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

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?”
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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
At American Express
James D. Robinson III, chairman and chief executive

At Shearson Lehman Hutton
Peter A. Cohen, chairman and chief executive
J. Tomilson Hill III, merger chief
James Stern, investment banker
Robert Millard, risk arbitrage trading
Jack Nusbaum, of counsel

At Salomon Brothers
John Gutfreund, chairman
Thomas Strauss, president
Michael Zimmerman, investment banker
Charles (“Chaz”) Phillips, investment banker
William Strong, investment banker
Peter Darrow, of counsel

At Robinson, Lake, Lerer & Montgomery, & public relations counsel
Linda Robinson

KOHLBERRG KRAVIS ROBERTS & CO.

At Kohlberg Kravis
Henry Kravis, general partner
George Roberts, general partner
Paul Raether, general partner
Theodore Ammon, associate
Clifton S. Robbins, associate
Scott Stuart, associate
Richard I. Beattie, of counsel
Charles (“Casey”) Cogut, of counsel

At Drexel Burnham Lambert
Jeffrey Beck, “The Mad Dog”

At Morgan Stanley & Co.
Eric Gleacher, merger chief
Steven Waters

At Wasserstein Perella & Co.
Bruce Wasserstein

THE THIRD PARTIES

At Forstmann Little & Co.
Theodore J. Forstmann, senior partner
Brian D. Little, general partner
Nick Forstmann, general partner
Stephen Fraidin, of counsel

At Goldman Sachs & Co.,
Forstmann’s investment banker
Geoff Boisi, investment banking chief
The First Boston Group

James Maher, merger chief
Kim Fennebresque, investment banker
Brian Finn, investment banker
Jerry Seslowe, Resource Holdings
Jay Pritzker, investor
Thomas Pritzker, investor
Harold Handelsman, of counsel
Melvyn N. Klein, investor

THE SPECIAL COMMITTEE

The Directors

Charles E. Hugel, chairman of Combustion Engineering
Martin S. Davis, CEO of Gulf + Western
Albert L. Butler, Jr., Winston-Salem businessman
William S. Anderson, former chairman, NCR Corp.
John Macomber, former chairman, Celanese

The Advisers

Peter A. Atkins, Skadden, Arps, Slate, Meagher & Flom
Michael Mitchell, Skadden, Arps, Slate, Meagher & Flom
Matthew Rosen, Skadden, Arps, Slate, Meagher & Flom
John Mullin, Dillon Read & Co.
Franklin W. ("Fritz") Hobbs IV, Dillon Read & Co.
Felix Rohatyn, Lazard Freres & Co.
J. Ira Harris, Lazard Freres & Co.
Robert Lovejoy, Lazard Freres & Co.
Luis Rinaldini, Lazard Freres & Co.
Joshua Gotbaum, Lazard Freres & Co.
Others

Smith Bagley, RJ Reynolds heir
J. Paul Sticht, former RJ Reynolds chairman
J. Tylee Wilson, former RJ Reynolds chairman
H. John Greeniaus, president, Nabisco Brands
PROLOGUE

For hours the two men sat on the back porch talking.

It was as peaceful an afternoon as the younger man, a lawyer just down from New York, had ever seen. On the horizon, the sun was a sinking red ball. Below, delicate snowy egrets poked through the reeds of the Intracoastal Waterway.

It seemed a shame, Steve Goldstone thought, as a warm Florida breeze tousled his thinning brown hair, to introduce black clouds into such a postcard landscape. He took no pleasure in the dire predictions he was about to spin. But it was his job to play devil’s advocate. No one else seemed willing to do it.

_Someone has to tell him._

They sat for a few moments in silence. Goldstone took another sip from his gin and tonic and glanced at the older man sitting in the patio chair beside him. Sometimes he wished he knew Ross Johnson better. They had met barely three months before. Johnson seemed so open, so trusting, so—how to describe it?—yes, naive. Did he realize the forces he was on the verge of unleashing?

Johnson was clad casually in slacks and a light blue golf shirt adorned with RJR Nabisco’s corporate logo. His silvery hair was worn unstylishly long. A gold bracelet dangled from his left wrist. Goldstone knew Johnson was pondering a move that would change his life—maybe all their lives—forever.
Why are you doing this? Goldstone had asked. You’re chief executive officer of one of America’s great companies, you don’t need any more money. Yet you’re about to start a transaction in which you could lose it all. Don’t you realize all the pain and suffering you’ll cause?

