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.

Joint Book-Running Managers

Banc of America Securities LLC **JPMorgan**

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

Prospectus

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	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 Treasury Rate plus basis points. We will also pay any accrued and unpaid interest on the notes to the redemption date.
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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SUMMARY CONSOLIDATED FINANCIAL INFORMATION

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 June 30,		Year Ended December 31,				
	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	As of December 31, 2006	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 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 ho