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The Other Ron Burkle

The billionaire has been belittled for his celebrity friends and bitter lawsuits. But his moves on Barnes & Noble and Barneys are no laughing matter

By Susan Berfield

If you've come across the name Ron Burkle, you probably know that he's a billionaire. That's because Burkle's wealth is usually deployed as an adjective and almost always with a hint of derision. As in, Ron Burkle, billionaire playboy. Or Ron Burkle, billionaire friend of Bill Clinton.

Adjectives are hard to shake, which is why it's often overlooked that Burkle—billionaire playboy friend of Bill Clinton—is also a shrewd and secretive investor and, to the surprise of many, self-made. A former stock boy who got rich buying and selling grocery stores, Burkle, 57, owns almost 30% of A&P and has a major say in its management. He's worth $3.2 billion, according to *Forbes*. Now he wants control of Barneys, the troubled style supermarket of the rich, and to enlarge his holdings in Barnes & Noble (BKS), a company that Burkle thinks he can save from becoming the Tower Records of the book business.

Burkle's overtures have met with hostility. Barneys is publicly ignoring him. Barnes & Noble's founder and chairman, Leonard Riggio, changed the bylaws to keep him from gaining shares and influence. Both companies appear to be hoping he'll get frustrated and go away. "Ron doesn't take no for an answer," says Lloyd Greif, who runs the investment banking firm Greif & Co. in Los Angeles and has known Burkle for decades. "I think people should be mindful of who they are dealing with." Frank Biondi, the former Universal Studios chief who advised Burkle on a possible purchase of Tribune Co. in 2007, adds: "When Ron gets pushback, he pushes back harder."

Burkle hasn't granted an interview in three years. He agreed to speak with *Bloomberg BusinessWeek* because he's

Burkle at his New York home: "Since I was 13, I've been buying things because they are ridiculously cheap"

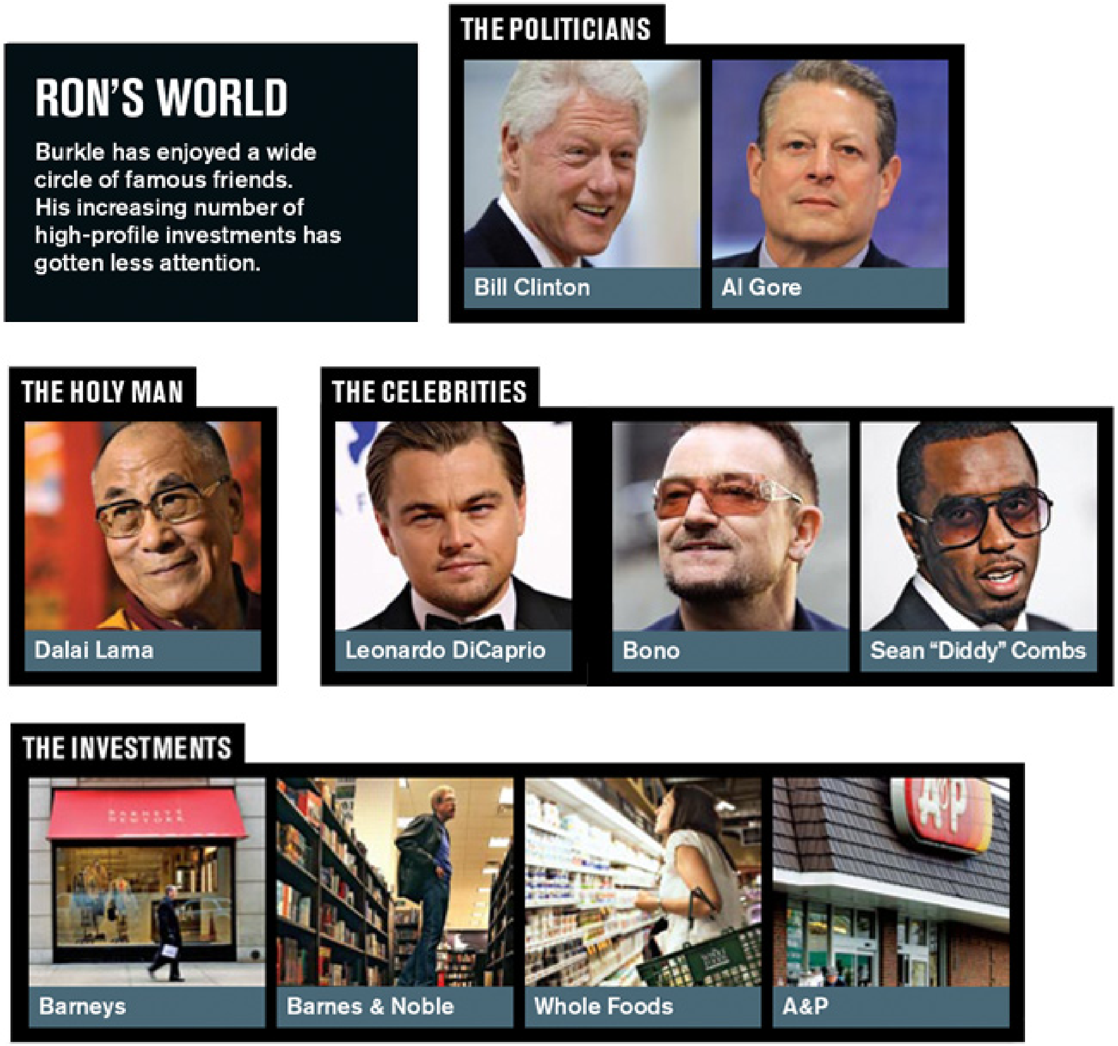
feeling good about the past year and, in light of his dustups with Barneys and Barnes & Noble, wants to give his side. At the La Jolla (Calif.) mansion he uses as a business retreat, Burkle pads around in his favorite outfit: short-sleeve black Ralph Lauren polo shirt, cargo pants, and well-worn sneakers. He doesn't offer a tour or much by way of introduction. It's his world, his rules.

