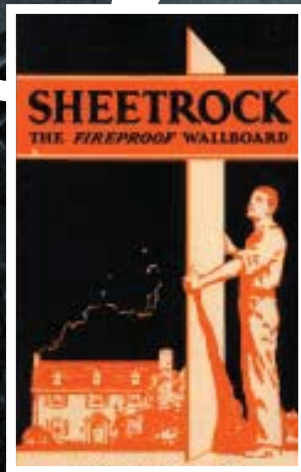


Special Centennial Issue | UNITED STATES GYPSUM COMPANY

Looking Ahead



100



The story of United States Gypsum Company's first 100 years, as profiled in this special edition of *Looking Ahead*, is truly remarkable. I encourage you to take a few minutes and read these articles. I think you'll find that the historical perspective they provide will be as inspiring to you as it is to me.

In many ways, the history of United States Gypsum Company over the past 100 years parallels that of our country. We prospered during the good times; persevered during the hard times; and through it all maintained our focus, integrity and innovative spirit. We grew from a hope and dream into one of the greatest business ventures of the 20th century.

As I read through this decade-by-decade account of U.S. Gypsum's history, I felt a great sense of excitement at the entrepreneurial spirit that led to our company's founding and early growth. I felt pride recalling how we took care of our business—and supported our employees—during the Great Depression of the 1930s. Few times have been tougher, and few companies showed more courage and compassion during these years than U.S. Gypsum Company.

Our role in the post-World War II housing boom was historic. It was our SHEETROCK Brand Gypsum Panels that enabled builders to construct the needed housing for our returning GIs and their new families.

In later years, it was our business savvy, courage and commitment that saw us through economic recessions, hostile takeover attempts and a Chapter 11 filing in 1993.

But without a doubt, the most striking aspect of our history is the collective contribution we have made to modern building design and construction. Our people, the products they created and the services they provided have forever changed how homes and commercial buildings are designed and built.

And you and I are part of this grand story. As we celebrate our centennial and work to conclude our current restructuring and emerge from bankruptcy, our past is more relevant now than ever. The principles that served us so well during our first 100 years—integrity, compassion, commitment and courage—should be kept close at hand as we venture into the next 100 years. Yes, it's a challenging time to be a part of USG, but meeting challenges is what made us a great company—and it's what will keep us a great company.

Sincerely,

A handwritten signature in black ink that reads "Bill Foote". The signature is written in a cursive, slightly stylized font.

Bill Foote
Chairman, Chief Executive Officer and President

a century of commitment



United States Gypsum Company's first president was **B.W. McCausland (1902-1904)**. He was a partner of **Waldo Avery (Sewell's father)** in The Alabaster Co. of Alabaster, Mich., and South Chicago, Ill., and Lieno Wall Finish Co. of Chicago. These operations were among the 17 that originally came together to form U.S. Gypsum. McCausland convinced leaders of additional gypsum companies to join U.S. Gypsum in its first year and kept the fledgling company together and afloat, despite fighting at the top.



One such fight resulted in the board of directors electing his successor, **George Ringland (1904-1905)**, as president. Ringland had been a partner in the Fort Dodge Plaster Mills, which had built the first gypsum mill at Fort Dodge, Iowa, in 1872. He also is the inventor of retarder for gypsum plaster, a breakthrough technology in the early gypsum business.



Another fight among the directors ended with 31-year-old **Sewell Avery (president, 1905-1936; chairman, 1936-1951)** being elected to head the company. After Avery graduated from the University of Michigan in 1894 with a degree in law, he went to work as manager of the Alabaster plant. He became a director of U.S. Gypsum when it was founded and worked as sales manager in Buffalo. He was promoted to Eastern sales manager and then was elected president, an exceptional career path.

In the early years, Avery focused on developing new products and markets for them, securing supplies of gypsum rock and expanding the company's manufacturing capacity in the late 1920s. In mid-1931, he was asked by J.P. Morgan to join the board of directors of U.S. Steel. Eight months later, he was named president of Montgomery Ward, another Morgan company. Avery thereafter left the daily management of U.S. Gypsum to Oliver Knode (executive vice president, 1931-1936; president, 1936-1942, 1949-1960).

At Montgomery Ward, he gained notoriety by firing 27 vice presidents and three presidents over 17 years and for refusing in 1944 to obey a War Labor Board order to renew a union contract that required Ward to fire any union member who failed to pay

dues. After the union went on strike, President Franklin Roosevelt directed the Secretary of Commerce to seize Ward's Chicago plant. When Avery refused to leave the building, two soldiers carried him out, a scene captured in a well-known photograph.



Clarence Huston "Tex" Shaver (chairman and chief executive officer, 1951-1965; chairman, 1965-1967) was hired from Arthur Andersen & Company as assistant controller in 1928. He was not from Texas, but had acquired his nickname in college as a result of his middle name. In 1933, he was named secretary-treasurer and elected to the board. Avery appointed him to manage U.S. Gypsum's finances while Sewell was running Ward's. Although Shaver had a reputation for keeping tight control on the purse strings, under his leadership, the company developed many innovative products, expanded capacity and continued to diversify following a strategy established by Avery.



Graham Morgan (president and chief executive officer, 1965-1970; chairman and chief executive officer, 1971-1983) directed U.S. Gypsum during an era of dramatic growth through acquisition. He began his career in 1939 as a salesman in Duluth, Minn. By 1953, he had been named vice president and assistant to the chairman. He was appointed executive vice president in 1959 and president in 1960.

Morgan is responsible for U.S. Gypsum's offering its first retirement plan in 1958 and deciding to build the Des Plaines, Ill., Research Center, opened in 1961. His first acquisition was American Rock Wool Corporation and its seven mineral wool plants in 1959. In all, U.S. Gypsum acquired 26 businesses during his term as chief executive, including major companies such as A.P. Green Refractories Co. in 1967 and Wiss, Janney, Elstner and Associates in 1973.



Edward Duffy (chairman and chief executive officer, 1983-1985) joined U.S. Gypsum in 1941 in the research department and then worked in sales, eventually becoming Construction Products Group vice president. Elected to the board and named executive

STATES GYPSUM COMPANY THROUGH TIMES OF TROUBLE AND OPPORTUNITY

vice president in 1969, Duffy was president from 1971 to 1981 and vice chairman from 1981 to 1983.

He oversaw expansion and modernization in the gypsum operations, as well as important acquisitions such as Masonite Corporation in 1984. Under his leadership, the company created USG Corporation as the holding company for its many businesses.



A World War II veteran who served in the U.S. Air Force, **Robert Day** (chairman and chief executive officer, 1985-1989; chairman, 1989-1990) started with U.S. Gypsum in 1950 as a salesman in Harrisburg, Pa. Day had received a B.A. degree from The Pennsylvania State University in 1947 and attended Northwestern University's Institute for Management in 1963.

After a number of management assignments, he was elected executive vice president and member of the board in 1979 and president and chief operating officer in 1981. A soft-spoken man, Day is remembered for his leadership in acquiring Donn Corporation in 1986 and in fighting the hostile takeover attempts by the Belzberg family

in 1986 and Desert Partners in 1987-1988. He also served as chairman of the Federal Reserve Bank of Chicago.



Eugene Connolly (chairman and chief executive officer, 1990-1996) led USG through its financial restructuring with toughness, aplomb and optimism. He earned a bachelor's degree in management in 1954 and an M.B.A. degree in 1964, both from Hofstra University. Connolly served as an officer in the U.S. Navy from 1955 to 1958, after which he went to work for U.S. Gypsum as a sales correspondent in Long Island. As he said, "I did well enough at that to get promoted to salesman."

He was actively involved in the formation and development of L&W Supply Corporation and USG Interiors, Inc. and went on to serve as president of several major subsidiaries, including U.S. Gypsum, DAP Inc. and USG Interiors. During the turmoil of the early 1990s, Connolly initiated a plan to restore USG to financial health and create a strategy and leadership for the future. Under his direction, USG successfully negotiated a prepackaged bankruptcy, concluded in 1993. By the time Connolly retired, the corporation had reduced its debt from \$3.1 billion to \$900 million.



One of the leaders who developed that post-restructuring strategy was **William Foote** (chairman, president and chief executive officer, 1996-1997; chairman and chief executive officer, 1997-1999; chairman, president and chief executive officer 1999-present). Foote earned a bachelor's degree in economics from Williams College and a master's degree from Harvard Business School. He worked for Chase Manhattan Bank in New York and McKinsey & Company, Inc. in Chicago before joining U.S. Gypsum in 1984 as director, strategic planning and corporate development.

Among his executive responsibilities have been general manager, Central Construction Products Region, U.S. Gypsum; president and chief executive officer first of L&W Supply and then of USG Interiors; and president and chief operating officer of USG Corporation. Foote directed USG through a period of historic growth, during which the corporation regained investment-grade status and invested

more than \$1 billion in modernization and expansion of the gypsum, ceilings and distribution core businesses.

With U.S. Gypsum facing mounting asbestos litigation out of all proportion to its true liability, Foote made the difficult decision to take the corporation and its U.S. subsidiaries into Chapter 11 bankruptcy protection in June 2001. His focus for the future is to see USG through present uncertainties to profitability and growth as a result of adherence to the organization's core values.

ceo

The Essence of U.S. Gypsum Company



Our Company's history reads like a great adventure novel. There are remarkable stories of triumph and hardship, courage and commitment—all set against the rich landscape of 20th century American business. But how does one adequately capture the essence of a company like U.S. Gypsum? This was the challenge facing the editorial team when we set out to organize, research and write this special centennial edition of *Looking Ahead*.

To start engineering the issue, we prioritized the top four goals of the publication:

- Capture the essence—"heart and soul"—of U.S. Gypsum Company;
- Celebrate the company's unique heritage, products, culture, spirit, employees, customers, goals and vision;
- Go beyond a simple chronicle of company history by describing the impact our company has had on manufacturing, modern building design and world history;
- Honor our past and illustrate how the enduring characteristics and culture serve to ensure our success over the next 100 years.

Next, we set out to identify the core characteristics that supported—and continue to support—USG's success. After an exhaustive review of policy and vision statements, speeches, videos and bulletins over the last 100 years, we compiled a list of 40 characteristics that best expressed the USG way of conducting business. Through a series of more than 50 cross-functional employee focus group interviews, we trimmed that list to 10 characteristics. By combining the research and interviews with what was happening at U.S. Gypsum Company and the world, we arrived at the key company personality characteristics—one for each decade the company has operated.

