereof. The notes will mature on . The notes will bear interest at the annual rate set forth on the cover page of this prospectus supplement from September , 2007. We will pay interest on the notes on each and , beginning , 2008, to the person listed as the holder of the notes (or any predecessor notes) in the security register at the close of business on the preceding or , as the case may be.

Interest Rate Adjustment

The interest rate payable on the notes will be subject to adjustments from time to time if any of Moody's, S&P or any Substitute Rating Agency (as defined below) downgrades (or subsequently upgrades) the debt rating assigned to the notes, as set forth below.

If the rating of the notes from Moody's, S&P or any Substitute Rating Agency that rates the notes (collectively, the "Rating Agencies") is decreased to a rating set forth in the following table with respect to that Rating Agency, the per annum interest rate on the notes will increase from that set forth on the cover page of this prospectus supplement by the percentage set forth opposite that rating:

Moody's*	Percentage	S&P*	Percentage
Ba2	0.25%	BB	0.25%
Ba3	0.50%	BB-	0.50%
B1	0.75%	B+	0.75%

B2 or below

1.00%

B or below

1.00%

* Including the equivalent ratings of any Substitute Rating Agency.

If at any time the interest rate on the notes has been adjusted upward as a result of a decrease in a rating by a Rating Agency and that Rating Agency subsequently increases its rating with respect to the notes to any of the threshold ratings set forth above, the per annum interest rate on the notes will be decreased such that the per annum interest rate equals the interest rate set forth on the cover page of this prospectus supplement plus the percentage set forth opposite the rating in effect immediately following the increase in the table above; provided that if Moody's or any Substitute Rating Agency subsequently increases its rating of the notes

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to Ba1 (or its equivalent if with respect to any Substitute Rating Agency) or higher or S&P or any Substitute Rating Agency subsequently increases its rating of the notes to BB+ (or its equivalent if with respect to any Substitute Rating Agency) or higher, the interest rate on the notes will be decreased to the per annum interest rate on the notes set forth on the cover page of this prospectus supplement.

No adjustment in the interest rate of the notes shall be made solely as a result of a Rating Agency ceasing to provide a rating. If at any time less than two Rating Agencies provide a rating of the notes, we will use our commercially reasonable efforts to obtain a rating of the notes from another nationally recognized statistical rating organization, to the extent one exists, and if another nationally recognized statistical rating organization rates the notes (such organization, a Substitute Rating Agency), for purposes of determining any increase or decrease in the per annum interest rate on the notes pursuant to the table above (a) such Substitute Rating Agency will be substituted for the last Rating Agency to provide a rating of the notes but which has since ceased to provide such rating, (b) the relative ratings scale used by such Substitute Rating Agency to assign ratings to senior unsecured debt will be determined in good faith by an independent investment banking institution of national standing appointed by us and, for purposes of determining the applicable ratings included in the table above with respect to such Substitute Rating Agency, such ratings shall be deemed to be the equivalent ratings used by Moody's and S&P in such table and (c) the per annum interest rate on the notes will increase or decrease, as the case may be, such that the interest rate equals the interest rate set forth on the cover page of the prospectus supplement plus the appropriate percentage, if any, set forth opposite the rating from such Substitute Rating Agency in the table above (taking into account the provisions of clause (b) above). For so long as (i) only one Rating Agency provides a rating of the notes, any increase or decrease in the interest rate of the notes necessitated by a reduction or increase in the rating by that Rating Agency shall be twice the applicable percentage set forth in the table above and (ii) no Rating Agency provides a rating of the notes, the interest rate on the notes will increase to, or remain at, as the case may be, 2.00% above the interest rate set forth on the cover page of this prospectus supplement.

Each adjustment required by any decrease or increase in a rating set forth above, whether occasioned by the action of Moody's, S&P or any Substitute Rating Agency, shall be made independent of any and all other adjustments. In no event shall (1) the per annum interest rate on the notes be reduced below the interest rate set forth on the cover page of this prospectus supplement or (2) the total increase in the per annum interest rate on the notes exceed 2.00% above the interest rate set forth on the cover page of this prospectus supplement.

