COMPANY ON FIRE?
LIGHT A CIGAR

WHY TROUBLED OUTFITS LIKE CITIGROUP KEEP HIRING DICK PARSONS

BY DEVIN LEONARD

PHOTOGRAPH BY JEFF MERMELSTEIN

FRIDAY NIGHT, AND THE CROWD AT THE BAR IN HARLEM'S LENOX LOUNGE IS A MIX OF NEIGHBORHOOD OLD TIMERS AND YOUNG HIPSTERS WHO HAVE COME

for the jazz club's 1940s ambiance. Back in the Zebra Room, famous for walls decorated with striped animal skins, there's a private party going on for the Jazz Foundation of America, a nonprofit group that helps indigent jazz and blues musicians pay their bills.

The room itself hasn't changed much since Billie Holiday sang here decades ago, but tonight it's filled with the foundation's donors–mostly white hedge fund guys—and their female companions. A handful of guitarists, drummers, keyboard players, and even a saxophone-playing blues vocalist from New Orleans–most of them black–are standing by to provide the evening's entertainment. The two groups maintain a polite but awkward distance.

Finally someone arrives who can bridge the cultural gulf. Richard D. Parsons, the 62-year-old chairman of Citigroup, strolls through the doorway with his wife, Laura. His beard is closely cropped and he wears rimless glasses, a brown sport coat, black shirt, and no tie. At 6 foot 4, he towers over his spouse. His singular talent, which has powered his career to the top of some of America's most prominent–and troubled–companies, is one he demonstrates tonight as he mingles easily with the musicians and the money men: He is flat-out smooth.

"Dick, I saw on TV that you own a winery," says a singer with curly blond hair who bills herself as the "legendary Sweet Georgia Brown." "I want to sing the jingle for it."

"We don't have a jingle," says Parson, "but if we get one, you're the one to sing it."

Michael E. Novogratz, a director of Fortress Investment Group, a New York hedge fund, gives Parsons a hug and presents him with a Montecristo cigar. Parsons looks pleased. "Oh man," he says, "I wish we could light these up in here." The two men exchange condolences about the market, which is zigzagging with the turmoil in the Middle East. "I lost more money this week than I did in any week in 2008," Novogratz laments. Parsons tells him not to be so hard on himself. "Nobody knows what's going on," he says.

Wendy Oxenhorn, the Jazz Foundation's executive director, gets on the microphone and announces that Novogratz has just contributed $1 million to the group. Then she praises Parsons for his contribution. "Five years ago our chairman died," she says. "I asked Dick if he would be chairman. He said, 'I'll be interim chairman.' Five years later, he's still interim chairman."

Soon, the singing tenor-sax player is regaling the donors with an animated rendition of bluesman Jimmy Reed's working-class protest anthem, *Big Boss Man*. When he gets to the chorus, the New Orleans musician looks directly at Parsons and wags his finger with mock admonishment as he sings the familiar lines, "Big boss man. Can't you hear me when I call. Oh, you ain't so big. You just tall, that's all."

Taking care of a foundation devoted to helping struggling musicians is an appropriate gig for Dick Parsons, and not simply because he's a devoted jazz fan. Three times in his career he has found himself steering companies fighting to survive. In 1990 he became chief executive officer of Dime Savings Bank as it nearly went under during the savings and loan crisis. In 2002, Parsons was made CEO of AOL Time Warner, the world's largest media company at the time and the stumbling child of arguably the worst merger in U.S. history. And in February 2009, Parsons became the chairman of Citigroup, a ward of the government after nearly failing several months earlier. It was Parsons's job to mollify regulators in Washington so that the bank's inexperienced CEO, Vikram Pandit, could focus on saving the financial institution.

Since Parsons's appointment, Citigroup has returned to profitability and repaid its government loans. Citigroup's share price is a long way from its peak, but the bank is no longer a basket case. "Dick was very helpful," Pandit says. "He spent a lot of time with our regulators and the policymakers in Washington. Of course, I did, as well. But it was important for him to do that. He already had relationships. That makes it easier sometimes."

Parsons is not a visionary; no one waits for his announcements or lusts after his products. He is, instead, a master in the art of the relationship, particularly as practiced in back rooms: the pat on the back, the well-told joke, the gossipy anecdote. He's an old-fashioned fixer who works the system with people skills and political connections. He's even sort of cool, with his jazz obsession and his Tuscan winery with its tongue-in-cheek motto, "We drink all we can and sell the rest." Parsons has spent a good chunk of his professional life assuaging furious employees, aggrieved shareholders, and frustrated regulators. His success is a reminder that, as much as we celebrate creativity and innovation in business, the schmoozer abides.

The trumpeter Wynton Marsalis, who considers Parsons a friend, says the banker can assess a challenging situation and negotiate it like a master improviser. "If Dick were a soloist, he would be Thelonious Monk," Marsalis says. "You get the sense listening to Monk that he sees everything that's going to happen in a song in advance."