We hope that you'll find the story of U.S. Gypsum Company—along with the treasure of wonderful images—enticing enough to see this venerable old enterprise in a new light. One thing is clear: The characteristics that helped make USG successful 20, 50 or 100 years ago are still firmly intact today as we embark on our journey into the next 100 years.

Christina Koliopoulos, editor

Responsibility

THE *first* DECADE

1902-1911

FOUNDERS BALANCE RISK, RESPONSIBILITY

The history of United States Gypsum Company begins with an innovation, followed by competition and efficiency, as well as fiscal, individual and product responsibility—some of the main themes of the USG story for 100 years.



The original United States Gypsum Company logo.

The innovation came in 1884, when George Ringland of Fort Dodge, Iowa, discovered that glue added to calcined gypsum, or plaster of Paris, lengthened the set time. With more-controlled set, gypsum could compete strongly with lime-based plaster, which had been the wall coating of choice for centuries, but had several drawbacks. As demand grew, inexpensive calcining mills popped up all over the United States near deposits of gypsum rock. Most mill operators were inexperienced and had problems with processing. Even the best found it hard to make money because of oversupply and price wars.

Among the best was the Western Plaster Works of Alabaster, Mich., owned by Waldo Avery, a successful lumberman whose son, Sewell, later led U.S. Gypsum for

46 years. This company built a plant in South Chicago, Ill., to supply gypsum for the building facades at Chicago's 1893 Columbian Exposition, a showcase for gypsum plaster.

The end of the 19th century was the era of industry consolidation, when Standard Oil, U.S. Steel and others were built out of combinations of smaller companies. After a few false starts, several gypsum company owners, mainly in the Midwest, created their own combination. These owners, including the Averys, merged their properties in hope of creating economies of scale for greater profit, pooling resources for research and ending the price wars. Seventeen operating companies—mines, calcining operations, mixing plants and a retarder facility—consolidated to form United States Gypsum Company, which was incorporated on December 27, 1901. The owners exchanged their properties for stock valued at \$7.5 million.



That was Then

1902

Willis Carrier designed a system for cooling air, the forerunner of air conditioning. After World War II, when the technology was perfected and the costs had dropped, air conditioning became common in American homes. This invention eventually spurred Sun Belt population growth.

1903

Henry Ford founded the Ford Motor Company. The Wright brothers completed the first powered, manned airplane flight at Kitty Hawk, N.C.



1904

The first segment of the New York City subway opened. Subways and streetcar lines supported the growth of the first suburbs.

1907

A record 1.29 million immigrants entered the United States.

1911

The Supreme Court ordered the breakup of John D. Rockefeller's Standard Oil Company, citing the monopoly had engaged in unreasonable restraint of trade.



When U.S. Gypsum opened for business on February 1, 1902, it had not one dollar in cash. In March, the company was able to obtain a loan for \$200,000. The note bore the company's signature and those of all 20 directors, which made each personally responsible for the entire amount. In addition, the minutes of the first board meeting indicate that they decided to take minimal pay "until the Company was well under way and the stockholders could see the results."

The owners spent the first year adding facilities: 20 plants joined in 1902, again nearly all in the Midwest. The owners also spent quite a bit of time fighting for control and advantages for their own operations. There were two presidents in the first three years: B.W. McCausland (1902-1904), former partner of Waldo Avery, and Ringland (1904-1905). In 1905, during one of the battles among directors, Sewell Avery was elected president.

From the start, U.S. Gypsum produced a profit, albeit small, most of which was responsibly put back into the business. As planned, the company invested in research and development. Its first new product came on the market after just one year: PYROBAR gypsum tile, a fire-resistant building block used in nonload-bearing partitions. Introduced in 1903, this product offered the construction industry great improvements in fire safety.

Orville and Wilbur Wright flew the first airplane at Kitty Hawk, N.C.

The company took fire safety further when it made an investment in September 1909 that changed the course of the business. It bought the Sackett Plaster Board Company, founded by Augustine Sackett, who had invented (1888) and patented (1894) a panel made of multiple layers of paper and plaster of Paris. U.S. Gypsum had been selling SACKETT board for three years. Now it owned three plants in which to perfect the product's manufacture.

SACKETT board was at this time 1/4 inch thick, 32 inches wide and 36 inches long. It was heavy, the open edges tended to crumble, and the rough face paper made an unsuitable wall finish. Although ugly, the board was an excellent base for gypsum plaster. U.S. Gypsum marketed it as a replacement for flammable wood lath. Within a year, the company had improved its board considerably. In 1910, Clarence Utzman of the Grand Rapids, Mich., plant designed a folded edge that minimized crumbling. The better board was introduced in 1911. There were more improvements to come.

TRADE MARK

NOTHING MATTER

1912-1921



The women's suffrage movement worked tirelessly to gain ratification of the 19th Amendment, which gave women the right to vote.

THE BIRTH OF A BRAND, SALES BASED ON INTEGRITY

Product advances, vertical integration and sales growth based on integrity and other values formed the central accomplishments of U.S. Gypsum's second decade.

The company continued tinkering with its gypsum lath. In 1913, it eliminated the interior plies of paper to manufacture a panel with a solid gypsum core, named Adamant board. This change supported experimentation with larger sizes, including panels 48 inches wide and 8 feet long, which in turn required stronger paper that was harder to fold. Clarence Utzman came to the rescue again by perfecting a method of scoring the heavier paper to produce a square edge. This simple innovation gave U.S. Gypsum a competitive advantage because its panels could be joined flush along a wall and decorated without being coated with plaster. This, the first true wallboard, went into production in 1916 at Fort Dodge, Iowa. In 1917,

sales representative D.L. Hunter came up with a new name for the product: SHEETROCK. He received a share of preferred stock as a reward.

Then, as now, sales representatives played an important role in U.S. Gypsum's growth. Many of the company's products—gypsum lath, PYROBAR tile and SHEETROCK Brand wallboard—were new ideas, unknown in the construction industry. The sales force had to create a market for them. They did so with honesty and integrity. Sewell Avery reported to shareholders in 1907, "These...representatives of your company have been selected and trained with careful regard to their integrity, ability and experience. ...Each approaches his customer...with the conviction that the first principle of successful salesmanship is a strict adherence to fairness and fact."

During this decade, U.S. Gypsum started down the path toward vertical integration that served it well in years to come. An important focus during these early days was securing additional supplies of raw material. The company bought the Southard, Okla., gypsum deposit—some of the purest gypsum in the world—in 1912 and identified other rock sources that were purchased or developed in following years. When lime companies wouldn't sell gypsum producers the lime they needed to make finishing plaster, the company bought a lime deposit and built a plant at Genoa, Ohio (1915). U.S. Gypsum constructed its first wallboard-paper mill in 1918 at Gypsum, Ohio, and bought a mill at Lancaster, Ohio, in 1920 to provide paper for plaster bags. It also built new board lines at Oakfield, N.Y., (1919) and Gypsum (1920) and purchased operations in California, Nevada and Colorado (1919).

1919 was also the first year U.S. Gypsum paid a dividend on its common stock—a tradition that lasted 69 consecutive years.



World War I helped the company grow. When several Army barracks burned because a pressed paperboard had been used for partitions, the government specified SHEETROCK Brand wallboard for all troop quarters. Volume in 1917 and 1918 doubled vs. 1916, but when the war ended, U.S. Gypsum was faced with the problem of selling SHEETROCK panels to civilian markets. It launched a major advertising and sales program, and within two years, sales of SHEETROCK panels had doubled, comparing favorably with wartime levels. U.S. Gypsum's first major period of expansion was just over the horizon. The company would rely on its new research department, organized in 1921, to take it forward.

A 1920s U.S. Gypsum marketing brochure envisioned the future of building design.



That was Then

1912

Congress set an eight-hour work day for federal employees. Most other Americans worked 10 to 12 hours a day, six days a week.

1913

The 16th Amendment was ratified, permitting Congress to levy a graduated income tax.

1914

World War I started in Europe. Also, after 10 years of work and 30,000 casualties suffered in its construction, the Panama Canal opened.



1915

Long-distance telephone service began between New York and San Francisco.

1917

The United States declared war on Germany. The Bolshevik revolution in Russia started.

1918

World War I ended; the death toll ran to more than 7 million.

1919

American Telephone & Telegraph Company introduced dial telephones.

1920

The U.S. ratified the 19th Amendment, granting women the right to vote.

SHEETROCK WALL BOARD



where we

live



Home building has been a major market for United States Gypsum Company's products throughout the company's history. The structures and communities in which we live have changed as much in the past 100 years as has USG. *Looking Ahead* takes a glance back at housing—both the industry and its product—to see how the modern market and home came to be.

THEN AND NOW

In 1900, 60 percent of the people in the United States lived in rural areas. Most houses there were heated with coal or wood.

Plumbing consisted of a privy out back, and light came from lanterns. If you lived in a city, you probably had gas service and indoor plumbing and possibly electricity. Folks literally got around by horse power on mostly unpaved roads. There were 8,000 registered automobiles in the U.S.

Only 46.5 percent of the 76 million people living in the nation at the time owned their homes. The typical house had two stories, 700 to 1,200 square feet of living space, two or three bedrooms and one or no bathrooms. An average house cost less than \$5,000. Given that the median family income was \$490 a year, that was a lot of money. Housing starts totaled 189,000.

By 2000, the U.S. population had hit 270 million, and the home ownership rate had risen to 67.4 percent. The average house cost \$206,400 and had two stories, three or more bedrooms, two and a half baths, a garage for two or more cars, central air conditioning and 2,270 square feet of living space. Housing starts stood at 1.6 million, about 80 percent of which were single-family homes. Three-quarters of the population lived in urban areas, mostly suburbs. They traveled to and from home in one of the more than 208 million gasoline-fueled vehicles on the road.

WHY DID THINGS CHANGE?

Home ownership and housing evolved as a result of a number of factors, including the increasing availability of mortgages, laws supporting home ownership

through income-tax deductions for mortgage interest and property taxes, public investment in infrastructure (sewer systems, paved roads), changes in transportation and technology, the rise of large home-building companies and more-efficient construction methods.

MORE LENDING INCREASES HOME OWNERSHIP

In 1900, most home buyers paid cash or borrowed from a relative, friend or local business person. Individuals made up the largest segment of mortgage lenders. The other main source of loans was building and loan organizations. There were about 5,800 of them in 1900. Their loans to individuals were short-term, usually no more than five years.