Any interest rate increase or decrease described above will take effect on the next business day after the rating change has occurred.

The interest rates on the notes will permanently cease to be subject to any adjustment described above (notwithstanding any subsequent decrease in the ratings by any Rating Agency) if the notes become rated Baa2 (or its equivalent) or higher by Moody's (or any Substitute Rating Agency) and BBB (or its equivalent) or higher by S&P (or any Substitute Rating Agency), or one of those ratings if only rated by one Rating Agency, in each case with a stable or positive outlook.

Ranking

The notes will be our senior unsecured obligations and will rank equally with all of our other existing and future senior unsecured indebtedness. If the indebtedness under our credit agreement becomes secured by any of our assets, the notes would be effectively subordinated to such indebtedness to the extent of the value of the assets securing such indebtedness. While the indebtedness under our credit agreement is not currently secured, the covenant described under the heading Description of the Debt Securities Covenants Contained in the Indenture Limitation on Liens in the accompanying prospectus does not limit or establish conditions on our ability to secure such indebtedness. As of August 31, 2007, we had \$500 million of borrowings outstanding under our credit agreement, all of which was

borrowed under the term loan facility.

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Optional Redemption

We may redeem the notes at our option at any time, in whole or in part, at a redemption price equal to the greater of:

100% of the principal amount of the notes being redeemed; and

the sum of the present value of the remaining scheduled payments of principal and interest on the notes being redeemed on the redemption date (not including any portion of any payments of interest accrued to the redemption date) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate plus basis points,

plus, in each case, any accrued and unpaid interest on the principal amount being redeemed to the redemption date.

Treasury Rate means, with respect to any redemption date, (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated H.15(519) or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the heading Treasury Constant Maturities, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Remaining Life, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue will be determined and the Treasury Rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (2) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield-to-maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. The Treasury Rate will be calculated on the third Business Day preceding the redemption date.

Comparable Treasury Issue means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the notes that would be utilized at the time of selection in accordance with customary financial practice in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes.

Comparable Treasury Price means (1) the average of five Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Independent Investment Banker is unable to obtain five such Reference Treasury Dealer Quotations, the average of all such quotations obtained by the Independent Investment Banker.

Independent Investment Banker means either Banc of America Securities LLC or J.P. Morgan Securities Inc., and their respective successors, or, if both firms are unwilling or unable to select the Comparable Treasury Issue, an independent investment banking institution of national standing appointed by the trustee after approval by us.

Reference Treasury Dealer means (1) each of Banc of America Securities LLC and J.P. Morgan Securities Inc., or their respective successors; provided, however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City, which we refer to as a Primary Treasury Dealer, we will substitute another Primary Treasury Dealer and (2) any three other Primary Treasury Dealers selected by the Independent Investment Banker after consultation with us.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the

Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

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Holders of notes to be redeemed will be sent a redemption notice by first-class mail at least 30 and not more than 60 days before the date fixed for redemption. If fewer than all of the notes are to be redeemed, the trustee will select, not more than 60 days and not less than 30 days before the redemption date, the particular notes or portions of the notes for redemption from the outstanding notes not previously called by such method as the trustee deems fair and appropriate. Unless we default in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the notes or portions of the notes called for redemption.

Repurchase upon Change of Control Triggering Event

If a Change of Control Triggering Event (as defined below) occurs, unless we have exercised our right to redeem the notes as described above, we will make an offer to each holder of notes to repurchase all or any part (in integral multiples of \$1,000) of that holder's notes at a repurchase price in cash equal to 101% of the aggregate principal amount of notes repurchased plus any accrued and unpaid interest on the notes repurchased to the date of purchase. Within 30 days following any Change of Control Triggering Event or, at our option, prior to any Change of Control (as defined below), but after the public announcement of the Change of Control, we will mail a notice to each holder, with a copy to the trustee, describing the transaction or transactions that constitute or may constitute the Change of Control Triggering Event and offering to repurchase notes on the payment date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed. The notice shall, if mailed prior to the date of consummation of the Change of Control, state that the offer to purchase is conditioned on the Change of Control Triggering Event occurring on or prior to the payment date specified in the notice.

