

Exhibit C

USG CORPORATION

TERM SHEET FOR PLAN OF REORGANIZATION

This term sheet describes certain of the principal terms and conditions of a proposed plan of reorganization (the "Plan") for restructuring of the outstanding liabilities of USG Corporation and subsidiaries (collectively, the "Company") in accordance with Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code"). This term sheet has been produced for discussion and settlement purposes only and is subject to the provisions of Rule 408 of the Federal Rules of Evidence. This term sheet is not an offer with respect to any securities or a solicitation of acceptances of the Plan. Such a solicitation will only be made in compliance with applicable provisions of securities laws and/or the Bankruptcy Code. This term sheet is non-binding and the proposals contained herein are subject to, among other conditions, the completion of appropriate due diligence, acceptable treatment of tax issues and the execution of definitive documentation.

A. General

- Corporate Structure:** On the effective date of the Plan (the "Effective Date"), estimated to be June 30, 2005, the corporate structure of the Company shall consist of USG Corporation, a holding company ("Parent"), and a series of wholly-owned subsidiaries, including, but not limited to US Gypsum, USG Interiors, L&W Supply Corp. and USG Foreign, each of which shall be a "C" corporation, to the extent they are United States based.
- Fixed Values:** The values for purposes of the Plan as outlined in this term sheet for the specified categories of claims and the estate are deemed the "Fixed Values". All categories of claimants other than the Asbestos Personal Injury Claimants ("PI Claimants") will either be paid in full in cash together with post-petition interest or be unimpaired under the Plan and will be treated as described below in Section B, "Plan Distribution". There is no residual value remaining for the old equity security holders.
- Cramdown:** Since all categories of claimants other than the PI Claimants will either be paid in full in cash together with post-petition interest or be unimpaired under the Plan, the PI Claimants will be the "Plan Proponents" and shall, if necessary, pursue cramdown of the Plan.
- Debt Structure:** On the Effective Date of the Plan the Company shall consummate a new credit facility and/or bond underwriting which shall provide for up to \$400 million of undrawn availability in a revolving credit facility and up to \$1 billion of funded debt (intended to have no less than a BBB rating) (collectively, the "New Debt"). The proceeds of the New Debt combined with the Company's existing cash shall fund distributions under the Plan.
- On the Effective Date the debt portion of the Company's capital structure shall consist of the New Debt and the reinstated IRBs.

B. Plan Distributions

Basic Premise:

After cash distributions to Administrative, Priority and Secured Claimants, the Revolving Credit Facility claimants, the Senior Note claimants, the IRB claimants and the General Unsecured claimants, and the retention of \$50 million after estimated Plan payments by the Parent, the Remaining Cash (“Remaining Cash”) shall be distributed to the Trust (as defined below). For purposes of claims recovery and distributions under the Plan, US Gypsum and Parent are consolidated.

Administrative, Priority Tax and Other Priority Claims:

Estimated Claims:
\$107.6 million (in aggregate)
Recovery: 100%

Each claimant shall receive payment in full in cash of the unpaid portion of an allowed Administrative, Priority Tax (except as noted below) or Other Priority claim on the Effective date or as soon thereafter as practicable (or if not then due, in accordance with its terms), provided, that at the option of the Company, each Priority Tax claimant shall receive either (i) payment in full in cash on the Effective Date or as soon thereafter as practicable or (ii) payment over a six-year period from the date of assessment as provided in section 1129(a)(9)(C) of the Bankruptcy Code with interest payable at a rate of []% per annum or such other rate as may be required by the Bankruptcy Code.

Secured Claims:

Estimated Claims:
\$0 million
Recovery: 100%

At the option of the Company, the Company shall (i) reinstate any such allowed Secured Claim by curing all outstanding defaults with all legal, equitable and contractual rights remaining unaltered, (ii) pay in full (in cash) any such allowed Secured Claim on the Effective Date or as soon thereafter as practicable or (iii) satisfy any such allowed Secured Claim by delivering the collateral securing any such claim and paying any interest required to be paid under section 506(b) of the Bankruptcy Code.

Revolving Credit Facilities:

Estimated Claims:
\$638.3 million (including accrued interest)
Recovery: 100%

On the Effective Date of the Plan, the Revolving Credit Facilities claimants shall be paid the full amount of their claims, including post-petition interest at the default rate, in cash.

Senior Note Claims:

Estimated Claims:
\$402.8 million (including accrued interest)
Recovery: 100%

On the Effective Date of the Plan, the holders of Senior Note Claims (the “Senior Note Claims”), comprised of claims of USG Corporation’s 9¼ % Senior Notes due 2001 and 8½ % Senior Notes due 2005, shall be paid the full amount of their claims, including post-petition interest at the default rate, in cash.