The government helped create modern mortgage lending during the Great Depression, when Congress passed legislation to aid homeowners in avoiding foreclosures. The Federal Home Loan Bank Act of 1932 extended credit to savings and loan institutions so they could finance mortgages, and the Home Owners Loan Act of 1933 gave these thrifts lending authority to provide emergency refinancings. They offered revolutionary terms: 15- to 20-year fixed-rate amortized loans at rates as low as 5 percent. In the first two years following passage of the law, 1 million loans totaling \$3 billion were made.

In 1934, Congress enacted legislation that created the Federal Housing Administration, (FHA) with its government-backed insurance program, and enabled lenders to increase liquidity by selling pools of loans to investors.

After World War II, veterans were able to buy houses with low-interest mortgages guaranteed by the government, one of the many benefits provided by the GI Bill, officially the Servicemen's Readjustment Act of 1944. The FHA often funded the suburban housing developments where they purchased homes.

The 1970s saw the introduction of adjustable-rate mortgages and the first government mortgage-backed securities, which further increased capital for lending. During the 1980s, large corporations such as General Electric, large banks such as Citicorp and many credit unions moved into the mortgage business.

All of these changes increased the availability of mortgages, enabling more people to own a home.



TRANSPORTATION, NEW BUILDING METHODS PROMOTE SUBURBAN GROWTH

Most new housing built in the past 100 years was located in suburbs. Even before the 20th century began, streetcar lines and commuter railroads fostered development of early suburbs. Housing there often was built by local carpenters using plans ordered by mail. Soon, people were able to order entire houses by mail.

E.F. Hodgson Company of Dover, Mass., is credited with selling the first prefabricated houses in 1892. The most famous houses-by-mail company, Sears, Roebuck, entered the business in 1908. Sears was the first to offer a total package, including furnishings and installment financing. Following Henry Ford's model of vertical integration, Sears established its own factories to cut lumber and make doors and windows.

An estimated 500,000 kit houses produced by a dozen companies were sold in the last century, mainly between 1910 and 1940. The kits consisted of up to 30,000 numbered pieces that were shipped to the future homeowner in boxcars. The homes' use of pre-cut lumber and balloon framing made them fairly simple and quick to erect.

Kit houses' factory origins place them as forerunners of the suburban developments that met the housing needs of returning World War II veterans. Starting

in the late 1940s, large developers created house-building "factories" on site. The most famous of these was William Levitt. During World War II, he and his brother Alfred won government contracts to construct housing for defense workers. Under time pressures, they developed mass-production building methods based on their observations of auto assembly lines.

In 1946, William bought a potato field in Island Trees, N.Y., on Long Island. There, from 1947 to 1951, Levitt and Sons built a community of 17,450 homes, later renamed Levittown. At the peak of construction, the company put up 30 houses a day at a time when most builders finished four or five a year.

Levitt's model turned the workers into a movable assembly line. Crews performed only one job in a 27-step process. They would go from site to site excavating, pouring foundations, raising walls and roofs, adding doors and windows, installing plumbing and appliances and finally painting and finishing.

This process and other elements—the large size of the development, vertical integration in materials and delivery and the identical design of the houses—made the project economically feasible. The company cleared about \$1,000 on a house with an \$8,000 price tag. Using government mortgage-guarantee programs to offer financing with no down payment, Levitt sold 300 houses in the first weekend of sales.

Many considered the huge developments of 750-square-foot, two-bedroom Cape Cod style homes to be monotonously uniform. To their buyers, these houses were a big step up from urban rental housing—a piece of the American dream. The company built two more communities, one near Philadelphia in the 1950s and a third in New Jersey in the 1960s.

Suburban development exploded as many builders followed the Levitt model and grew in the process. Today, most of the large home building companies founded in the 1950s, such as Pulte Homes, KB Home (Kaufman and Broad) and Centex Corporation, are publicly held and work in many markets across the nation. The homes they construct are luxurious, technological marvels by 1900 standards, made possible by innovations in building, including the developments in drywall construction pioneered by U.S. Gypsum Company.



1922-1931



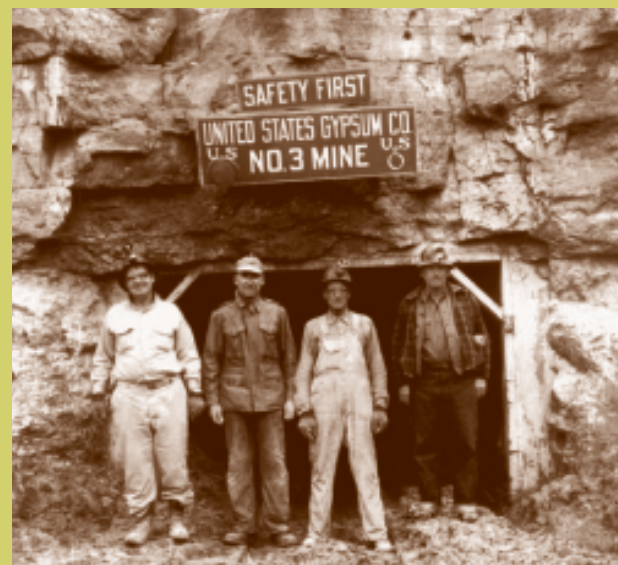
BOOM AND BUST—COMPANY MANAGES ITS FIRST MAJOR CYCLE, SAFETY A PRIORITY

U.S. Gypsum entered its third decade on a wave of expansion. The '20s were roaring, construction was booming, and the company grew to meet demand. It built wallboard machines at Southard, Okla. (1922), Plasterco, Va., and Sweetwater, Texas (both 1924), and began gypsum processing at Midland, Calif. (1925).

U.S. Gypsum had operations throughout the West and Midwest, but had been unable to enter the large Eastern markets because of J.B. King. King refused to join the combination in 1901 and held out until his death in 1924. He owned a plaster plant on Staten Island in New Brighton, N.Y., that processed material from his quarries in Nova Scotia—the only gypsum reserves on the East Coast of North America. U.S. Gypsum's closest mine was in Oakfield, N.Y., too far away to compete.

When King died, U.S. Gypsum bought his company, thereby securing a huge deposit of rock that could be shipped economically to the East Coast. To move this material, King had operated a fleet of schooners, all with “royal” names in keeping with his surname, e.g., the Gypsum Queen. U.S. Gypsum replaced these with its own, modern “royal fleet,” the Gypsum King (1927), Gypsum Prince and Gypsum Empress (both 1928).

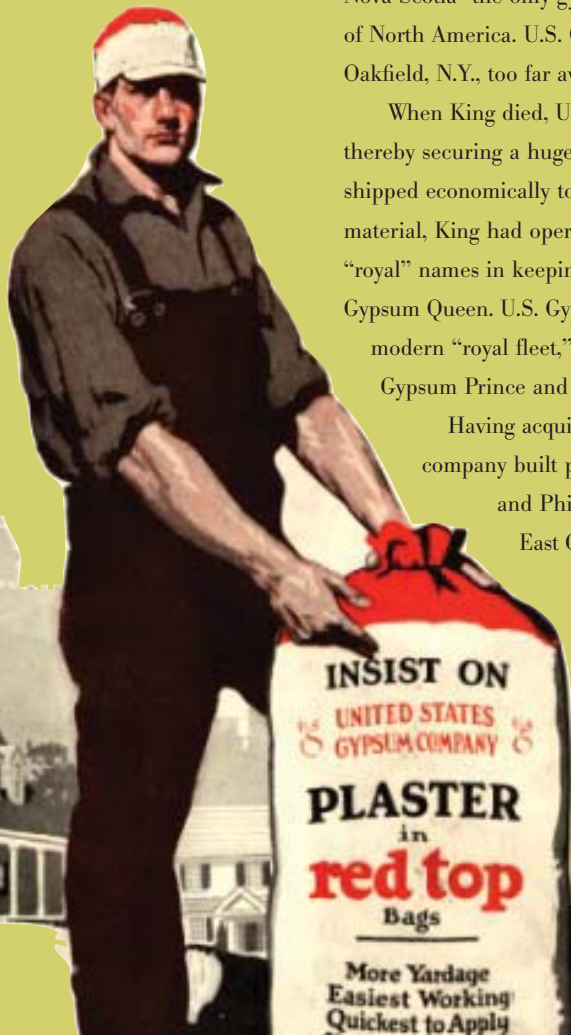
Having acquired inexpensive raw materials, the company built plaster and board plants in Boston and Philadelphia in 1929. Plants in East Chicago, Ind., and Detroit, supplied from the expanded Alabaster, Mich., quarry (1928), started up that same year. Paper for



the additional lines came from new mills at Oakfield and North Kansas City, Mo. (both 1926). U.S. Gypsum funded this expansion in part by issuing common stock.

Product innovations also helped the company grow. The newly created research organization invented a “soap foam” process (1922) for incorporating air into the gypsum board core, which greatly lowered the weight of SHEETROCK panels. The company also brought to market the first true joint compound (1924) and the first mineral fiber ceiling tile (1929). This ACOUSTONE tile offered fire safety, unlike previous ceiling panels, which contained wood fiber. HYDROCAL gypsum, introduced in 1930, provided a stronger, harder plaster for industrial uses.

Red Top Plaster was one of U.S. Gypsum's leading product lines in the 1920s.



That was Then

1925

An apartment designed by Charles Jeanneret (Le Corbusier) appeared in an exhibit of Arts Decoratifs in Paris. The term *Art Deco* was coined many years later to describe the exposition's style.

1927

Charles Lindbergh completed the first nonstop solo transatlantic airplane flight.



1929

The U.S. stock market crashed on October 29, wiping out \$30 billion in equity value and ushering in the Great Depression. Penicillin was first used to fight infection.

1930

More than 1,300 U.S. banks failed. Unemployment exceeded 4 million.

1931

General Motors' Frigidaire division replaced ammonia in refrigerators with Freon 12 gas, making the appliances safe for household use.



U.S. Gypsum was one of the first companies to use "lock-out" switches to protect employees from accidental equipment start-up during maintenance or trouble-shooting.

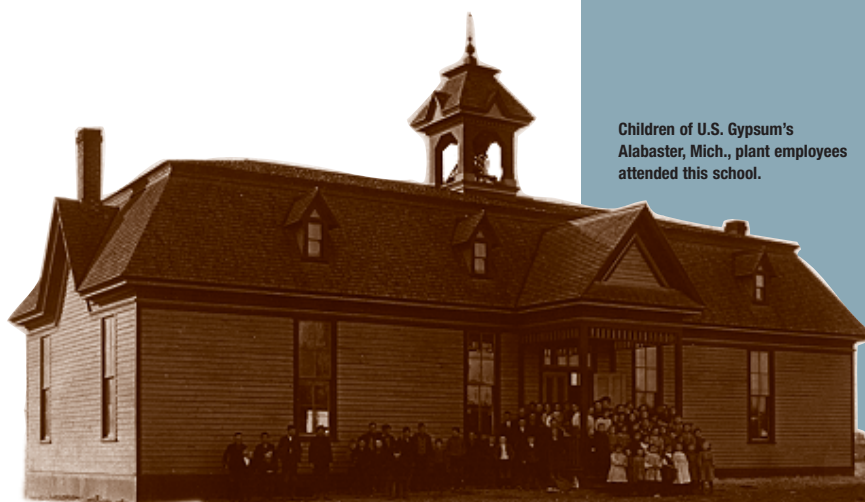
During the '20s, sales and earnings hit peaks of \$32.8 million (1926) and \$8.4 million (1925), respectively. Sales had quadrupled and earnings had increased nearly 700 percent since 1919, the first year after World War I. Business started to decline from these highs, so the company's leaders already were anticipating trouble when the stock market crashed in October 1929 and the Great Depression began. U.S. Gypsum had accumulated \$35 million in cash reserves to see it through.

Rather than sit on this money, Avery and other executives decided to grow while growth was cheap. They began an era of diversification in 1931 by purchasing two expanded metal companies that manufactured metal lath, as well as a wood fiber plant in Greenville, Miss. Canadian Gypsum Company, formed in 1907, built wallboard plants at Hillsborough, New Brunswick (1930), and Hagersville, Ontario (1931).

The period was not without problems. In 1931, U.S. Gypsum faced declining prices and sales. That August, Oliver Knode, then executive vice president, sent a 20-chapter book entitled "A Test of Management" to all key managers. It gave instructions on surviving the Depression. Each chapter focused on a single subject. One emphasized the importance of safety.

In 1913, U.S. Gypsum had demonstrated its safety leadership when it joined with 67 other companies to form the National Safety Council. In 1931, R.E. Colville of the operating department wrote as part of Knode's book, "As leaders of men and as managers of industrial properties, we cannot for humanitarian and business reasons, shirk the responsibility of reducing accidents to an irreducible minimum.... Accident elimination must become a vital phase of plant operation."

The work at company facilities in these early years was strenuous, especially in the mines and quarries, where many functions were done manually. Yet safety was, and remains, a major priority.



Children of U.S. Gypsum's Alabaster, Mich., plant employees attended this school.

The walls won't burn



n they're Sheetrock

An ad published in the *Saturday Evening Post* promoted the fire-resistant benefits of SHEETROCK Brand Gypsum Panels.



THE *fourth* DECADE

1932-1941

Relationships with Employees

EMPLOYEES HELPED THROUGH DARK DAYS

“Business conditions are fully as bad as...predicted,” wrote W.L. Keady, then assistant general manager of operations, as 1932 began. “...At best we are facing a most trying year.” U.S. Gypsum’s capacity utilization fell to 20 percent in 1932. Despite its problems, the company made a profit every year of the Great Depression.

It stood by employees during this difficult time. Oliver Knode’s 1931 communication, “A Test of Management,” concluded with guidelines for winter relief efforts. He wrote, “In the present depressed states of business, there is another responsibility...that management must accept: ...to alleviate the distress incident to unemployment.”

Plants reduced current employees’ schedules and undertook improvements and maintenance projects so as to return some laid-off workers to the payroll. Company representatives acted as advocates in employees’ talks with landlords and other creditors. U.S. Gypsum extended credit at company stores and in rent on company housing. (It had built these communities to attract workers to remote operations.) It coordinated relief donations from employees and even provided interest-free loans.

As Knode said in an address to the Personnel Conference 20 years later, “The Golden Rule has been our Company’s first precept since its inception.” That was evident during the dark days of the early ’30s.

The repair and remodel and industrial markets helped U.S. Gypsum survive this period. Individuals and companies remodeled buildings instead of erecting new ones, creating a growing outlet for the company’s products. As the economy quickened, industry rebounded before construction did. At that time, 15 percent of USG’s sales were to industry.

With economic recovery, Sewell Avery launched his growth plan based on widespread plant locations, vertical integration and diversification into other building materials. The company expanded its geographic reach with two wallboard lines at Midland, Calif. (1933 and 1937), and





The Dust Bowl was the worst drought in U.S. history, affecting more than 75 percent of the country.

U.S. Gypsum's **TEXOLITE** interior paints were promoted as an easy way to cover wallpapers and other interior finishes.

a board plant at Jacksonville, Fla. (1939), a state in which market research indicated a building boom was coming.

U.S. Gypsum had diversified into paint and metal in the previous decade. In the 1930s, it entered the asphalt roofing business by acquiring a number of plants, including one in South Gate, Calif. (1934), which was making wallboard paper by the end of the decade. It also introduced **RED TOP** mineral wool insulation in 1933, which sowed the seed for later growth in this line. With diversification, the company began delivering mixed truckloads to its customers, a relatively new idea that gave U.S. Gypsum a service advantage.

Innovations flowed from the company's Building Materials Research Laboratories, which moved in 1936 from Chicago's Lewis Institute to their own building at 1253 West Diversey Parkway. "Stabilized set" wall plasters (1932) offered dependable set times. Bundling two gypsum panels face to face with paper end tape (1934) protected the panels' surface. **PERF-A-TAPE** perforated paper joint tape (1936) created a smoother joint between gypsum panels. **GLATEX** glazed ceramic siding (1939) provided a fire-resistant exterior that was easy to clean and never needed painting. This product, similar in concept to the enameled-steel siding used on the 1940s Lustron homes, found a niche market as the material for drive-in theater screens.

In 1941, the United States entered World War II, which brought the company new problems and opportunities.



That was Then

1932

Bank failures for the year totaled 1,161; nearly 20,000 companies went out of business.

1934

The Dust Bowl devastated the U.S. heartland, blowing away 300 million tons of topsoil.

1935

The Social Security Act became law. America's first public housing projects were established on the Lower East Side of New York City.

1936

More than one-third of U.S. families had incomes below the poverty level.

1937

The first photocopier was demonstrated. Frank Lloyd Wright completed Falling Water in Bear Run, Pa.



1939

Germany invaded Poland; Great Britain and France declared war.

1941

On December 7, Japan attacked Pearl Harbor, pulling the United States into World War II.

Relationships with Customers

THE *fifth* DECADE

1942-1951



MODERN HOME BUILDING ERA DAWNS AT WAR'S END

As the United States geared up for war, U.S. Gypsum found itself facing labor shortages and a construction slump caused by a government-imposed limit on home building. Thousands of employees served in the military during World War II, and several hundred were wounded or killed.

The Canadian government conscripted all four of the company's ships; two were sunk by torpedoes, and one went down in a collision with a tanker.

The company supplied important materials to the government during the war, including about 1 billion square feet of gypsum wallboard and sheathing for barracks and other buildings, expanded metal for ships and landing-field mats at air bases, insulating wool for bombers and high-quality lime for processes at Hanford, Wash., where plutonium for the atomic bomb was made.

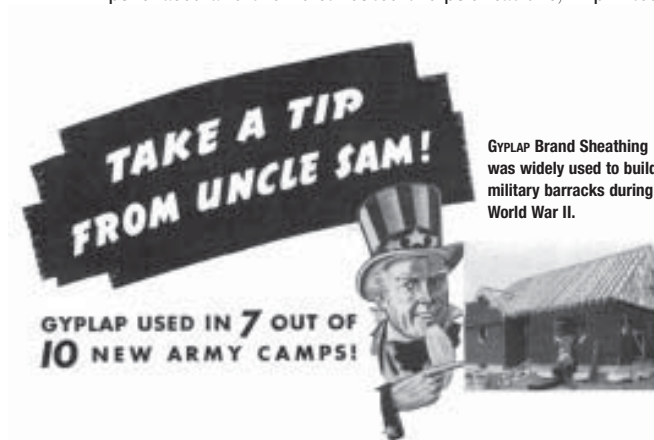
Keeping in touch with USG servicemen around the world became the job of Helen Graham. She started the first company-wide publication, *U.S.G. Service News*, the predecessor of *Gypsum News* and *Looking Ahead*. In 1943, the company launched a foresighted advertising effort. It published magazines—*The Business of Farming* and *Popular Home*—that promoted its products. Dealers purchased and then distributed the publications, imprinted



The Allies' successful D-Day invasion marked the beginning of the end of World War II.

with their names, to customers. Only *Life* magazine had greater circulation at the time.

Soldiers returning after the war encountered a housing shortage. In response, new-home building boomed. Veterans used low-interest GI-Bill mortgages to purchase homes in large single-builder suburban developments—exemplified by the Levittowns in the East. To forge relationships in the changing construction industry, in which sales frequently started in the design phase, U.S. Gypsum established the architectural service department in 1946. Drywall construction gained even greater acceptance during this period because it could be completed faster than wet walls. The company's sales force played an important role in training tradesmen in proper application of gypsum panels, tapes and joint compounds.



That was Then

1942

President Franklin Roosevelt allocated almost 90 percent of the budget to the war effort, including production of planes, tanks and military supplies. The unemployed began to work in industry fueled by war.

1943

The Pentagon, the world's largest office building, was completed.

1944

Allied troops stormed the beaches at Normandy on D-Day. A team of scientists, working at Harvard University and funded in part by IBM, constructed the first automatic, general-purpose, digital computer. Congress passed the GI Bill of Rights, which financed college educations and home mortgages for many World War II veterans.

1945

In August, U.S. planes dropped atomic bombs on Hiroshima and Nagasaki. Japan surrendered. World War II ended. Total casualties exceeded 54 million.

1946

The U.S. birth rate increased 19 percent this year. Why? Returning veterans started families.

1947

Bill Levitt began construction of a development of affordable homes on Long Island, at what was later to be named Levittown.

1948

American physicists invented the transistor. CBS broadcast the first TV programs in color; conventional sets received only in black and white.

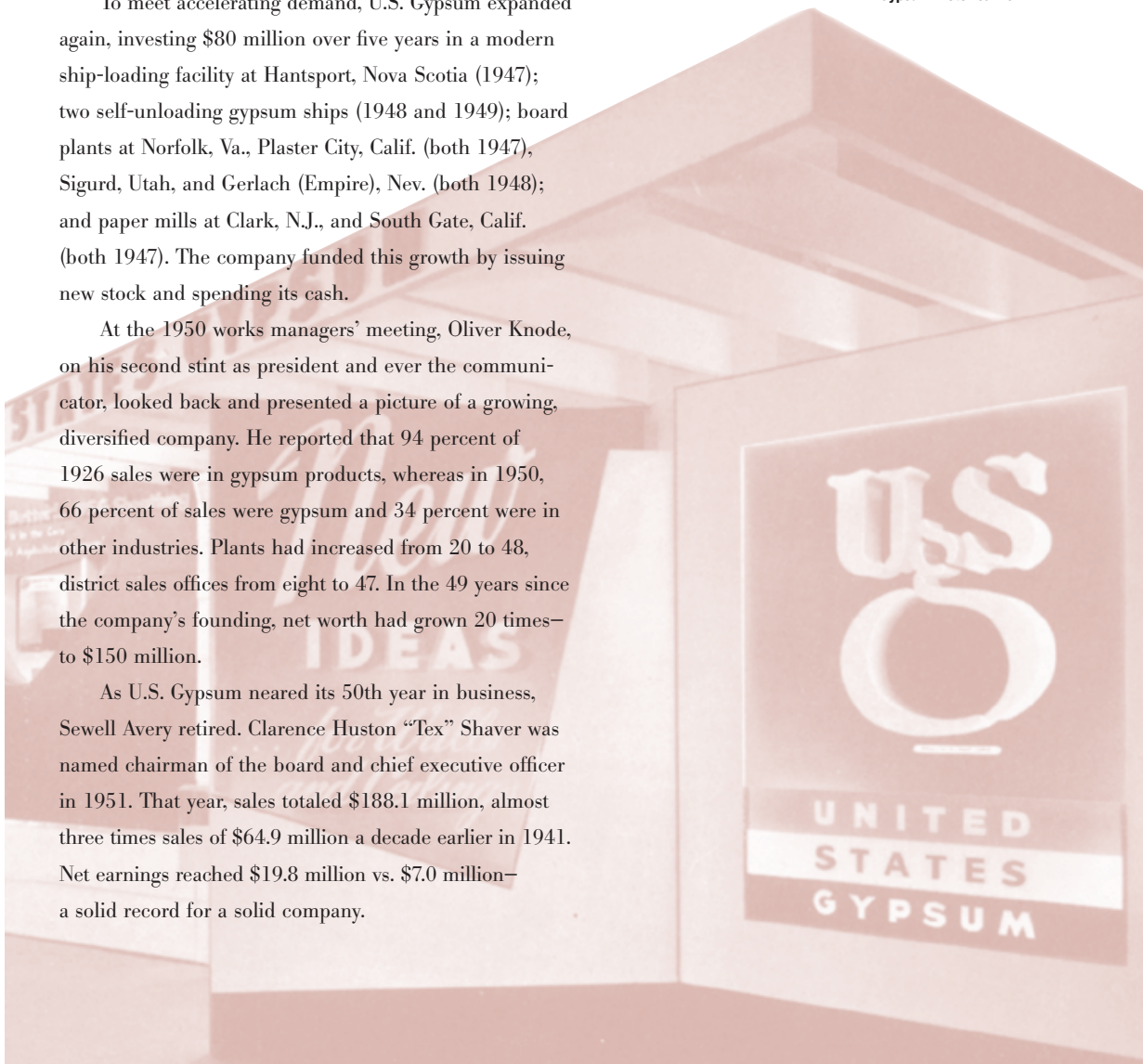


George Catalano, seen here in 1946, was a principal of Boston-based Catalano Brothers, a long-time U.S. Gypsum motor carrier.

To meet accelerating demand, U.S. Gypsum expanded again, investing \$80 million over five years in a modern ship-loading facility at Hantsport, Nova Scotia (1947); two self-unloading gypsum ships (1948 and 1949); board plants at Norfolk, Va., Plaster City, Calif. (both 1947), Sigurd, Utah, and Gerlach (Empire), Nev. (both 1948); and paper mills at Clark, N.J., and South Gate, Calif. (both 1947). The company funded this growth by issuing new stock and spending its cash.

At the 1950 works managers' meeting, Oliver Knode, on his second stint as president and ever the communicator, looked back and presented a picture of a growing, diversified company. He reported that 94 percent of 1926 sales were in gypsum products, whereas in 1950, 66 percent of sales were gypsum and 34 percent were in other industries. Plants had increased from 20 to 48, district sales offices from eight to 47. In the 49 years since the company's founding, net worth had grown 20 times—to \$150 million.

As U.S. Gypsum neared its 50th year in business, Sewell Avery retired. Clarence Huston "Tex" Shaver was named chairman of the board and chief executive officer in 1951. That year, sales totaled \$188.1 million, almost three times sales of \$64.9 million a decade earlier in 1941. Net earnings reached \$19.8 million vs. \$7.0 million—a solid record for a solid company.





U.S. Gypsum's highly acclaimed Research Village was a collection of homes designed by leading architects of the 1950s. It was intended to showcase alternative home design and construction techniques.

BEDROOM 1
12-6 X 13-6

BEDRO
9-0 X

BEDI
9-0

BATH 1

BATH 2

PLAY-G
13-6 X

KITCHEN
9-6 X 13-6



Innovation

THE *sixth* DECADE

1952-1961



U.S. GYPSUM LEADS THE WAY IN INNOVATION WITH RESEARCH VILLAGE

The 1950s building boom brought a need for better home design and labor-saving products, not to mention more gypsum wallboard. U.S. Gypsum led the way with groundbreaking ideas.

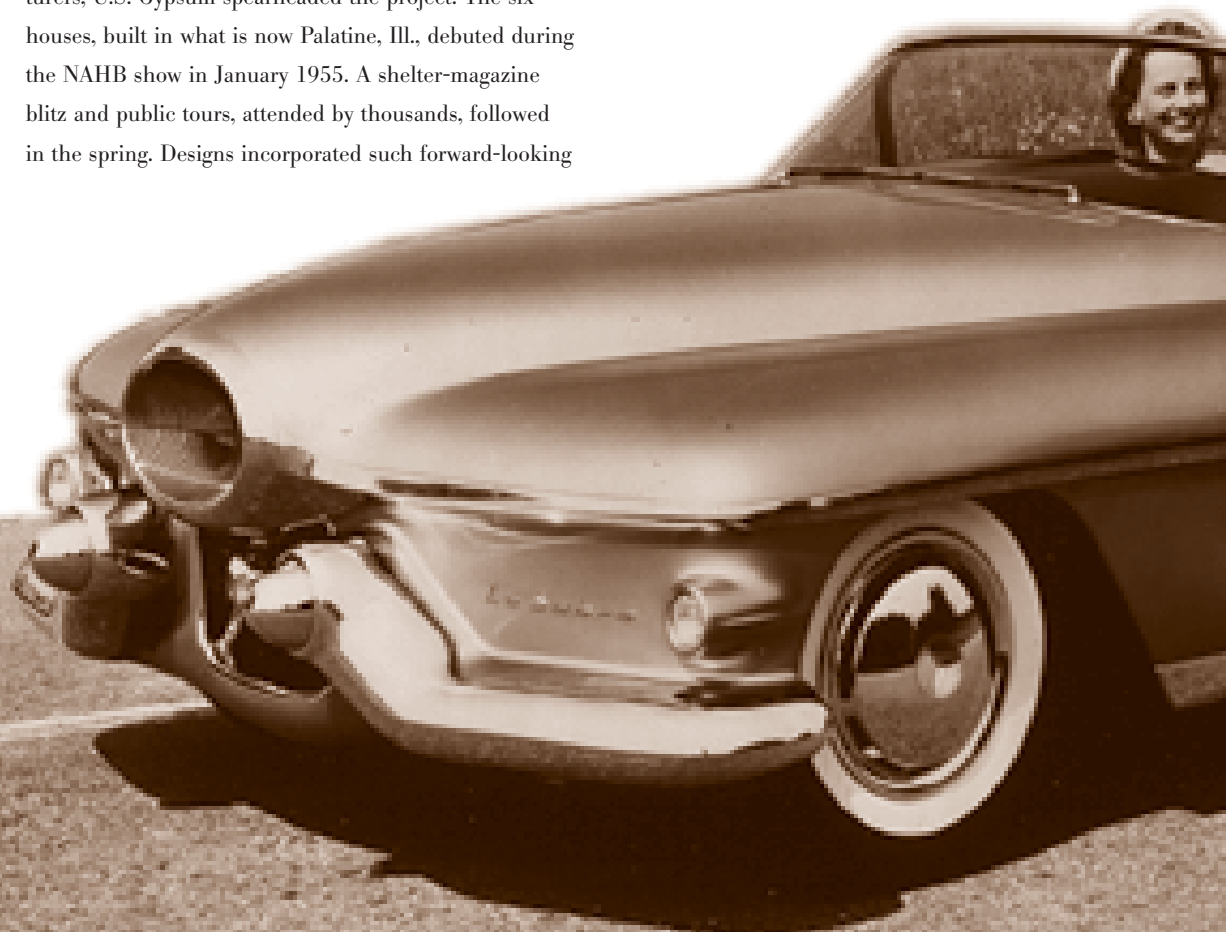


In 1952, the company presented a revolutionary concept to the directors of the National Association of Home Builders (NAHB): a Research Village of six moderately priced homes, each designed and built by a different architect/builder team. The homes would demonstrate practical yet innovative ideas to encourage builders to improve the design and construction of suburban housing. The houses also would appeal to buyers and, of course, showcase a wide variety of U.S. Gypsum products.

With the support of the NAHB and other manufacturers, U.S. Gypsum spearheaded the project. The six houses, built in what is now Palatine, Ill., debuted during the NAHB show in January 1955. A shelter-magazine blitz and public tours, attended by thousands, followed in the spring. Designs incorporated such forward-looking

features as an all-steel frame and USG roof deck with exposed open-truss metal joists, a concrete roof that was poured and then lifted by jacks onto steel columns, walls of windows, volume ceilings and outdoor living areas that visually extended interior spaces. Five of the six homes still stand, and although awareness of Research Village faded, U.S. Gypsum made its mark as an innovator.

Two major labor-saving products met contractors' needs during this period. Tapered-edge SHEETROCK panels, which came out in 1952, made it easier to produce a good drywall joint. In 1953, U.S. Gypsum changed joint



finishing forever when it introduced the first ready-mixed joint compound. Based on latex technology developed as a rubber substitute during the war, this product rapidly gained ground in the market. The company advanced high-rise construction in 1960 by introducing its fire-resistant metal stud and screw-attached drywall system.

The source of such innovations—the Research Department—had long outgrown its Chicago location when the company built a new laboratory in Des Plaines, Ill. Completed in 1961, the 110,000-square-foot facility won a number of design awards and served U.S. Gypsum well for more than 20 years.

In the manufacturing arena, the company continued to build plants to meet demand. CGC opened a wallboard plant in Montreal (1953). In addition to several plant expansions, U.S. Gypsum started up the Shoals, Ind., facility, with its mine and board plant (1954), a wallboard plant at Stony Point, N.Y. (1955), a paper mill at Galena Park, Texas (1959), the Chamblee, Ga., joint compound plant (1959), the Sperry, Iowa, mine and plant (1960) and the Dallas facility (1961), then producing paint and joint tape.

U.S. Gypsum decided to grow through acquisition, too, and used some of its \$80 million in cash to purchase the seven mineral wool plants of American Rock Wool



The new state-of-the-art U.S. Gypsum Company Research Center (above and right) was opened in Des Plaines, Ill., in 1961.

Corporation as well as a mineral wool and ceiling tile facility in Walworth, Wis. (all 1959).

Employees received the company's first major benefits program in 1958—a basic pension plan implemented at the insistence of Graham Morgan, then vice president.

On a lighter note, it was during the '50s that Chicago native Bob Newhart spent 14 months in the employ of U.S. Gypsum. Hired in August 1955, he worked as a junior accountant in engineering, an experience some say he used in his early material. When faced with the choice of transferring to the U.S. Gypsum plant in Lisbon Falls, Maine, or staying in Chicago to pursue a career in radio comedy, Newhart chose comedy and only occasionally looked back—with humor.

That was Then

1952

Dick Clark hosted the first "American Bandstand."

1955

Ray Kroc established McDonald's Corporation after buying a hamburger franchise from the McDonald brothers of San Bernardino, Calif., in 1954. The first American theme park opened—Disneyland.

1956

The Federal Highway Act was passed; the highway system that resulted caused a shift in population from U.S. cities to suburbs and in commercial transportation from rail to truck. Martin Luther King Jr. organized a bus boycott in Montgomery, Ala., after Rosa Parks refused to move to the back of the bus.

1957

The U.S.S.R. launched Sputnik I and II, the first man-made earth satellites.

1958

The American Express card debuted.

1959

The Guggenheim Museum opened; its designer, Frank Lloyd Wright, died at age 89. Jack Kilby and future Intel founder Robert Noyce invented the microchip, predecessor of the microprocessor.

1961

East Germany built the Berlin Wall to stop the tide of people escaping from East to West Berlin. Soviet cosmonaut Yuri Gagarin became the first man to travel in space.



Tooling for this streamlined General Motors LeSabre test car was created using HYDROCAL Gypsum-Cement.

U.S. Gypsum's *Popular Home* magazine provided homeowners with the latest design and remodeling ideas.



Opportunity

THE *seventh* DECADE

1962-1971



COMPANY FINDS OPPORTUNITY IN NEW MARKETS

The 1960s were a time of opportunity seized—through acquisitions, diversification, international expansion and industry-changing products.

U.S. Gypsum's first major investment of the decade was the purchase of 5 percent of British Plaster Board Limited (BPB) in 1962. The holding, increased to 15 percent the next year, brought with it new technology—BPB's continuous-kettle calcining process, which later made possible USG's high-speed board plants.

U.S. Gypsum also continued to buy plants and assets that expanded its current lines and took it into even more product categories. Acquisitions bolstered its lime and paint businesses and further diversified the company into safety grating and other metal products for industrial

facilities (The Globe Company, 1964); plastic panels, laminates and shower bases (Fiberesin Plastics Company, 1968); aluminum building specialties, including shower doors (Kinkead Industries Incorporated, 1969); and construction adhesives (Chicago Mastic Company, 1971). Most acquisitions focused on construction or industrial processes, with the major exception of A.P. Green Refractories Co. Purchased in an all-stock deal in 1967, A.P. Green made firebrick in 36 plants around the world. The acquisition was intended to reduce the peaks and valleys in U.S. Gypsum's earnings.

BPB and A.P. Green were not the company's only international ventures. It sought opportunities abroad by building a ceiling tile plant in Mons, Belgium (1968), as well as a gypsum wallboard plant (1969) and ceiling tile facility (1970) in Mexico.

Within the United States, expansion took the form of new wallboard plants at Baltimore (1962) and Santa Fe Springs, Calif. (1966), a mineral fiber ceiling tile line at Greenville, Miss. (1963), a hardboard facility at Danville, Va. (1967), and a paint and joint compound plant near Chicago's Midway Airport (1970).



U.S. Gypsum exhibited new products at the 1964 World's Fair in New York City.

That was Then

1962

In the brief, tense standoff known as the Cuban Missile Crisis, the possibility of a nuclear war almost became reality. John Glenn orbited the earth. Sam Walton opened the first Wal-Mart.

1963

President John Kennedy was assassinated. Martin Luther King Jr. delivered his "I have a dream" speech. Congress voted to guarantee women equal pay for equal work. The Beatles had their first U.S. hit—"I Wanna Hold Your Hand."

1964

Congress passed the Civil Rights Bill. As part of his Great Society initiative, President Lyndon Johnson signed the Medicare Act. The Surgeon General released a report linking smoking to lung cancer.

1968

Martin Luther King Jr. was assassinated in Memphis; Robert Kennedy was assassinated in Los Angeles.

1969

Neil Armstrong walked on the moon. Three hundred thousand people attended the Woodstock music festival.



1970

Congress created the Environmental Protection Agency.

1971

Concerned about inflation, President Richard Nixon announced a 90-day wage and price freeze.



This 1960s TV room features walls built using U.S. Gypsum's ULTRAWALL relocatable partitions.

innovation of the period, however, was the USG Cavity Shaft Wall System (1968). This system enclosed elevator shafts and stairwells in lightweight, fire-rated, rapidly assembled, steel-and-gypsum-panel walls. It helped take the skyscraper to new heights in the '70s.

U.S. Gypsum also found opportunities in the growing industrialized housing and repair and remodel markets. To prove the value of remodeling structurally sound slum buildings, instead of tearing them down to put up new public housing projects, the company formed a subsidiary to purchase and rehab old apartment buildings. The subsidiary, working with National Association of Home Builders members, rebuilt hundreds of apartments in New York, Cleveland, Chicago, Detroit and Los Angeles over five years using U.S. Gypsum products. The award-winning project succeeded in demonstrating the cost-effectiveness of developing low-income housing this way, but the idea did not catch on.

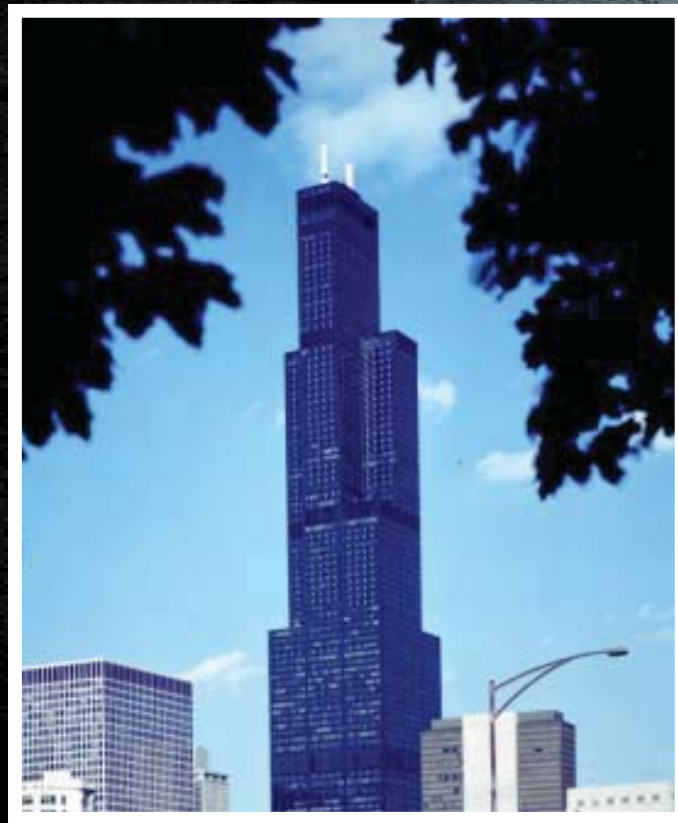
The company did some construction of its own during the decade. The result was a dramatic new headquarters building at the corner of Chicago's Monroe Street and Wacker Drive, which opened in the spring of 1963. Designed by the Perkins & Will Partnership, the pioneering 18-story structure was set at a 45-degree angle to the corner and made a widely acclaimed contribution to the city's built environment.

The company changed its structure to manage all these businesses, reorganizing in 1967 into two groups: construction products, with five profit centers, and industrial products. Importantly, it established a national accounts department to address the specific needs of the small but growing retail building-materials chains. It also opened a number of its own drywall distribution locations starting in 1971, which soon grew into a major business, L&W Supply Corporation.

At the helm, "Tex" Shaver retired in 1967. Graham Morgan had been named chief executive officer in 1965 and became chairman and CEO in 1970.

Revolutionary new products brought opportunities to advance the construction industry and increase sales in a variety of markets. In 1963, U.S. Gypsum introduced DURABOND chemically setting joint compound, the first of its kind, and SHEETROCK WR board, with a water-resistant core and face paper. The company's most important





Taking innovation to new heights:
The USG Cavity Shaft Wall System
facilitated the construction of many
of the world's tallest buildings,
including Chicago's Sears Tower.

00250



Pride in Our Company

THE *eighth* DECADE

1972-1981



EMPLOYEES TAKE PRIDE IN GROWTH

Throughout the early 1970s, U.S. Gypsum's leaders continued to look for acquisitions to complement existing businesses and use the company's cash to grow.

Among other things, they bought businesses that made vinyl moldings for wall systems (Gossen Corp., 1972), steel doors and restroom partitions (Kewanee Mfg. Co., 1972), metal-clad exterior residential doors (Entrance Systems, Inc., 1974), and carpeting (Constellation Carpet Limited, 1973, Hollytex Carpet Mills, 1973, and Sequoyah Industries, Inc., 1974). U.S. Gypsum purchased a structural engineering firm, Wiss, Janney, Elstner and Associates (1973), which was well known for determining the causes of building failures, and even briefly got into real estate with investments in several residential developments and malls.