We will comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934, or the Exchange Act, and any other securities laws and regulations under the Exchange Act, to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control Triggering Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control repurchase event provisions of the notes, we will comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the change of control repurchase event provisions of the notes by virtue of such conflict.

On the Change of Control Triggering Event payment date, we will, to the extent lawful:

accept for payment all notes or portions of notes properly tendered pursuant to our offer;

deposit with the paying agent an amount equal to the aggregate purchase price in respect of all notes or portions of notes properly tendered; and

deliver or cause to be delivered to the trustee the notes properly accepted, together with an officers' certificate stating the aggregate principal amount of notes being purchased by us.

The paying agent will promptly mail to each holder of notes properly tendered the purchase price for the notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each holder a new note equal in principal amount to any unpurchased portion of any notes surrendered; provided, that each new note will be in a principal amount of \$2,000 or an integral multiple of \$1,000 above that amount.

We will not be required to make an offer to repurchase the notes upon a Change of Control Triggering Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by us and such third party purchases all notes properly tendered and not withdrawn under its offer.

We have no present intention to engage in a transaction involving a Change of Control, although it is possible that we would decide to do so in the future. We could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control, but that could increase the amount of debt outstanding at such time or otherwise affect our capital structure or credit ratings.

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Below Investment Grade Rating Event means the notes are rated below Investment Grade by both Covered Rating Agencies on any date from the date of the public notice of an arrangement that could result in a Change of Control until the end of the 60-day period following public notice of the occurrence of a Change of Control (which period shall be extended so long as the rating of the notes is under publicly announced consideration for possible downgrade by either of the Covered Rating Agencies); provided, that a Below Investment Grade Rating Event otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Change of Control (and thus shall not be deemed to constitute a Below Investment Grade Rating Event for purposes of the definition of Change of Control Triggering Event) if the rating agency or agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the trustee in writing at its or our request that the ratings reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred at the time of the Below Investment Grade Rating Event).

Change of Control means the occurrence of any of the following:

- (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of our properties or assets and those of our subsidiaries taken as a whole to any person or group (as that term is used in Section 13(d)(3) of the Exchange Act), other than us or one of our subsidiaries;
- (2) the adoption of a plan relating to our liquidation or dissolution;
- (3) the first day on which a majority of the members of our Board of Directors are not Continuing Directors; or
- (4) the consummation of any transaction or series of related transactions (including, without limitation, any merger or consolidation) the result of which is that any person or group (as that term is used in Section 13(d)(3) of the Exchange Act), other than us or one of our wholly-owned subsidiaries, becomes the beneficial owner, directly or indirectly, of more than 50% of the then outstanding number of shares of our Voting Stock, measured by voting power rather than number of shares.

Change of Control Triggering Event means the occurrence of both a Change of Control and a Below Investment Grade Rating Event.

Continuing Directors means, as of any date of determination, any member of our Board of Directors who (1) was a member of such Board of Directors on the date of the issuance of the notes; or (2) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination or election (either by a specific vote or by approval of our proxy statement in which such member was named as a nominee for election as a director).

Covered Rating Agency means (1) each of Moody's and S&P; and (2) if either of Moody's or S&P ceases to rate the notes or fails to make a rating of the notes publicly available for reasons outside of our control, a nationally recognized statistical rating organization within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act selected by us as a replacement agency for Moody's or S&P, or both, as the case may be.

Investment Grade means a rating of Baa3 or better by Moody's (or its equivalent under any successor rating categories of Moody's); a rating of BBB- or better by S&P (or its equivalent under any successor rating categories of S&P); and the equivalent investment grade credit rating from any additional Covered Rating Agency or Covered Rating Agencies selected by us.

Moody's means Moody's Investor Services Inc.

S&P means Standard & Poor's Ratings Services, a division of McGraw-Hill, Inc.

Voting Stock means, with respect to any Person, capital stock of any class or kind the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons

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performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

Sinking Fund

The notes will not have the benefit of any sinking fund.

Book-Entry System

Please see Description of the Debt Securities Global Debt Securities and Book-Entry System in the accompanying prospectus.