FROM STOCK BOY TO F.O.B.

Burkle's firm, Yucaipa Cos., controls some $9 billion, and he prefers to put much of that into private companies, where he can hold sway unobserved. (Yucaipa's biggest investment, roughly half a billion dollars, is in AmeriCold Logistics, a realty trust and owner of temperature-controlled warehouses.) Explaining his philosophy, Burkle says: "We always try to buy companies that are doing O.K. but that have some issues. We buy at a price that if they just muddle through, we don't go broke. And if they do better, we make a lot. Since I was 13, I've been buying things because they are ridiculously cheap. I tell my people, 'Don't explain what we're doing. They'll think we're geniuses if they don't know.' "

At 13, Burkle earned his trading money by working as a box boy at a Stater Brothers grocery store in Pomona, Calif. His father, now in his 80s, managed another store in the chain. After Burkle dropped out of nearby California State Polytechnic University, he returned to Stater, moved up the management ranks, and assembled a group of investors to make a bid when the parent company decided to sell the chain in 1982. The board rejected it as too low and fired him. "I felt pretty horrible," he recalls. "My dad had worked there almost his whole life. It was the only place I had ever worked. I thought it was a once in a lifetime opportunity to own a company, and I'd missed it."

The regret didn't last long. Burkle,



who had made money investing in currencies and commodities, bought and flipped a few small grocery stores—at least one with junk-bond financing from Michael Milken—and in the process realized he had found his calling. He formed Yucaipa, named after the small southern California town where he was living, in 1986. He says Yucaipa has completed some 40 mergers and acquisitions worth $30 billion in the years since. (His biggest coup came in 1998, when he sold the Fred Meyer chain to Kroger (KR) in a deal valued at $13.5 billion.) Yucaipa reports that its funds have an average annual return of 40%, a figure that, because of the minimal reporting required of private equity firms, is impossible to verify.

Around 1990, Burkle, a social liberal and fiscal conservative, started holding political fund-raisers at his Green Acres estate in Beverly Hills. That drew notice from then Arkansas Governor Bill Clinton. They met for the first time at Green Acres in 1992, and the two ambitious men from modest beginnings became fast and close friends. Since 1992, Burkle has donated $1.86 million to the Democratic Party.

When President Clinton visited Los Angeles, he often stayed at Green Acres. For five years after Clinton left office, he was an adviser to Yucaipa, earning at least $15 million for making phone calls, brokering introductions, and giving speeches on Yucaipa's behalf. The relationship was meaningful and transactional. Clinton, who refused comment for this story, brought Burkle into circles of government and celebrity he would never have been able to crack on his own. Burkle gave Clinton high-paid, easy work. Each brought the other a fair amount of trouble. "When Clinton left the Presidency he had to make money, and there were certain limits on how he could do it," says Burkle. "In that regard, having him work for Yucaipa was the right thing to do. In other ways, it was the dumbest thing I ever did."

> **"BARNES & NOBLE IS IN CONTEMPT OF RON, AND THAT'S NOT A GOOD OFFENSE . . . MOST FOLKS LIVE TO REGRET THAT"**

Clinton's post-Presidential business and social life received intense scrutiny, and Burkle—the divorced billionaire with a Boeing (BA) 757—became an object of curiosity and often scorn. "If someone wanted to embarrass [Clinton], I got thrown in it, too," says Burkle. "I got all that for free." Burkle also received a lot of attention when he unsuccessfully sued Michael Ovitz over a failed partnership and when he claimed he was the victim of an extortion attempt by a New York gossip reporter.

When Hillary Clinton was nominated as Secretary of State in 2008, Bill severed his ties with Yucaipa and Burkle. Some of Yucaipa's business dealings were getting messy. It hired as a consultant the now jailed Italian developer Raffaello Follieri and took on Sheikh Mohammed bin Rashid Al Maktoum, the ruler of Dubai, as a partner. Burkle says he and Clinton don't see much of each other anymore and explains the rupture this way: "Before, every trip with him seemed like a once in a lifetime opportunity. Now I have so many things to do."

RECESSION RICHES

The Great Recession held promise for an investor like Burkle. It was the

stock prices in 2007 that signaled to him the economy was in trouble. They were so high that he felt compelled to sell, and there was nothing he considered cheap enough to buy. According to a source familiar with Yucaipa's investments, by the fall of 2008, Burkle had almost $7 billion on hand—and an urgent desire to spend it.

One Sunday that October, he invited six senior staff members to La Jolla for an eight-hour conference. "Everybody was afraid the world was coming to an end," says Burkle. "I wasn't. I said, 'This is an opportunity. We can buy phenomenal companies and brands at ridiculous prices.' A lot of times my people can overrule me. Not this time."

Burkle wanted to invest one-third of Yucaipa's money right away. Among the companies that piqued his interest were Whole Foods Market (WFMI), a seeming relic of a more prosperous era, and Barnes & Noble, whose bookstores were already under threat from e-readers.

When considering Whole Foods, Burkle's 40-person team conducted pricing surveys, met with suppliers, talked to customers, visited stores, and undertook the kind of exhaustive study that might seem unnecessary for someone who grew up in the grocery business. Burkle, though, doesn't trust his gut. "I don't pay attention to how I feel about anything," he says. "What I like or use is irrelevant. I may still wear s——y khakis and these shirts, but I know I'm not in consumers' heads. I don't know what's going on in America. I know what people in New York and Beverly Hills think about Whole Foods, but I don't know what people anywhere else think."

Yucaipa's research showed that Whole Foods' customers weren't ready to abandon the place, even if some of its prices were unaccountably high. Throughout the autumn and winter of 2008, Burkle bought Whole Foods stock, eventually spending $100 million and accumulating close to a 10% stake. Burkle won't discuss his thoughts on Whole Foods' strategy, but according to sources close to Yucaipa, he advocated opening fewer stores, improving logistics, offering more house brands, and doing bigger promotions. Whole Foods CEO John Mackey has done some of this. In the past several months, as the company's fortunes have improved and its stock price has increased, Burkle has sold almost all of his shares. Yucaipa says its return was about 200%.

Before investing in Barnes & Noble, Burkle and his team asked publishers, book agents, consumers, and tech companies the same question: In the era of the e-book, what good is a bookstore? What Burkle learned was that Barnes & Noble has a deep and abiding relationship with its customers and could do a lot more to exploit it. By January 2009, he had an 8.3% stake and felt entitled to write a few letters to Riggio, another self-made man. "In the first letter," says Burkle, "I said, 'You've had such a successful career, you've made so much money. Don't do the college book deal' "—a reference to Riggio's plan to sell his college textbook company to Barnes & Noble for nearly $600 million. "The letter wasn't supposed to be threatening. It didn't mean I was going to declare jihad."

The company went ahead with the deal, and in November Riggio asked the board to adopt a provision that would effectively bar any shareholder from acquiring more than a 20% stake. Riggio and other insiders own 31%; Burkle, who currently has 18.7%, was not pleased. He wrote to Riggio again, asking to buy up to 37%. The answer was no.

Burkle expects to influence, if not control, the companies he invests in. He says he has thoughts about how Barnes & Noble can become more profitable, but his fight with the company isn't about strategy—yet. It's about governance. On Feb. 25, a week after Barnes & Noble dismissed his request to buy more shares, Burkle wrote another, angrier letter to the board: "In denying my request, the Board has, once again, demonstrated that it acts to protect the interests of the Riggio family in maintaining effective control of Barnes & Noble." He concluded by asking to meet with the board members, though pointedly not Len Riggio or his brother, Stephen, the chief executive. Barnes & Noble declined to comment.

Companies have all kinds of reasons for preventing outside investors from getting too close—from strategic disagreements to concerns about motives. When the investor is Ron Burkle, there's another reason: the stigma of celebrity. Burkle counts Leonardo DiCaprio and Bono among his friends and toured with the Dalai Lama during his last visit to America. He has invested about $50 million in Al Gore's Current TV (Gore says Burkle "is a personal friend and a good friend to the company") and some $75 million in Sean "Diddy" Combs' clothing line. (Burkle is a godfather to Combs' twin daughters.) It is still all too easy to view Burkle as a lightweight, though his friends warn against it. "Barnes & Noble is in contempt of Ron, and that's not a good offense to commit," says Greif. "Most folks live to regret that."

Burkle hasn't had to be particularly patient over the years, and Barnes & Noble and Barneys are testing his resolve. Istithmar World, a Dubai investment firm, acquired Barneys in 2007 for some $900 million. Amid Dubai's financial calamity in November, Burkle bought some of Barneys' debt. Then he wrote a letter to Istithmar proposing to lend Barneys about $50 million and take control of it. "If you can buy Barneys cheap enough and make it work, which Burkle might be able to do, it could go public and be worth a fortune," says Howard Davidowitz, a longtime retail consultant.

Burkle is waiting. "Dubai is in control of the situation," he says. "We're willing to talk to them about anything. But are they focusing on this? Barneys has no money, no chief executive. They should treat it like it's a great asset." A spokesperson for Barneys says: "As a matter of policy, Barneys doesn't comment on speculation."

Burkle thinks of his uncharacteristically high-profile moves on Barnes & Noble and Barneys as "adapting to opportunities." The companies resent Burkle for being opportunistic. At least they agree on the adjective.