The company wasn't just buying, though. After more than 40 years, the roofing business succumbed to high costs and competitive pressures. U.S. Gypsum sold its plants in 1975. The Fiberesin Division was sold in 1977.

A new business began to make its mark. By 1974, L&W Supply had 58 locations and sales of about \$60 million. In 1977, subsidiaries of U.S. Gypsum and Condec Corporation formed a joint venture to produce rigid foam insulation with the brand name FOAMULAR.

U.S. Gypsum's successful cavity shaft wall system had a major impact on construction during the 1970s, making possible some of the world's tallest buildings. Designed for the twin towers of the World Trade Center (completed in 1972 and 1973), the system was used in the Sears Tower (1973), which held the title of world's tallest for 22 years.

In gypsum manufacturing, 1976 marked the end of an era. The New Brighton, N.Y., plant—part of the King acquisition of 1924—was shuttered after 85 years of operation. A joint compound facility at Port Reading, N.J. (1975), and a new board line at the Stony Point, N.Y., plant (1976) made up for the lost capacity.

As the company celebrated its 75th anniversary in 1977, employees took pride in the fact that U.S. Gypsum surpassed the \$1 billion mark in sales that year and achieved record earnings of almost \$60 million. The company went on to more than double earnings by 1979. Then, a construction recession hit, brought on by inflation and astoundingly high interest rates. The recession negatively affected results throughout the early 1980s.



Proud to be part of the U.S. Gypsum Company team in 1974 (left to right): Terri Rafats, Sales, Ill.; Joanne Twomey, advertising program manager, and Vicki Walsh, sales, Ind.

However, just as in the Great Depression, the company chose to expand operations going into the down cycle. Focusing on the rapidly growing Sun Belt markets, it added high-speed wallboard lines at Sweetwater, Texas, and Jacksonville, Fla. (both 1981). It also built a new board machine at Oakfield, N.Y., modernized the Philadelphia operation (both 1980) and converted the Greenville, Miss., plant, from a wood fiber facility to a ceiling tile plant (1979-1980). Many employees laid off from the wood fiber operation worked on building the new tile line.

Sales during the 1980s downturn were sustained somewhat by U.S. Gypsum's increasing presence in repair and remodeling. The PBS television series "This Old House" hit the airwaves in 1980, sparking wider interest in home renovation. That same year, U.S. Gypsum did some remodeling too. It completely renovated a pre-World War II home in Des Plaines, Ill., using more than 85 U.S. Gypsum products. Called the House Idea Project, or HIP House, this showcase formed the center of a major media campaign in 1981.

That was Then

1972

The Dow Jones Industrial Average crossed the 1,000-point mark for the first time. The World Trade Center became the world's tallest building; the Sears Tower topped it the next year.

1973

Direct U.S. involvement in Vietnam ended with the January declaration of a ceasefire.

1974

Richard Nixon was the first U.S. president to resign office. Dreyfus offered the first money market fund for individual investors.

1975

The last American troops left Vietnam.



1976

College dropouts Stephen Wozniak and Steven Jobs founded Apple Computer in a garage.

1977

Investment banking firms Kolhberg Kravis Roberts and Drexel Burnham Lambert were founded, beginning the era of mergers and acquisitions financed by "junk" bonds.

1979

Ayatollah Khomeini returned to Iran; terrorists seized the U.S. embassy and took 66 hostages. A nuclear accident at Three Mile Island in Pennsylvania caused the evacuation of 144,000 people.

1980

The U.S. and 57 other countries boycotted the Moscow summer Olympics in protest of Soviet occupation of Afghanistan.

1981

IBM sold its first personal computer; its operating system—MS-DOS by Microsoft.

Ready for delivery: SHEETROCK remains one of the world's most recognized brands.

Leadership

THE *ninth* DECADE

1982-1991

USG ATTRACTS RAIDERS, WINS FIGHTS BUT WEIGHED DOWN BY DEBT

As the company entered its ninth decade, the research organization had once again outgrown its quarters. U.S. Gypsum purchased laboratory facilities on a 127-acre site in Libertyville, Ill., in the fall of 1981.



Over the next two years, the buildings were remodeled, a new testing structure was built, and staff gradually moved in.

The move didn't deter researchers from developing industry-changing products. U.S. Gypsum extended its lead with Ready-Mixed PLUS 3 joint compound—a lightweight material that saw rapid market acceptance—in 1983 and DUROCK Brand cement board—which became a major line—in 1985.

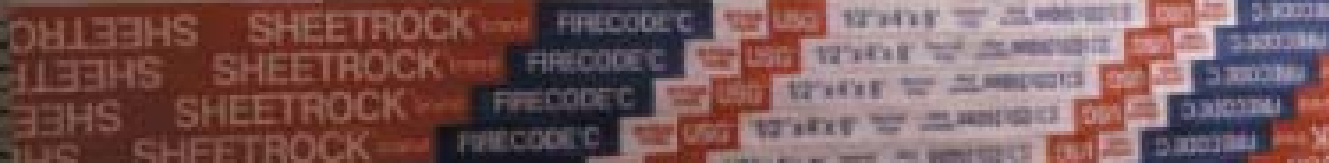
When Graham Morgan retired in 1983, Edward Duffy became chairman and chief executive officer.

Under Duffy's leadership, the company acquired Masonite Corporation, the world's largest manufacturer of hardboard, in 1984. With the purchase of such a major business, it became clear that the company needed a more workable structure. The holding company USG Corporation was formed. Effective January 1, 1985, U.S. Gypsum Company became a subsidiary, along with eight other operating businesses. The new structure prepared USG for further acquisitions and growth.

USG implemented a strategic plan that called for focusing on several core businesses and exiting others. It got out of the carpeting business with the sale of two



U.S. Gypsum's core product lines continued to grow.



That was Then

1983

Cellular phones made their first U.S. appearance in Chicago.

1984

Apple Computer released the Macintosh personal computer.

1986

The space shuttle Challenger exploded minutes after lift off. In the world's worst nuclear accident, the Chernobyl plant in the Ukraine exploded.

1988

Kohlberg Kravis Roberts paid nearly \$25 billion for R.J. Reynolds-Nabisco in a leveraged buyout. Michael Milken of Drexel Burnham Lambert pled guilty to insider trading; Milken pioneered the use of high-yield bonds in mergers and acquisitions.

1989

The Berlin Wall fell. The U.S. government bailed out federally insured savings and loan associations.



1991

The Persian Gulf War started as the U.S. and its allies began bombing Iraq and Kuwait on January 17. Iraq accepted the terms of a ceasefire six weeks later. The Soviet Union ceased to exist.



Dedicated company leadership helped steer U.S. Gypsum through challenging times in the '80s.

units and sold the Gossen Division (vinyl moldings) in 1985. It spun off A.P. Green Refractories in 1987 and sold its lime operations in 1989.

Duffy retired in 1985, and Robert Day was named chairman and CEO. Day oversaw two major acquisitions: Donn Incorporated (1986), the leader in ceiling grid and access floors, and DAP Inc. (1987), manufacturer of caulks, adhesives and other products. USG combined Donn with its existing ceiling tile company and part of Masonite to form USG Interiors, Inc.

USG's sales passed \$2 billion in 1984. In 1986, the corporation reported its third consecutive year of record sales and earnings. It also became a takeover target of Canada's Belzberg family, mainly because of its cash reserves, earnings record and undervalued assets. In response, USG bought back 20 percent of its stock, including the Belzberg's shares, taking on debt to do so.

The next year, Desert Partners, L.P., owned by Texas oilmen Cyril Wagner Jr. and Jack Brown, revealed it had bought almost 10 percent of USG's stock. Wagner and Brown told management they wanted to buy the company. Day said no.

In the spring of 1988, Desert Partners made a tender offer to purchase a portion of USG shares at \$42 each and initiated a proxy contest with USG management by nominating candidates for six openings on the board of directors. To counter Desert Partners' offer, the corporation proposed a recapitalization plan that would pay all shareholders \$37 in cash, \$5 in debentures and one new share for each share they currently owned.

More than 700 people attended the annual meeting that May. Many shareholders spoke in support of management, citing the company's leadership and past performance. When all the proxies were counted several weeks later, USG's candidates had won the six board seats. At a special meeting on July 8, shareholders approved the recapitalization plan. To pay for it, USG borrowed about \$2.5 billion in bank loans and bonds. Total debt stood at \$3.1 billion.

The corporation immediately began selling assets, including Masonite, the Kinkead Division (shower doors) and the Marlite Division of USG Interiors in 1988 and Wiss Janney, Elstner (engineering consulting), the construction metals business and the Wacker Drive



The company's new Research Center, located in Libertyville, Ill., featured state-of-the-art technologies.

headquarters building in 1989. Total asset sales yielded \$560 million—more than expected.

Day retired in May 1990, and Eugene Connolly took over as chairman and CEO, the fourth in a decade. Several days later, ground was broken on a new headquarters building—to be leased—at Franklin and Adams streets in Chicago.

The construction industry was on its way to the worst recession in almost 50 years. Despite debt reduction, USG couldn't manage the \$800,000 a day in interest that was accruing on its debt. So, on the last day of 1990, the corporation presented a debt-restructuring plan and announced it would not make its principal payment to the banks. It kept its cash to run the business. USG reported a net loss of \$90 million for the year, the first in U.S. Gypsum's history.

In January 1991, the Gulf War started. That year, housing starts fell to their lowest point since 1945. Meanwhile, USG sold DAP, and executives met with bank representatives and bondholder committees to try to reach an agreement on a financial restructuring.

where we



work

In the 100 years since United States Gypsum Company's founding, the United States has gone from an agricultural nation to an industrial power to a country with a vast commercial and service economy. Along the way, U.S. Gypsum has offered products for an evolving America and has changed with its changing markets.

MODERN ECONOMY DEVELOPS

In 1900, 40 percent of the labor force worked in agriculture, 20 percent in manufacturing, 14 percent in wholesale and retail trade and 8 percent in service, mainly teaching and domestic employment. (The remainder was in other categories.) There were 5.7 million farms averaging 147 acres each.

By 1950, when the country's post war industrial economy was at full throttle, 24 percent of the workforce was employed in manufacturing. Agriculture had slipped to 12 percent, trade stood at 19 percent, and the service category made up 5 percent.