So far his arguments hadn’t swayed his client. Goldstone knew he had to press harder. “You could lose everything,” he repeated. The planes. The Manhattan apartment. The Palm Beach compound. The villa in Castle Pines. The lawyer paused to let it sink in.

Don’t you understand? You could lose everything.

That doesn’t change the merits of the transaction, Johnson answered simply. It doesn’t change the basic situation. “I really have no choice,” he said.

Goldstone bore in once more. The minute you do this, he argued, you’ll lose control of your company. Once you start this process, you are no longer CEO. You turn over the reins to the board of directors. I know you think these directors are your friends, he said.

Johnson nodded at that. After all, hadn’t he chauffeured them around the world in his corporate jets? Hadn’t he given them lush consulting contracts?

As soon as you start this, Goldstone went on, they’re not your friends anymore. They can’t be. Don’t expect favors from them; they won’t come. They’ll be under the control of Wall Street advisers, people you don’t even know. They’ll be sued by thirty different people for millions of dollars. The pressure will be intense, the lawyer insisted, and they will resent you for it.

Goldstone stopped then, and looked out at the vivid streaks of blue and red searing the western sky. No matter how dark he painted the picture, Johnson seemed unmoved. He wasn’t sure how much of this was penetrating. In five nights, he knew, they would all find out.

Later, as the two men boarded the Gulfstream jet north to Atlanta, Goldstone sensed Johnson had made up his mind. He looked hard at the president of RJR Nabisco, America’s nineteenth largest industrial company, a man who held in his hands the fates of 140,000 employees, a man whose products—Oreos, Ritz crackers, Life Savers, Winston and Salem cigarettes—filled every pantry in the country.

He’s so willing to look on the bright side, Goldstone worried, so trusting. God, he believes everyone is his best friend.

And he’s going to do it, the lawyer thought. He’s really going to do it.
The Atlanta air was cool and clear that October evening as the black Lincoln Town Cars began pulling up outside the Waverly Hotel. The Waverly anchored a green, suburban office park of the type common in Sun Belt cities: nearby was a multiscreen movie theater; an upscale shopping mall, The Galleria, with its array of fountains, and wide, inviting walkways; and a cluster of tall, gleaming office buildings.

Stepping from the limousines were the directors of RJR Nabisco, whose headquarters took up eleven floors in a glass tower several hundred yards away. Each had been spirited to Atlanta in a familiar RJR Nabisco jet. Through the hotel’s atrium lobby, up a glass elevator and into an upstairs meeting room they went; inside, they stood in circles, drinks in hand, waiting anxiously for the evening’s meeting to begin. The small talk was of their trips down, the World Series, and the presidential election, less than a month away.

It was the night before the company’s regular October board meeting, normally an occasion for the directors to dine informally with their chief executive, Ross Johnson, and get an update on corporate affairs delivered in Johnson’s unique, freewheeling style. But tonight the atmosphere was markedly different. Johnson had called every director and urged him or her to attend the dinner, which wasn’t usually mandatory. Only a few knew what loomed before them; the others could only guess.

Some directors were introduced to Steve Goldstone and walked off with puzzled looks. What was an outsider doing here? wondered Albert Butler, a balding North Carolina patrician. Juanita Kreps, the former secretary of commerce, pulled aside Charles Hugel, the chairman of Combustion Engineering, who served as RJR Nabisco’s titular chairman. “What’s Ross doing?” she asked. “What’s going to happen?” Hugel knew, but wouldn’t say. Instead he ducked out to tell the catering people to hurry along with dinner. They had a crowded agenda tonight.

Through the milling directors Johnson circulated, vodka-and-soda in hand, a broad smile and deep-throated laugh never far from his lips. A man who had survived his share of boardroom coups, Johnson prided himself on his ability to sway corporate directors. He was a master of disarming tense situations with the strategic joke, the well-thrown wisecrack, a veritable pied piper of the boardroom. He was always the same old breezy Ross, never taking himself or his business too seriously. Tonight,
against the wishes of his new Wall Street partners, he was flying by the seat of his pants.

Ed Horrigan hoped Johnson would be at the top of his form. Horrigan, head of RJR Nabisco’s largest unit, Reynolds Tobacco, had enthusiastically signed on with the plan Johnson would announce tonight. He was a squat, combative Irishman who brought to business the same hell-for-leather approach that led him to single-handedly storm a machine-gun nest during the Korean War. Unlike Johnson, who never seemed to have a care in the world, Horrigan was tense. He had known and distrusted these directors for years before Johnson came on the scene; he had seen firsthand their little putsches. He knew Johnson thought he had won them over with fat consulting contracts and other favors. But Horrigan wasn’t so sure. They might yet fire Johnson on the spot for his grand scheme.

In the midst of Horrigan’s reverie, a man walked into the room whom he didn’t know. He was dressed in a suit straight out of Gentleman’s Quarterly, every salt-and-pepper hair in place, gazing about icily. Horrigan was reminded of the old westerns where a stranger strides through the saloon doors. A few minutes later, he was introduced to the man, a Wall Street lawyer named Peter Atkins. Atkins, Horrigan was told, was there to advise the board of its rights and duties.

“Hello, Mr. Horrigan,” Atkins said coolly as the two shook hands. 

Oh God…, Horrigan thought.

Dinner was being cleared away from the long, T-shaped table when, at eight-thirty, Johnson rose to speak. He discussed some minor housekeeping matters, reminded members of the compensation committee that they would meet first thing tomorrow, and went over the agenda for the regular board session. “As you all know, we’ve got another item on the agenda tonight,” Johnson said. “I think we’ll turn to that now, and that’s the future direction of the company.”

Taking puffs from one of the tiny cigarillos he loved, Johnson reviewed his two-year tenure at RJR Nabisco’s helm: profits up 50 percent, sales up as well. The problem, as they all knew, was the stock, which had been sinking since a year before, when it had peaked in the low seventies. Nothing they had tried since the stock-market crash a year ago had gotten it back up. Even after the buy back that spring—here Johnson emitted a sharp, descending whistle, a bomb falling—the stock had sagged back
down into the forties. Even after the tobacco industry escaped unscathed from its toughest legal challenge in years, it hadn’t budged. Everyone in the room knew the story well, although none had ever seemed as concerned about it as Johnson.

“It’s plain as the nose on your face that this company is wildly under-valued,” Johnson said. “We tried to put food and tobacco businesses together, and it hasn’t worked. Diversification is not working. We are sitting on food assets that are worth twenty-two, twenty-five times earnings and we trade at nine times earnings, because we’re still seen as a tobacco company. As a result, we have studied alternative ways of increasing shareholder values.” Here, he paused. “The only way to recognize these values, I believe, is through a leveraged buyout.”

There was a crashing silence.

Everyone in the room knew about leveraged buyouts, often called LBOs. In an LBO, a small group of senior executives, usually working with a Wall Street partner, proposes to buy its company from public shareholders, using massive amounts of borrowed money. Critics of this procedure called it stealing the company from its owners and fretted that the growing mountain of corporate debt was hindering America’s ability to compete abroad. Everyone knew LBOs meant deep cuts in research and every other imaginable budget, all sacrificed to pay off debt. Proponents insisted that companies forced to meet steep debt payments grew lean and mean. On one thing they all agreed: The executives who launched LBOs got filthy rich.

“The wolf is not at the door,” Johnson said. No corporate raider was forcing him to do this. “This is simply the option that I think is best for our shareholders. I believe it is a doable transaction, and it can be done at prices much higher than the present stock price. We’re not far enough along this road to make firm conclusions or make a proposal at this point, though.”

Johnson stopped a moment and looked at each of the directors: mostly current and retired chief executives, their median age was sixty-five. They had given him a free hand running RJR Nabisco, and hadn’t objected when he wrenched it from its century-old North Carolina home and transformed it into a monument to nouveau-riche excess. But they had struck down his predecessor for lesser transgressions than the one he was now committing.

“I want you to understand one thing,” Johnson continued. “You people
will have to decide. If you think this isn’t the answer or there’s a better idea, there will be no hard feelings. I just won’t do it. There are other things I can do, and I’ll do them. We’ll sell food assets. We’ll buy back some more of our stock. I have no problem walking right back upstairs, going to work on plan B, and no hard feelings.”

Silence.

Vernon Jordan, the civil rights leader cum Washington lawyer, was the first to speak. “Look, Ross, if you go ahead with this thing, there’s a real likelihood this company is going to be put in play. Somebody might come along and buy this company for more than you can pay. You might not win. I mean, who knows what could happen?”

“That’s my point, Vernon,” Johnson said. “This company should be in play. It should be sold to the highest bidder. If somebody wants to offer eighty-five dollars [a share] or more than we can pay, then we’ve all done an even better job for our shareholders. The management of this company is not dedicated to retaining its jobs at the expense of the shareholders.”

“What stage are you at?” asked John Macomber, the former chairman of Celanese. Macomber had been a thorn in Johnson’s side for years.

“In order to preserve the confidentiality here,” Johnson said, “we really haven’t gone very far with the banks. We haven’t got a nickel. But if the board agrees with us on this proposal, we will move forward quickly.”

After a few moments, Juanita Kreps spoke. “You know, it seems a shame [that] we’re forced to take steps like these, breaking up companies like this,” she said. “On other boards I’ve been on there have been the same complaints about the stock languishing. The scenario elsewhere has been different. Managements look more to the future and beyond the immediate discounting of the stock. Why is it different here? Is it an issue of tobacco, with the decline in sales and the problems with the industry?”

“Juanita, I hear a lot of CEOs complaining about their undervalued stock, but I don’t see them doing anything about it,” Johnson said. “This is something you can do about it. The other guys are afraid to do anything about it.”

It all sounded so sensible, so reasonable: No one could spin an explanation like Ross Johnson. But the directors might have asked a few more questions had they known of Johnson’s plans for the company, of the favors he had doled out behind their backs, or of the unprecedented cut of the LBO’s expected profits he had wrung from his hungry Wall Street partners at Shearson Lehman Hutton. But those and other matters would
only come to light at the most inopportune moments for them all.

Charlie Hugel scanned the room: No more questions seemed forthcoming. He suggested Johnson and Goldstone leave so the board could caucus. “Who else here would be involved in the management group?” he asked.

Johnson ticked them off: Horrigan; Jim Welch, the Nabisco chairman; Harold Henderson, the general counsel; and an outside director and consultant, Andrew G. C. Sage II. Hugel suggested they leave, too.

When Johnson left, the directors took a quick break. Albert Butler came over to Hugel. “Did you see that?” he asked. “Andy Sage is part of it.”

Hugel nodded.

“Ross wants us to double his consulting contract to five hundred thousand dollars,” Butler said. “It’s on the agenda for the comp committee meeting, but I don’t think we can do that now.”

No, said Hugel, they couldn’t. He was uneasy. Johnson was his friend, but several events in the past three days had given him pause to reconsider the man he thought he knew so well. There was something here that just didn’t feel right.

Other directors headed for the men’s room in silence. Each knew the enormity of the decision they confronted. As each of the titans of industry sidled up to the urinals, a voice echoed over a stall: “We’ve got to find out if this is frivolous.” Men nodded as they washed their hands and returned to the boardroom.

Inside, Hugel turned the floor over to Atkins, who walked the directors through their obligations under the law of Delaware, where RJR Nabisco and so many large public corporations were chartered. When he finished, Hugel told the others how Johnson had phoned him in South Korea the week before and mentioned the LBO idea. Hugel didn’t voice his private concerns or the curious offer Johnson had made him just two days earlier.

As the directors caucused, Johnson paced an upstairs suite, passing the time with Horrigan and the others, including a Shearson team. He hadn’t been waiting long before a message came that the board wanted to see him. Taking Goldstone with him, Johnson nervously returned to the boardroom.

“Ross,” Hugel said, “it’s the strong sense of the board that we’re prepared to let you go forward.” The board’s debate had, in fact, been anticlimactic: If Johnson had gone this far, they had no choice but to let him continue. If he was planning a serious bid for the company, under
Delaware law it was their fiduciary duty to allow shareholders to entertain it. “But,” Hugel continued, “we want to make sure that the number you were thinking about is not frivolous.”

“Well, you’ll have to define frivolous for me,” Johnson said.

“The number has to be north of the highest price the company’s stock has ever traded.”

“Fine, I can do that.”

“In that event, the board is prepared to have you proceed. If you wish to proceed, the board will have to issue a press release tomorrow morning.”

“Peter, do you have a draft?” Goldstone asked Atkins. “Would you read it?”

Atkins did, and agreed to Goldstone’s request that he and Johnson be allowed to take it upstairs to review it.

The press release was a worrisome development, although one Goldstone had anticipated on learning Atkins had been brought along by Hugel. Lifting the veil of secrecy was ordinarily enough to kill a developing buyout in its cradle: Once disclosed, corporate raiders or other unwanted suitors were free to make a run at the company before management had a chance to prepare its own bid. Still, Johnson and his partners hadn’t panicked when the prospect of an announcement was raised. RJR Nabisco was so big that no one in the world seemed likely to top their bid—and certainly not without a friendly management team to lead the way.

Upstairs, Goldstone and Johnson searched for the team from Shearson Lehman. Tom Hill, the cool chief strategist, and Jack Nusbaum, his lawyer, had vanished from the suite. Goldstone raced downstairs and spotted the pair in the lobby, where they had returned from a short trip to RJR headquarters with their aides. “Jack,” Goldstone cried, “where the fuck have you been?”

A press release was being prepared, Goldstone explained, and Johnson badly wanted to insert the price they were considering. Without a number, Johnson feared the stock would rise out of control, perhaps forcing his group to bid more than it wanted to. They returned to the suite, where Hill repeated his earlier suggestion: $72 a share in cash and $3 a share in preferred stock. Johnson shook his head.

“None of that,” he said. “Fellows, it’s got to be seventy-five cash. You can’t put paper on the table. It looks low class.”
Johnson didn’t need to do the arithmetic to get nervous. *Seventeen billion dollars.* The largest corporate takeover in history, three times greater than the largest LBO ever attempted. They hadn’t seriously considered bidding much higher; with no competition in sight, there seemed no need.

Johnson, as usual, won the argument. As the clock was about to strike midnight, Goldstone was sent down to the boardroom with the revised press release.

Suddenly, after all the weeks of planning, after all the behind-the-scenes negotiations, it was all real. They were actually going to do it. “Holy shit,” Johnson told the group milling about the suite. “Now we’ve got to find seventeen billion dollars.”

Again Johnson thought of the press release. They had so hoped this could remain their little secret with the board. A public announcement would mean publicity, lots of it, and the specter of competing bids—and all the very next morning. Johnson thought he had braced himself for this, but now the full impact hit him. “Things,” he warned an aide in a postmidnight phone call, “are moving faster than we thought.”
Ross’s philosophy is, “We’re going to have a party, a very sophisticated, complicated party.”

—O. C. ADAMS, consulting psychologist to RJR Nabisco*

Ross Johnson was being followed. A detective, he guessed, no doubt hired by that old skinflint Henry Weigl. Every day, through the streets of Manhattan, no matter where Johnson went, his shadow stayed with him. Finally he had had enough. Johnson had friends, lots of them, and one in particular who must have had contacts in the goon business. He had this annoying problem, Johnson explained to his friend. He’d like to get rid of a tail. No problem, said the friend. Sure enough, within days the detective vanished. Whatever the fellow was doing now, Johnson’s friend assured him, he was probably walking a little funny.

It was the spring of 1976, and at a second-tier food company named Standard Brands, things were getting ugly. Weigl, its crusty old chairman, was out to purge his number two, Johnson, the shaggy-haired young Canadian who pranced about Manhattan with glamorous friends such as Frank Gifford and “Dandy” Don Meredith. Weigl sicced a team of auditors on Johnson’s notoriously bloated expense accounts and collected tales of his former protégé’s extramarital affairs.

Johnson’s hard-drinking band of young renegades began plotting a counterattack, lobbying directors and documenting all the underlying rot in the company’s businesses. Rumors of an imminent coup began sweeping

*Dr. O. C. Adams did not agree to speak to the authors about Ross Johnson, his client’s chief executive, until Johnson had consented.
the company’s Madison Avenue headquarters.

Then tensions exploded into the open: A shouting match erupted between Johnson and Weigl, a popular executive dropped dead, a board of directors was rent asunder. Everything came to a head at a mid-May board meeting. Weigl went in first, ready to bare his case against Johnson. Johnson followed, his own trap ready to spring.

As the hours wore on, Johnson’s aides, “the Merry Men,” wandered through Central Park, waiting for the victor to emerge. Things were bound to get bloody in there. But when it came to corporate politics, no one was ready to count out Ross Johnson. He seemed to have a knack for survival.

Until the fall of 1988 Ross Johnson’s life was a series of corporate adventures, in which he would not only gain power for himself but wage war on an old business order.

Under that old order, big business was a slow and steady entity. The Fortune 500 was managed by “company men”: junior executives who worked their way up the ladder and gave one company their all and senior executives who were corporate stewards, preserving and cautiously enhancing the company.

Johnson was to become the consummate “noncompany man.” He shredded traditions, jettisoned divisions, and roiled management. He was one of a whole breed of noncompany men who came to maturity in the 1970s and 1980s: a deal-driven, yield-driven nomadic lot. They said their mission was to serve company investors, not company tradition. They also tended to handsomely serve themselves.

But of all the noncompany men, Johnson cut the highest profile. He did the biggest deals, had the biggest mouth, and enjoyed the biggest perks. He would come to be the very symbol of the business world’s “Roaring Eighties.” And he would climax the decade by launching the deal of the century—scattering one of America’s largest, most venerable companies to the winds.

The man who would come to represent the new age of business was born in 1931 at the depth of an old one. Frederick Ross Johnson was raised in Depression-era Winnipeg, the only child of a lower-middle-class home. He was always “Ross,” never Fred—Fred was his father’s name. The senior Johnson was a hardware salesman by vocation, a woodworker
by avocation, and a man of few words. Johnson’s petite mother, Caroline, was the pepper pot of the household—a bookkeeper at a time when few married women worked, a crack bridge player in her free time. Young Ross owed an early knack for numbers and the gift of gab to her; an early entrepreneurial bent he owed to the times. The Johnsons weren’t poverty-stricken, but neither did they own their own bungalow until Johnson was eight years old.

Around that period young Ross began working at a variety of after-school jobs. He used the money he earned for serious things, like buying clothes. He started with standard kid tasks, such as delivering magazines around the neighborhood and selling candy at the circus, then branched into more innovative ventures, such as renting out comic books from his collection. When he grew older, he sold certificates for baby pictures door-to-door. It was an enterprise he would turn to whenever he needed a buck during his years in college.

Johnson wasn’t the best student in his high school, ceding that honor to his friend Neil Wood, who would go on to head the huge Cadillac Fairview real estate firm. Johnson was the kind of teenager who could rank in the upper quarter of his class, as he did, without appearing to try very hard, which he didn’t. Nor was he the best athlete in school, although he was a rangy six feet three inches by the time he graduated. He was far better at memorizing baseball statistics in *The Sporting News* than hitting a fastball.

Unlike his father, who hadn’t completed high school, Ross Johnson wanted to be a college man, and he took the crosstown bus each day to Winnipeg’s University of Manitoba. He was average inside the classroom but excellent out of it: president of his fraternity, varsity basketball, and honors as outstanding cadet in the Canadian version of ROTC. (This despite a propensity for pranks: One night Johnson and some chums ambushed a superior officer, whom they considered a superior jerk, tied him to a diving board, and left him to contemplate his sins as the sun rose.) If there was anything that marked the playful young Ross Johnson, it was an ability to hold sway over his fellow students, even those who were far older. His college class was largely made up of returning World War II veterans, but it was Johnson, a teenager, who did the organizing and leading.

Upon graduation, Johnson plunged into the middle levels of a string of Canadian companies, where he would muddle along for nearly twenty
years with little distinction. His first job, as an accountant at Canadian General Electric in Montreal, lasted six years. Bored, he moved to the marketing side in Toronto to try his hand as a salesman. “It’s where the good parties are,” Johnson explained to friends. There, as a low-level manager given the pedestrian task of marketing light bulbs, Johnson first displayed a zest for salesmanship. He dreamed up an idea for a premium-priced bulb, painted on the inside, and researched a name: Shadow Ban. The product did well. Johnson also did wonders for the division’s Christmas-tree bulb sales.

As good as he was with light bulbs, it was in his expense accounts that Johnson’s real creativity shone. He cut back the expense budgets of his salesmen, marshaling much of the money for himself. He used the additional funds to entertain customers royally, taking particular delight in plotting and executing what he called “the hundred-dollar golf game,” which involved a day on one of the city’s finer courses, followed by drinks and dinner at one of the city’s finer restaurants. It took a prodigious effort to drop $100 in the early 1960s, but Johnson was up to it. By combining his flair for spending with his gift for flattering older men, Johnson moved steadily up the corporate ladder. “Spending money was always a joyful, joyous thing to Ross,” recalled William Blundell, a Canadian friend. “He was convinced that all of the decisions got made by the senior people in the accounts. He thought he could leverage that money pretty well.”

From the start Johnson was a party animal. He loved nothing better than sipping Scotch and schmoozing into the wee hours. The next morning he could walk into work without missing a beat. At GE he perfected a flip, wisecracking approach to business. If there was a choice between saying something straightforwardly and saying it humorously, Johnson always chose the latter. If it was self-deprecating, so much the better. “An accountant,” Johnson would say during his bookkeeping days, “is a man who puts his head in the past and backs his ass into the future.” He attracted a group of young protégés who felt the same. Johnson held sway over them with an hypnotic, singsong voice, both deep and nasal, and he alternately spoke sotto voce and fortissimo. “Come along with me,” his manner and mien beckoned young acolytes. “We’re going to have fun.” When he got married, his groomsmen capped an all-night bash by going water-skiing in their tuxedos.

Yet after thirteen years, at age thirty-two Ross Johnson was still a nobody. He was making only $14,000 a year, teaching nights at the
University of Toronto to augment his income. His first child was on the way. Except for a patina of charisma, he was like a thousand other bright young men in Toronto, struggling to get ahead. He was impatient. When his bid to be transferred to GE’s U.S. operations—the big time—was turned down, he jumped ship.

Landing as a midlevel bureaucrat at T. Eaton, the big Canadian department-store chain, Johnson found a mentor, a man named Tony Peskett. Eaton was fat, sleepy, and slow, but Peskett, as head of personnel, was committed to bringing the company into the twentieth century. Johnson had come from the gray flannel of General Electric in the 1950s. Now, as a member of a guerrilla band of managers known as the “Pesketteers,” he entered the 1960s. Peskett encouraged him to indulge his natural proclivity for thumbing his nose at authority. The Pesketteers believed in change for change’s sake, and set out reshaping their dowdy old employer. They believed in constantly shaking things up, monitoring and reacting to the competition down the street at Sears Canada. The Pesketteers subscribed to a Bob Dylan line of the time: “He who’s not busy being born is busy dying.” Tony Peskett, who imbued Johnson with a lifelong belief in the creative uses of chaos, put it another way: “The minute you establish an organization, it starts to decay.” Johnson, who carried that idea to every business he ever ran, boiled it down into a personal philosophy called “shit stirring”: a love for constant restructuring and reorganizing.

When Peskett fell out of favor, Johnson once more jumped ship, this time landing at a Toronto company named General Steel Works, Ltd. GSW, as it was called, offered the prospect of authority (Johnson would be the number-two executive), money (a $50,000 salary), and social contacts galore. Through the company’s rich owner, Johnson joined Toronto’s upscale Lambton Country Club and came to know many of the city’s elite, men such as hockey great Bobby Orr and Alan Eagleson, a lawyer who headed the National Hockey League players’ union. Johnson loved rubbing elbows with them and found he was good at it. Despite his social ascension, Johnson started off miserably at GSW, a tiny maker of appliances, garbage cans, and manure spreaders. When an economic downturn slowed its appliance business, Johnson’s impulse was to throw money at the problem, and he fell back on the expensive marketing schemes he’d developed at Eaton and GE. His new boss, a tightfisted hard case named Ralph Barford, rejected each one in turn. “Ralph’s
philosophy was buy low, sell high, and argue over the bills,” recalled Jim Westcott, a Johnson friend who would frequently commiserate with him over lunch. “Boy, did Ralph rip the skin off my back today,” Johnson would moan.