Governing Law

The indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York.

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CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES

This summary discusses the material U.S. federal income tax consequences of the ownership and disposition of notes to holders of notes. This summary:

does not purport to be a complete analysis of all the potential tax considerations relating to the ownership and disposition of notes;

is based on the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations, administrative pronouncements and judicial decisions, all as in effect on the date of this prospectus and all subject to change or differing interpretations, possibly with retroactive effect;

is applicable only to beneficial owners that will hold notes as capital assets within the meaning of section 1221 of the Code;

may not apply to the purchase, ownership and disposition of any additional notes, which may be issued under the indenture from time to time;

does not discuss all of the tax consequences that may be relevant to a holder in light of the holder's particular circumstances or to holders subject to special rules, such as financial institutions, tax-exempt entities, holders whose functional currency is not the U.S. dollar, insurance companies, dealers in securities or foreign currencies, persons holding notes as part of a hedge, straddle or other integrated transaction or persons who have ceased to be U.S. citizens or to be taxed as resident aliens; and

does not address any state, local, or non-U.S. tax considerations or any U.S. federal tax other than the income tax, including the U.S. federal gift tax and estate tax.

We have not sought any ruling from the Internal Revenue Service, or the IRS, or an opinion of counsel with respect to this summary, and we cannot assure you that the IRS will agree with it. You are urged to consult with your own tax advisor about the application of the U.S. federal income tax laws to your particular situation as well as any consequences under the tax laws of any state, local or non-U.S. jurisdiction.

As used in this summary, U.S. holder means a beneficial owner of a note that is, for U.S. federal income tax purposes:

a citizen or resident of the United States;

a corporation or other entity treated as a corporation that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust, if (1) a court within the United States is able to exercise primary supervision over the trust's administration and one or more United States persons, as defined under section 7701(a)(30) of the Code, have the authority to control all substantial decisions of the trust or (2) in respect of a trust that is subject to certain grandfather rules, a valid election is in effect in respect of such trust.

The term non-U.S. holder means a beneficial owner of a note that is a nonresident alien individual or a corporation, trust or estate that is not a U.S. holder.

If a partnership, including any entity treated as a partnership for U.S. federal income tax purposes, holds notes, then the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such partners and partnerships are urged to consult with their own tax advisors concerning the U.S. federal income tax consequences of the purchase, ownership and disposition of notes.

Ownership and Disposition of Notes by U.S. Holders

This discussion is a summary of the U.S. federal income tax consequences that will apply to U.S. holders of notes received pursuant to this offering. Certain U.S. federal income tax consequences applicable to

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non-U.S. holders of notes are described under the heading **Ownership and Disposition of Notes by Non-U.S. Holders** below.

Stated Interest

Stated interest on the notes generally will be treated as **qualified stated interest** for U.S. federal income tax purposes and taxable to a U.S. holder as ordinary interest income at the time it is paid or accrued in accordance with that holder's method of accounting for U.S. federal income tax purposes.

Interest Rate Adjustment

We believe that the possibility of an interest rate adjustment is remote and therefore the rules governing contingent payment debt instruments should not apply to the notes. See **Description of the Notes** **Interest Rate Adjustment**.

Sale, Exchange, Redemption, Retirement or Other Taxable Disposition of Notes

Upon the sale, exchange, redemption, retirement or other taxable disposition of a note, a U.S. holder generally will recognize taxable gain or loss. The amount of such gain or loss generally will be measured by the difference, if any, between the amount realized on such disposition, other than amounts representing accrued but unpaid interest, which will be taxable as such, and the U.S. holder's adjusted tax basis in the sold, exchanged, redeemed, retired or disposed note.

A U.S. holder's adjusted tax basis in a note generally will equal such holder's initial investment in such note, decreased by the amount of any principal payments and other payments on the note that are not deemed to be qualified stated interest payments received by such holder.

Gain or loss recognized on the disposition of a note generally will be capital gain or loss and, if the holder held the disposed note for more than one year at the time of disposition, long-term capital gain or loss. Subject to certain exceptions, holders cannot use capital losses to offset their ordinary income. To the extent that the amount realized is attributable to accrued but unpaid interest, such amount will be taxable as interest, as described under **Stated Interest** above.