Industrial Revenue Bonds:
Estimated Claim: \$336.7 million (including accrued interest)
Recovery: 100%

On the Effective Date of the Plan, all Industrial Revenue Bond claims (the “IRBs”) shall be reinstated with all legal, equitable and contractual rights remaining unaltered and their accrued and unpaid interest, including post-petition interest at the default rate, shall be paid in full in cash.

General Unsecured Claims:
Estimated Claims: \$190.5 million (including accrued interest)
Recovery: 100%

On the Effective Date of the Plan, holders of general unsecured claims shall be paid in full including post-petition interest at the applicable U.S. Federal judgment rate in cash except for disputed non-asbestos claims which will be litigated as appropriate.

Current and Future Asbestos Personal Injury Claims:
Estimated Claims: \$5.5 billion
Recovery: 69% - 79%

On the Effective Date of the Plan, the Section 524(g) trust to be created under the Plan (the “Trust”) shall receive the Remaining Cash and 100% of the primary issued and outstanding stock of the reorganized Parent. In addition, the Trust shall receive a note from the Company in the amount of the tax refund from the operating loss carryback created by the contribution to the Trust, currently estimated at \$860 million.

Property Damage Claims:
Estimated Claims: TBD
Recovery: 100%

At the Plan Proponents’ option, either (a) all property damage claimants (the “PD Claims”) shall have their claims reinstated with all legal, equitable and contractual rights remaining unaltered except as disallowed, qualified or modified by bankruptcy courts, or (b) the PD Claims shall be estimated by the Bankruptcy Court and the estimated amount shall be paid in full in cash.

Common Stock and Options:
Recovery: 0%

The holders of the Parent’s existing common stock or options to purchase existing common stock of the Parent shall not receive any distribution under the Plan and the existing common stock of the Parent and the options shall be cancelled.

C. Other Plan Terms

Governance:

The post-Effective Date board of directors of Parent shall consist of seven (7) members: six (6) selected by the Official Committee of Asbestos Claimants and the Futures Representative and one (1) selected by Parent’s management. The board shall take all appropriate corporate action. The board of directors of Parent shall select the executive officers of the Company.

Miscellaneous:[01-02094-JKF USG Corporation and American Gypsum Company](#)**U.S. Bankruptcy Court****District of Delaware**

Notice of Electronic Filing

The following transaction was received from Zieg, Sharon M entered on 11/12/2004 at 2:51 PM EST and filed on 11/12/2004

Case Name: USG Corporation and American Gypsum Company

Case Number: [01-02094-JKF](#)

Document Number: [7017](#)

Docket Text:

Exhibit *Notice of Filing of Exhibits to Motion of Dean M. Trafelet, as the Futures Representative, and the Official Committee of Asbestos Personal Injury Claimants to Terminate Exclusive Periods for Debtors to File a Plan of Reorganization and Solicit Votes Thereon* (related document(s)[7016]) Filed by Dean M. Trafelet (Attachments: # (1) Exhibit A# (2) Exhibit B# (3) Exhibit C) (Zieg, Sharon)

The following document(s) are associated with this transaction:

Document description: Main Document

Original filename: N:\Bankruptcy\USG\TO BE FILED\NT of Filing of Exhibits.pdf

Electronic document Stamp:

[STAMP bkecfStamp_ID=983460418 [Date=11/12/2004] [FileNumber=3163570-0] [8597727d7ae31a40cda2cae10836634faf9a1d1c0cfa1255dc6404ede977944c2b91293c555412d98d68210672af7b41bb5ca87868ee75c06ab4060fe6df8933]]

Document description: Exhibit A

Original filename: N:\Bankruptcy\USG\TO BE FILED\Exhibit A.pdf

Electronic document Stamp:

[STAMP bkecfStamp_ID=983460418 [Date=11/12/2004] [FileNumber=3163570-1] [3a8d7195ee0b3098c344e9f868b2352cc2f52171a3d56b2be97a1aed1bd721de08ab4ce26146632e192f1cf90210778a146223dc2b1d70ca1011d7306a69b051]]

Document description: Exhibit B

Original filename: N:\Bankruptcy\USG\TO BE FILED\Exhibit B.pdf

Electronic document Stamp:

[STAMP bkecfStamp_ID=983460418 [Date=11/12/2004] [FileNumber=3163570-2] [1502b4e61ea330bf0531be9e0dc0c378498b6415781642df11310428af8c074765e1c19e4f88755967cd3abc6c611d8dae452d7cf81f8ff439af7c5ce20c297e]]

Document description: Exhibit C

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[STAMP bkecfStamp_ID=983460418 [Date=11/12/2004] [FileNumber=3163570-3] [93db99e9ed811fe4c0345f42082bf9f3f7c798fb2bd8e5055a4e6ae6dc7c8d1a8fa7a0b4735e86a7b77c451ab52231ab886108816293754eb70502076acfc874]]

01-02094-JKF Notice will be electronically mailed to: