

BRYAN BURROUGH
JOHN HELYAR

#1 *New York Times* Bestseller

BARBARIANS AT THE GATE

**The Fall of
RJR Nabisco**

"All the suspense of a first-rate thriller . . . one of the finest, most compelling accounts of what happened to corporate America and Wall Street in the 1980s."

—*New York Times Book Review*

NABISCO

HarperBusiness Essentials

BARBARIANS AT THE GATE

The Fall of RJR Nabisco

Bryan Burrough AND John Helyar

HarperBusiness Essentials



*To my wife, Marla Dorfman Burrough,
and to my parents, John and Mary Burrough
of Temple, Texas—JBB*

*To my wife, Betsy Morris,
and to my parents, Richard and Margaret Helyar
of Brattleboro, Vermont—JSH*

The officer of every corporation should feel in his heart—in his very soul—that he is responsible, not merely to make dividends for the stockholders of his company, but to enhance the general prosperity and the moral sentiment of the United States.

—ADOLPHUS GREEN, *founder, Nabisco*

Some genius invented the Oreo. We're just living off the inheritance.

—F. ROSS JOHNSON, *president, RJR Nabisco*

This business, on a legitimate basis, is a fraud.

Not that it's a fraud. You need money to be in this business. But not a lot. You need more money to open a shoe-shine shop than you do to buy a \$2 billion company, let's be honest about it. But to buy a shoe-shine store, if it costs \$3,000, you need \$3,000. If you don't got it in cash, you need to bring it by Thursday.

But if it's an LBO, not only do you not have to bring it, you don't have to see it, you don't know where you're going to get it, nobody knows where they got it from. The whole situation comes from absolutely nothing.

But the more you need, of course, the less money you need. In other words, if there's money involved, you don't get involved in this business. This is a business for people who don't have money, but who know somebody who has money, but who doesn't put it up either...

—JACKIE MASON, *"What the Hell is an LBO?"*

Contents

<i>Epigraphs</i>	iv
<i>Introduction</i>	vii
<i>The Players</i>	x
<i>Prologue</i>	1
<i>1. Ross Johnson was being followed. A detective, he guessed, no...</i>	10
<i>2. If not for the RJ Reynolds Tobacco Company, the modest...</i>	40
<i>3. Ross Johnson's rise to the helm of RJR Nabisco had...</i>	78
<i>4. On October 19, 1987, the stock market crashed. Like the...</i>	103
<i>5. Outside the Metropolitan Museum that blustery September evening, there was...</i>	128
<i>6. As his sleek Gulfstream jet descended through the clouds over...</i>	154
<i>7. Johnson rose early the next morning, the memory of Wednesday...</i>	184
<i>8. Friday afternoon Tom Hill sat mired in another interminable Pillsbury...</i>	199
<i>9. Theodore J. Forstmann slipped into his white terry cloth bathrobe...</i>	231
<i>10. Pandemonium reigned at Shearson Monday morning. Amid the Audubon prints,...</i>	244
<i>11. The peace talks off, Cohen's troops prepared for war. With...</i>	277
<i>12. In one way, an LBO is a lot like buying...</i>	301
<i>13. The RJR Nabisco directors who gathered at Skadden Arps on...</i>	348
<i>14. On Monday morning, in an upstairs conference room at Skadden...</i>	375

<i>15. Ross Johnson and Henry Kravis weren't the only ones interested...</i>	404
<i>16. An eerie stillness descended over Wall Street as the bidders...</i>	422
<i>17. Spirits were high in the Shearson camp.</i>	455
<i>18. "It is important," Peter Atkins began, "that today be as...</i>	474
<i>Authors' Note</i>	516
<i>Index</i>	520
<i>About the Authors</i>	552
<i>Praise for Barbarians at the Gate</i>	553
<i>HarperBusiness Essentials</i>	554
<i>Copyright</i>	556
<i>Cover</i>	
<i>About the Publisher</i>	557

INTRODUCTION

This book arose from the authors' coverage in *The Wall Street Journal* of the fight to control RJR Nabisco in October and November 1988. Our goal in pursuing the story behind those public events has been to meet the standard of accuracy and general excellence that the *Journal* sets for journalists everywhere.

Ninety-five percent of the material in these pages was taken from more than 100 interviews conducted between January and October 1989 in New York, Atlanta, Washington, Winston-Salem, Connecticut, and Florida. In large part due to contacts we made while working at the *Journal*, we were able to interview at length every major figure involved in the story as well as scores of minor ones. No more than a handful of people mentioned in this book declined to grant interviews.

