

pirates of finance, and during his 46 years in charge, United States Gypsum *never borrowed a cent*. Avery's aversion to debt helped his company weather the Great Depression rather well: It was one of the few companies that was able to continue paying a dividend to its shareholders.

In 1987, USG came under attack by Desert Partners, an unlisted Midland, Texas front for corporate raiders Brown and Wagner, who had worked with T. Boone Pickens. Despite huge paper losses, Brown and Wagner stepped up their acquisition of USG after the 1987 stock market collapse. In 1988, the management of USG decided to ward off Brown and Wagner's threat of a hostile takeover by assuming a staggering \$3.1 billion in debt in July, blasting the net worth of USG from plus \$609.8 million, to negative \$1.471 billion.

"We decided that we were best equipped to run this business with that level of debt—certainly better equipped than Wagner and Brown," Matt Gonring, a spokesman for USG, explained. "Was it possible to avoid the debt? We looked, and it seemed there was no other way." As a result, USG's interest expense soared from \$34.2 million in 1986 and \$69.2 million in 1987, to \$178.3 million in 1988 and \$287 million in 1989. USG reported the first quarterly loss ever in its 88-year history in early 1989, but has since brought down its debt by selling off three divisions, including Masonite, which had sales of up to \$500 million annually.

But, Avery's policy of ploughing a large part of the profits into new and more efficient capital equipment was abruptly abandoned. Capital spending was slashed, and 500 of USG's 15,000 employees were dismissed. "We were a company that used to keep our facilities up to date," Gonring stated, "always buying the latest, most efficient equipment. So, we were in a position where we could go a few years without reinvesting, and it wouldn't hurt us very much. But you can't do that forever."

Spending on research and development was also curtailed. "We shifted to projects that were focused on less capital requirements, and products that have a shorter lead time to the market," Gonring explained. "We can't afford to abandon R&D, like many other companies do after a recapitalization. In this business, R&D is the lifeblood of our future. Would we like more money for R&D? Yes! But, you have to restructure your operation as tightly as possible. We reduced the support staff, and tried to keep the Ph.D.'s."

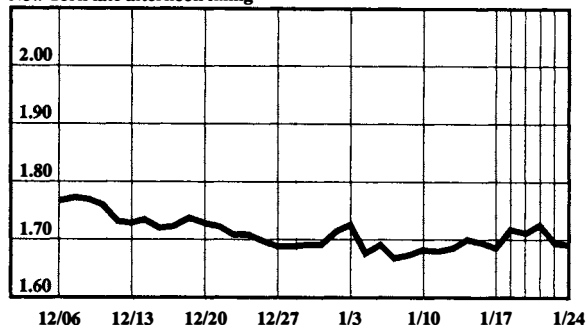
In October 1989, the company sold its 19-story Chicago headquarters building for desperately needed cash. USG signed a lease, and is now paying rent to remain in its former headquarters until 1992!

USG also brought a suit against Merrill Lynch, which had advised Brown and Wagner. Fourteen months earlier, USG had retained Merrill Lynch to advise it in its acquisition of Masonite Co. USG charged that Merrill Lynch improperly used inside information it had gained as USG's adviser, to help Brown and Wagner. Merrill Lynch chose to settle out of court rather than go to trial.

## Currency Rates

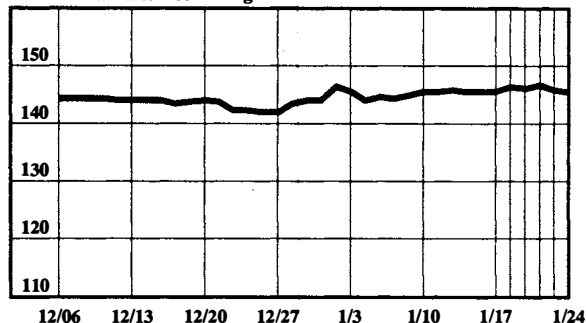
### The dollar in deutschemarks

New York late afternoon fixing



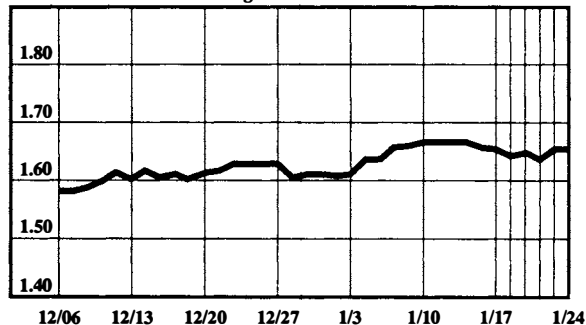
### The dollar in yen

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing



### The dollar in Swiss francs

New York late afternoon fixing