Ownership and Disposition of Notes by Non-U.S. Holders

The following is a summary of the U.S. federal income and withholding tax consequences generally applicable to non-U.S. holders of notes received pursuant to this offering. If you are a non-U.S. holder, then we encourage you to consult your own tax advisors to determine the U.S. federal, state and local and any non-U.S. and other tax consequences that may be relevant to you.

Interest

Subject to the discussion below, payments made and accruals of interest on the notes to a non-U.S. holder generally will be exempt from U.S. federal income and withholding tax, provided that:

such payments are not effectively connected with the conduct by such non-U.S. holder of a trade or business within the United States;

the non-U.S. holder does not actually or constructively, under applicable attribution rules, own 10% or more of the total combined voting power of all classes of the stock of USG that is entitled to vote, within the meaning

of section 871(h)(3) of the Code;

the non-U.S. holder is not a bank whose receipt of interest on the notes is described in section 881(c)(3) of the Code;

the non-U.S. holder is not a controlled foreign corporation that is directly or indirectly related to us through stock ownership, within the meaning of the applicable sections of the Code; and

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the non-U.S. holder provides its name and address and certifies, under penalty of perjury, on a properly executed and delivered IRS Form W-8BEN or other applicable form that such holder is not a U.S. person for U.S. federal income tax purposes.

The certification described in the last bullet point above may be provided by a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business. This certification may also be provided by a qualified intermediary on behalf of one or more beneficial owners or other intermediaries, provided that such qualified intermediary has entered into a withholding agreement with the IRS and other conditions are satisfied. Special certification rules apply to non-U.S. holders that are partnerships or other pass-through entities treated as partnerships for U.S. federal income tax purposes.

A non-U.S. holder that is not exempt from tax under these rules generally will be subject to U.S. federal withholding tax on interest payments at a gross rate of 30% unless (1) if specified by an applicable income tax treaty, and the non-U.S. holder so certifies under penalty of perjury on a properly executed and delivered IRS Form W-8BEN or other applicable form, a lower rate or exemption applies or (2) the interest is effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States and the non-U.S. holder so certifies under penalty of perjury on a properly executed and delivered IRS Form W-8ECI or other applicable form. In the latter case, interest will instead be subject to U.S. federal income tax based on the non-U.S. holder's net effectively connected income generally in a similar manner as if it were received by a U.S. holder, except as otherwise provided by an applicable income tax treaty.

Corporate non-U.S. holders receiving interest income that is effectively connected with that holder's conduct of a trade or business within the United States may also be subject to an additional branch profits tax at a 30% rate or, if specified by an applicable income tax treaty, a lower rate on that holder's earnings and profits for the taxable year that are effectively connected with such holder's conduct of a trade or business within the United States, subject to adjustments. For this purpose, interest on the notes that is effectively connected with a non-U.S. holder's conduct of a trade or business within the United States would be included in that holder's earnings and profits.

Sale, Exchange, Redemption, Retirement or Other Taxable Disposition of Notes

Subject to the discussion of backup withholding below, a non-U.S. holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale, exchange, redemption, retirement or other disposition of a note, unless:

that gain is effectively connected with the conduct of a trade or business within the United States by the holder (and if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment); or

in the case of a non-U.S. holder who is a nonresident alien individual who is present in the United States for a total of 183 days or more during the tax year of the sale or other disposition of the note and certain other conditions are met.

A non-U.S. holder described in the first bullet point above will generally be required to pay U.S. federal income tax on the net gain derived from the sale or other disposition as if such holder were a United States person, except as otherwise required by an applicable income tax treaty. If such non-U.S. holder is a corporation, then it may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or, if specified by an applicable income tax treaty, a lower rate, as described under Interest above.

A non-U.S. holder described in the second bullet point above will generally be subject to tax at a gross rate of 30% on the amount by which that holder's capital gains allocable to U.S. sources, including gain from the sale, exchange, redemption, retirement or other disposition of notes, exceed capital losses allocable to U.S. sources, except as otherwise required by an applicable tax treaty.