Among the first we spoke with were the long-shot suitors, Jim Maher of First Boston and Ted Forstmann of Forstmann Little & Co., who made himself available in his New York office as well as on his private jet. At Kohlberg Kravis, Henry Kravis, George Roberts, and Paul Raether were interviewed together and separately for more than twenty hours; much of the interviewing was done in RJR Nabisco's former New York offices, where Kohlberg Kravis briefly relocated after a fire. Kravis himself sat for a half-dozen tape-recorded sessions, all but one in Johnson's former anteroom.

The last to consent to be interviewed was Ross Johnson. He was

understandably gun-shy; he had taken a beating in the press and wasn't eager for further pummeling. Eventually he spent thirty-six hours in one-to-one talks with the authors. Several all-day sessions were held in his Atlanta office, where Johnson smoked cigarillos and wore sports jackets with no tie; a marathon evening session was held in his New York apartment, where Johnson donned a pair of gray RJR Nabisco sweatpants and shared pepperoni pizza and beer with the authors.

Due to the cooperation of the participants, we have managed to reconstruct dialogue extensively. By necessity this involves calling on sometimes selective memories. It is important to remember that, as Ken Auletta wrote in his definitive *Greed and Glory on Wall Street*, "no reporter can with 100 percent accuracy re-create events that occurred some time before. Memories play tricks on participants, the more so when the outcome has become clear. A reporter tries to guard against inaccuracies by checking with a variety of sources, but it is useful for a reader—and an author—to be humbled by this journalistic limitation."

We couldn't agree more. However, it should be noted that, in reconstructing critical meetings, we often were able to interview every person in the room at the time. In many cases, that amounted to as many as eight or nine people. Where their memories have differed significantly, it is noted in the text or a footnote. Where a thought or impression is conveyed in italics, it was supplied by the person in question.

A word about significance: Those looking in these pages for a definitive judgment on the impact of leveraged buyouts on the American economy will no doubt be disappointed. It is the authors' contention that some companies are well suited for the rigors of an LBO, while others are not. As for RJR Nabisco, it is important to remember that an LBO is a creature of time. In most cases its success or failure can't be determined for three, four, five, even seven years. The events in this book constitute the birth of an LBO; at this writing, the reborn RJR Nabisco is barely a year old. The baby looks healthy, but it's too soon to predict its ultimate fate.

We would like to thank Norman Pearlstine, *The Wall Street Journal's* managing editor, who gave his blessings for a leave to do this book. We are immensely grateful to our editor, Richard Kot of Harper & Row, for his keen eye and unflagging encouragement in helping us negotiate our first journey into publishing; his assistant, Scott Terranella; Lorraine Shanley, who brought our project to Harper & Row's attention; our agent,

Andrew Wylie, who isn't nearly as nasty as people think; his colleague, Deborah Karl, for plenty of on-call hand-holding; and Steve Swartz of *The Wall Street Journal*, who provided invaluable advice on shaping the narrative. RJR Nabisco and numerous players in the RJR drama were helpful in supplying photos. Thanks are also due John Huey who, as *The Wall Street Journal's* Atlanta bureau chief in 1988, gave John Helyar rein to delve into RJR. As editor of *Southpoint* magazine in 1989, he allowed him to finish this book before reporting for duty.

The unsung heroes of a project like this are our wives. Betsy Morris served double duty. As a *Wall Street Journal* colleague, she was among the first to "discover" Ross Johnson and chronicle the emerging RJR Nabisco story. As John Helyar's wife, she put up with long weeks' absences and long days' writing. Likewise, Marla Burrough was the manuscript's first reader, copy editor, and a source of unlimited support and patience. Their advice and guidance are marked on every page of this book.

Bryan Burrough
John Helyar
October 1989

THE PLAYERS

THE MANAGEMENT GROUP

At RJR Nabisco

F. Ross Johnson, president and chief executive
Edward A. Horrigan, Jr., chairman, RJR Tobacco
Edward J. Robinson, chief financial officer
Harold Henderson, general counsel
James Welch, chairman, Nabisco Brands
John Martin, executive vice president
Andrew G. C. Sage II, consultant and board member
Frank A. Benevento II, consultant
Steven Goldstone, of counsel
George R. ("Gar") Bason, Jr., of counsel