In 2000, agricultural workers were only 2 percent of the workforce. There were 2.2 million farms—less than half the 1900 figure—but they were nearly three times larger, reflecting the

industrialization of U.S. agriculture. Manufacturing workers made up 7 percent of the total. Employment in wholesale and retail trade had increased slightly over the mid-century figure to 21 percent. Add to that people working in finance, a category not included in the 1900 and 1950 census reports, and the total becomes 27 percent. The largest increase occurred in service employment, which stood at 37 percent in 2000. This group includes business, personal, entertainment and professional services, most of which were not even tracked in 1900 or 1950.

MARKETS CREATE OPPORTUNITY

U.S. Gypsum developed products in each era to meet the needs of the country's businesses. It brought to market BEN FRANKLIN agricultural gypsum in 1914, U.S. Gypsum's agricultural gypsum in 1920, RED TOP hydrated lime in 1923 and U.S. Gypsum agricultural lime in 1935. These products condition the soil and help farmers increase yields. Farm buildings were an early market for SHEETROCK gypsum panels before the product became widely accepted in residential and office construction. As farms became larger and more industrialized, U.S. Gypsum began publishing a magazine called *The Business of Farming*, launched in 1943 to promote its products to the market.

Industrial expansion created opportunities for the company first in gypsum and then in other



products. The introduction of HYDROCAL gypsum in 1930 gave U.S. Gypsum a unique product for industrial markets. This super-strength, easy-to-work-with plaster soon became the preferred material for making accurate moldings and castings in industries such as foundries and aircraft and auto production. By 1936, industry made up 15 percent of the company's markets, according to *Fortune* magazine.

During the 1950s and 1960s, U.S. Gypsum acquired businesses that further expanded its industrial sales with products such as mineral fiber insulation, high-calcium lime, oil-based paints, mica, refractories (firebrick), metal safety grating and metal cable tray, in which electrical and other types of cables are enclosed.

Construction markets evolved with the times. In 1950, commercial and industrial construction were nearly equal, each making up about one-quarter of nonresidential floor space for which contracts were awarded. In 1970, commercial buildings had increased to 46 percent of the total, while industrial construction had fallen to 18 percent. By 2000, commercial construction was 63 percent of all nonresidential floor space, and industrial was only 6 percent. (Commercial construction has declined since.)

PRODUCTS SUPPORT CHANGE

As new office towers scraped the sky in the 1970s, U.S. Gypsum Company led the way with its cavity shaft wall. This system made extremely tall structures feasible by providing a lightweight, fire-resistant method for enclosing their tall elevator shafts. The company also focused on the growing office market with its ceilings business. Acoustical ceilings increase the comfort of modern offices by reducing noise levels. USG built on its existing base with the acquisition of two plants from Conwed Corporation in 1985 and Donn Incorporated (ceiling grid, specialty ceilings, access floors and wall systems) in 1986. The formation of USG Interiors, Inc. in 1986 created the first company with a full line of products for commercial interiors.

Today, USG's sales reflect changes in the market. Although the largest portion of the corporation's sales still are to new residential construction (36 percent), more than a quarter is to new nonresidential construction and a third to repair and remodeling of both housing and nonresidential buildings. Only 4 percent of sales are for industrial processes.

Like the country, USG is profoundly different today than it was 100 years ago. The company has kept pace with the rapidly changing marketplace throughout its history by creating innovative product solutions and new, more effective distribution channels. Today, USG continues to play an important and developing role in the world of work and commerce.

Staying Power

THE *tenth* DECADE

1992-2001



SHEETROCK Brand Primer/Surfacer (TUFF-HIDE) was developed in 2001 and subsequently introduced to the market in 2002.

CORPORATION STAYS STRONG THROUGH UPS AND DOWNS

The bright note of 1992 was the completion of the USG Building, which was dedicated on June 15. Employees immediately began the phased, month-long move to the company's new home at 125 South Franklin Street.

Throughout 1992, USG negotiated with its bank lenders and the committees representing two groups of bondholders. One group would not accept the corporation's proposed restructuring plan, so USG's leaders said they would seek confirmation by the bankruptcy court of a "cram-down" plan that would give these bondholders nothing. Not surprisingly, in early 1993, the corporation brokered an agreement with all involved and filed a proxy for a restructuring that would extend the bank loan's maturity, give the two major bondholder groups 97 percent of the stock and provide the shareholders with the remaining 3 percent of equity, an unusual step.

With all creditors voting overwhelmingly for the plan, USG Corporation filed a prepackaged Chapter 11 bankruptcy on March 17. The court approved the plan in a record 37 days, and USG emerged from bankruptcy on May 6 with \$1.6 billion in debt and a blueprint for returning to financial health and growth.

First, it created two core businesses for focused investment—North American Gypsum and Worldwide Ceilings. It divided its use of cash equally between debt reduction and capacity expansion and began to grow slowly through plant modernizations in both gypsum and ceilings. Projects completed by early 1996 at nine gypsum plants added 600 million square feet of wall-board capacity.



By the late 1990s, nearly one-fourth of U.S. Gypsum's SHEETROCK Brand Gypsum Panels were made from recaptured gypsum, a by-product of fuel-burning power plants. The use of recaptured gypsum reduces landfill waste.



That was Then

Upon Eugene Connolly's retirement in 1996, William Foote was named chairman, president and chief executive officer.

As demand increased with a construction rebound, the gypsum business launched an unprecedented initiative to build five new high-speed wallboard lines in strategic U.S. markets. USG broke ground for the first plant at Bridgeport, Ala., in June 1997. The state-of-the-art facilities started up in succession: Bridgeport and East Chicago, Ind., in 1999, and Aliquippa, Pa., Plaster City, Calif., and Rainier, Ore., in 2000. A sixth, smaller plant was completed in Monterrey, Mexico, in 2001. At the end, USG had spent more than \$1 billion on new and modernized facilities.

It had also reduced debt consistently during this period. When the corporation's debt once again achieved an investment-grade rating (1997), USG had eliminated more than \$900 million in debt.

The distribution company, L&W Supply Corporation, exceeded \$1 billion in sales in 1998 and reached a high of 193 operating locations in 1999.

New products demonstrated that the company remained a leader in innovation. The ceilings business introduced COMPASSO suspension trim (1993) and the CURVATURA arching ceiling system (1995). The gypsum business launched a new product platform in 1998 called FIBEROCK, based on patented technology for combining gypsum and fibers to create a strong structural panel. The company built a line at Gypsum, Ohio (1999), to make the new material. It also acquired Sybex, Inc. (1999) and its U.S. and Canadian plants, which manufacture joint compounds and paper faced metal bead. In 2000, USG reinvented its wallboard products with the introduction of the labor-saving Next Generation of SHEETROCK Brand gypsum panels.

Trouble was brewing, though, in both the marketplace and courts. In 2000, the wallboard industry experienced oversupply conditions, which caused prices to fall and prompted the company to begin shutting down high-cost manufacturing lines.

U.S. Gypsum also faced an increasing number of asbestos lawsuits. The company had been dealing with asbestos litigation for more than 20 years, the result of its having used the material in some products from the 1930s to the 1970s. The landscape changed when major defendant companies filed for bankruptcy, including



The Pathfinder probe landed on Mars; NASA aired live shots on the Internet from the rover Sojourner.

Owens Corning and Armstrong World Industries in late 2000. With major defendants in bankruptcy, plaintiffs' lawyers pursued other companies, including U.S. Gypsum, that had relatively minor liability. The corporation estimated its future liability and in 2000 took a charge of \$850 million against earnings to increase asbestos reserves.

The number of new lawsuits filed against U.S. Gypsum continued to rise throughout the first half of 2001. Management decided that seeking Chapter 11 protection was the only way to preserve the assets of the corporation and resolve claims against U.S. Gypsum fairly and finally. USG and its major U.S. subsidiaries filed for bankruptcy on June 25.

With debtor-in-possession financing and permission from the bankruptcy court, USG continued to operate normally. It paid all wages, salaries and benefits, paid suppliers for new orders and supplied customers without interruption. As 2001 closed, the bankruptcy process was proceeding relatively smoothly. The business faced a recession and oversupply of gypsum wallboard, yet it demonstrated its staying power by working toward greater operating efficiency and better customer relationships.



FIBEROCK Brand Panels offer superior performance benefits.

1993

The bombing of the World Trade Center killed six people and injured hundreds.

1995

The bombing of the Murrah Federal Building in Oklahoma City killed 168 people.

1997

Leaders of the tobacco industry offered to pay \$368 billion if numerous states agreed to drop lawsuits filed against them.

1998

Two hundred twenty-four people were killed when two American embassies were destroyed in terrorist bombings. Bill Clinton became the second U.S. president to be impeached.

1999

Clinton was acquitted of impeachment charges.

The world prepared for possible electronic disaster in Year 2000, anticipated because many computer programs represented years with only two digits.



2000

After a much-contested vote count in Florida, George W. Bush was declared the U.S. president-elect more than a month after Election Day.

2001

Two hijacked airliners slammed into the twin towers of the World Trade Center, creating an explosion and fire that led to the collapse of both towers. Moments later a third airliner crashed into the Pentagon building, and another crash-landed near Pittsburgh.

As at any point in U.S. Gypsum's 100 years, the future is uncertain. Yet there is cause to celebrate the perseverance and resiliency—the staying power—of the company and its people, the leadership it has shown, the pride USG people take in their work and company, the opportunities USG has created and seized, the innovations with which it has taken its industry forward, the relationships it has sustained, the safety that has always been a priority, and the integrity and responsibility with which the company has operated since 1902. The organization and its people will rely on these fundamental characteristics in the future and will weave with them the fabric of USG's next 100 years.

WANT TO KNOW MORE?

This United States Gypsum Company centennial publication is intended to present the highlights of the company's past and the events and actions that have defined its character and influenced its development. The publication, because of its length, could not possibly tell the whole story—and that's already been done, anyway.

In 1995, USG Corporation published the comprehensive *United States Gypsum—A Company History*, written by Thomas W. Foley. Foley worked for U.S. Gypsum for 35 years in

accounting, labor relations and human resources, retiring in 1991. He continues to research and write history. His biography of Father Francis M. Craft, a missionary among the Sioux in the late 1800s, is being published in September 2002 by the University of Nebraska Press.

If you would like to read more about U.S. Gypsum's history, there are a limited number of copies of the book available. You may obtain one by contacting the Corporate Communications Department, #161-1.

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THANK YOU!

This issue is dedicated to the more than 100,000 men and women who have served USG Corporation and its subsidiaries so well over the past century. Without their years of dedication, hard work and perseverance, this celebration would not have been possible.

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