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To the extent that the amount realized on any sale, exchange, redemption, retirement or other taxable disposition of notes is attributable to accrued but unpaid interest, this amount will be treated as such and as described under Interest above.

Information Reporting and Back-Up Withholding

U.S. Holders

Certain non-exempt U.S. holders may be subject to information reporting in respect of any payments that we may make or are made on our behalf on the notes and the proceeds of any sale or other disposition of notes. In addition, backup withholding, currently at a rate of 28%, may apply if the U.S. holder (1) fails to supply a taxpayer identification number and certain other information, certified under penalty of perjury, in the manner prescribed by applicable law, (2) fails to certify that the holder is eligible for an exemption from backup withholding or (3) otherwise fails to comply with the applicable withholding tax rules. Any amounts withheld under the backup withholding rules generally are allowable as a refund or a credit against the U.S. holder's federal income tax liability upon furnishing the required information on a timely basis to the IRS.

Non-U.S. Holders

We will, where required, report to non-U.S. holders and to the IRS the amount of any principal and interest paid on the notes and the amount of tax, if any, withheld in respect of those payments. Copies of these information returns may be made available under the provisions of a specific treaty or other agreement to the tax authorities of the country in which the non-U.S. holder resides or is organized.

Backup withholding tax, currently at a rate of 28%, will not apply to payments of interest with respect to which either the requisite certification that the non-U.S. holder is not a United States person for U.S. federal income tax purposes, as described under the heading Ownership and Disposition of Notes by Non-U.S. Holders Interest above, has been received or an exemption has been otherwise established, provided that neither we nor our paying agent has actual knowledge or reason to know that the non-U.S. holder is a United States person that is not an exempt recipient or that the conditions of any other exemption are not, in fact, satisfied.

Payments on the sale, exchange or other disposition of notes effected through an office of a broker outside the United States to an offshore account maintained by a non-U.S. holder are generally not subject to information reporting or backup withholding. However, if the broker is either a United States person, a controlled foreign corporation, a non-U.S. person 50% or more of whose gross income is effectively connected with a trade or business within the United States for a specified three-year period, a non-U.S. partnership with significant ownership by United States persons, a non-U.S. partnership that is engaged in the conduct of a trade or business within the United States at any time during its taxable year or a U.S. branch of a foreign bank or insurance company, then information reporting will be required, unless the broker has documentary evidence in its records that the beneficial owner of the payment is not a United States person or is otherwise entitled to an exemption and the broker has neither actual knowledge nor a reason to know that the beneficial owner is not entitled to an exemption. Backup withholding will apply if the sale or other disposition is subject to information reporting and the broker has actual knowledge or reason to know that the beneficial owner is a United States person that is not an exempt recipient.

Information reporting and backup withholding will apply to payments effected at a U.S. office of any U.S. or foreign broker, unless the broker has documentary evidence in its records that the beneficial owner of the payment is not a United States person or is otherwise entitled to an exemption and the broker has no actual knowledge or reason to know that the beneficial owner is not entitled to an exemption.

Backup withholding does not represent an additional income tax. Any amounts withheld under the backup withholding rules generally are allowable as a refund or credit against the non-U.S. holder's U.S. federal income tax liability upon furnishing the required information on a timely basis to the IRS.

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Banc of America Securities LLC and J.P. Morgan Securities Inc. are acting as joint book-running managers of the offering and as representatives of the underwriters named below.

Subject to the terms and conditions stated in the underwriting agreement, dated the date of this prospectus supplement, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the respective principal amounts of the notes set forth opposite the underwriter's name:

Underwriters	Principal Amount of Notes
Banc of America Securities LLC	\$
J.P. Morgan Securities Inc.	
Total	\$

The underwriting agreement provides that the obligations of the underwriters to purchase the notes included in this offering are subject to the approval of legal matters by their counsel and to other conditions. The underwriters are obligated to purchase all of the notes if they purchase any of the notes.