Johnson chafed at life in a smaller company. GSW was operating on the edge, with lots of debt, and Johnson suffered through weekly grillings by its bankers. “It was a shock,” he recalled. “You learned that the guy who writes the ads for the bank isn’t the guy who loans the money. They break your balls.” It was Johnson’s introduction to the harsh realities of corporate debt, for which he developed a lifelong aversion.

Eventually, Johnson and his boss reached an accommodation of sorts and worked together for another five years. Johnson came to appreciate Barford’s ability to change directions at a minute’s notice. “If you could convince him you were right, he’d do a one hundred and eighty degree turn,” Johnson would recall. “It was just that getting him to do that could take a panzer division.” Johnson became an accomplished quick-change artist himself, an attribute that would bewilder subordinates for the next twenty years.

By the early 1970s Ross Johnson was forty years old and still hadn’t run his own show. When a headhunter offered him that chance, he leapt at it, jumping this time to become president of the Montreal-based Canadian arm of an American food company, Standard Brands. Standard Brands had been created in 1928 by the House of Morgan, which had merged Fleischmann Distilling & Yeast Company, Royal Baking Powder, and Chase & Sanborn Company into one entity. That alone told Johnson something about the company’s problems. Chase & Sanborn coffee was a tired old brand, and yeast and baking powder seemed like pioneer-era remnants. A ponderous, second-tier organization, Standard Brands over the years had evolved into an employer of quiet tinkerers, who came up with a sugar substitute called high-fructose syrup and developed Fleischmann’s Margarine, a low-cholesterol spread. Year in, year out, the company’s timeworn credo fronted its annual report, affirming Standard Brands’s “commitment to use the fruits of the earth to provide a good quality of life for those we serve.”

Johnson found Standard Brands hopelessly outdated. This was the age of marketing, of movement, and these people were trafficking in fats and oils. The Canadian subsidiary was a mess. Johnson, the ex-Pesketteer, hit Standard Brands Canada like a hurricane. In his first year, he bounced
twenty-one of the top twenty-three executives, and to replace them he looked for the kind of free-spirited young men he had attracted throughout his career. Peter Rogers, an Englishman working for a Canadian candy company, had a reputation as a brilliant, profane loose cannon. “No fucking way,” Rogers said when first approached by Johnson. “Your company treats people terribly, and it’s messed up every acquisition it’s ever made.” But Rogers came; he would stay with Johnson for fifteen years. Johnson also snagged Martin Emmett, an aristocratic South African, who canceled a transfer to Australia to join Johnson’s growing band of Merry Men. In later years the two became so close they were dubbed “Martini and Rossi.”

The pair became the core of Johnson’s rogue managers, dedicated to shaking up Standard Brands Canada by day and draining bottles of spirits by night. Johnson assigned them nicknames: Rogers was “The Rook,” for Canadian Olympic Drinking Team rookie; Emmett was “The Big E,” for his lanky frame. Jim Westcott, a personnel consultant, was “Buddha,” for his girth and wisdom. Johnson himself was “The Pope.”

As in Toronto, Johnson proved himself adept at working his way into Montreal society. Paul Desmarais, the influential chairman of a big manufacturer, Power Corporation, sponsored Johnson’s membership in the exclusive Mount Royal Club and introduced him to the tight-knit Montreal business community. Among Johnson’s new friends was a young lawyer named Brian Mulroney, who would go on to become Canada’s prime minister. His confidence building, Johnson settled into a routine that would endure for fifteen years—staying up until all hours with his pals, talking business, sipping Scotch, and smoking cigars. Unorthodox, yes, but his guerrilla band produced results, and it got Johnson noticed. In 1973, he was promoted to head Standard Brands’s international operations.

He moved to New York. Cocksure, buoyant, bubbly, Johnson was utterly unintimidated by the city. He felt he had been born to the moment. To his peers at Standard Brands’s headquarters, Johnson was a brash upstart, an overnight success. They knew nothing of the hard-scrabble childhood in the provinces, the twenty-one years of anonymity. In fact, Johnson was the consummate late bloomer, a man who at age forty-two was only now starting to find his stride in life.

He bought a house in the tony Connecticut suburb of New Canaan,