The underwriters propose to offer part of the notes directly to the public at the public offering price set forth on the cover page of this prospectus supplement and to certain dealers at the public offering price less a concession not in excess of % of the principal amount of the notes. The underwriters may allow, and such dealers may reallow, a concession to certain other dealers not in excess of % of the principal amount of the notes. After the initial offering of the notes to the public, the representatives may change the public offering price and concessions.

The notes will constitute new issue of securities with no established trading market. We presently do not intend to apply for listing of the notes on any national securities exchange or inter-dealer quotation system. We have been advised by the underwriters that they presently intend to make a market in the notes but the underwriters are not obligated to do so and may discontinue any market making at any time in their sole discretion and without notice. Accordingly, we can make no assurance as to the liquidity of, or trading markets for, the notes.

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering (expressed as a percentage of the principal amounts of the notes).

	Per Note	Total
Paid by USG	%	\$

In connection with the offering, the representatives, on behalf of the underwriters, may purchase and sell notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves syndicate sales of notes in excess of the principal amount of notes to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to

cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of notes made for the purpose of preventing or retarding a decline in the market price of the notes while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the representatives, in covering syndicate short positions or making stabilizing purchases, repurchases notes originally sold by that syndicate member.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the notes. They may also cause the price of the notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The underwriters may conduct these transactions in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

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We estimate that our total expenses for this offering will be approximately \$0.7 million.

The underwriters have performed investment banking, commercial banking and advisory services for us from time to time for which they have received customary fees and expenses. In particular, certain of the underwriters or their affiliates are lenders under our credit agreement, and they have commitments to lend under each of the facilities under our credit agreement. Because more than 10% of the net proceeds of the offering may be paid to the underwriters or their affiliates, this offering is being conducted in compliance with Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc. The underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the underwriters may be required to make because of any of those liabilities. The underwriters intend to comply with all applicable laws and regulations in each jurisdiction in which they acquire, offer, sell or deliver their notes or have in their possession or distribute this prospectus supplement.

LEGAL MATTERS

The validity of the notes offered hereby will be passed upon for us by Jones Day, Chicago, Illinois. Certain legal matters will be passed upon for the underwriters by Mayer Brown LLP, Chicago, Illinois.

EXPERTS

The financial statements, the related financial statement schedule and management's report on the effectiveness of internal control over financial reporting, incorporated in this prospectus supplement and the accompanying prospectus by reference from USG Corporation's annual report on Form 10-K for the fiscal year ended December 31, 2006 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference (which report on the financial statements and financial statement schedule expresses an unqualified opinion and includes an explanatory paragraph referring to USG Corporation's adoption of Financial Accounting Standards Board Interpretation No. 47, Accounting for Conditional Asset Retirements in 2005, USG Corporation's adoption of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment and Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans in 2006), and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

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PROSPECTUS

USG Corporation

Debt Securities

We may offer for sale, from time to time, the securities described in this prospectus. Each time we sell securities pursuant to this prospectus, we will provide a supplement to this prospectus that contains specific information about the offering and the specific terms of the securities offered. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our securities. This prospectus may not be used to sell securities unless accompanied by a prospectus supplement.

Investing in our securities involves risks. Please consider carefully the specific factors set forth under the heading Risk Factors in our filings with the Securities and Exchange Commission and the applicable prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is September 24, 2007.

This prospectus incorporates important information about us that is not included in or delivered with this prospectus but that is contained in documents that we file with the Securities and Exchange Commission, or SEC. You may obtain copies of these documents that are incorporated by reference into this prospectus, without charge, from the website maintained by the SEC at <http://www.sec.gov>. See **Where You Can Find More Information and **Incorporation by Reference of Certain Documents**.**

You may also obtain copies of the incorporated documents from us, without charge, upon written or oral request to:

**USG Corporation
550 West Adams Street
Chicago, Illinois 60661-3676
Attn: Corporate Secretary
Telephone: (312) 436-4000**

You should rely only on the information included in or incorporated by reference into this prospectus. We have not authorized anyone else to provide you with different information. These securities are not being offered in any state where the offer is not permitted. You should not assume that the information in this prospectus or the documents incorporated by reference is accurate as of any date other than the date on the front of those documents.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement filed by us with the SEC, utilizing a shelf registration process. Under thi