Like Monk, Parsons occasionally hits an off note, and some

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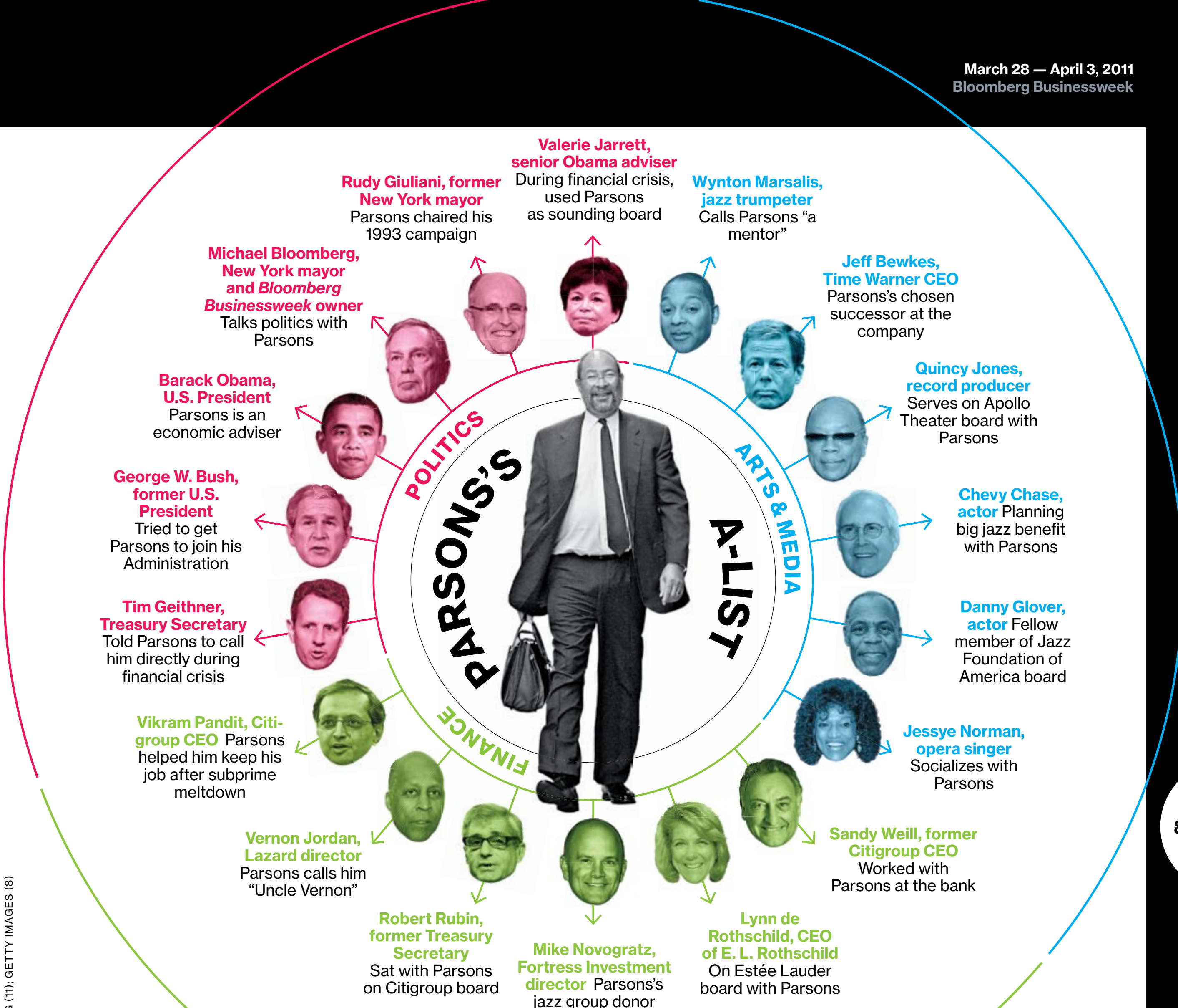


PHOTOGRAPH BY JEFF MERMELSTEIN FOR BLOOMBERG BUSINESSWEEK; PARSON'S A-LIST: BLOOMBERG (11); GETTY IMAGES (8)

of his have been pretty awful. He supported the widely derided AOL Time Warner merger that Gerald M. Levin, his predecessor at the company, oversaw. The combination of old and new media operations eventually resulted in a $54 billion writedown of shareholder value. Parsons was president of Time Warner when the merger agreement was reached, but he did nothing to stop it. He says he had some questions about the top-of-the-Internet bubble valuations used to justify the deal, but ultimately, he says, "It was Jerry's deal."

Then, for many years, Parsons sat on Citigroup's board of directors, which nodded while the company pushed into the mortgage-backed securities that nearly caused the company's collapse. Parsons is hardly contrite: "No one foresaw what would happen," he says. "Should we have? That's another issue. But none of us did."

Yet Parsons seems to have skated past Time Warner's debacle and Citigroup's brush with extinction. In late February, President Barack Obama appointed Parsons to his council of outside economic advisers. Few others associated with Citigroup's crash have recovered so well.

Parsons keeps an office at Citigroup's New York head-quarters; he doesn't spend much time at the bank. "If you are there, people mistake you for management," he jokes. He parks himself instead at Providence Equity Partners, where he works part-time reviewing potential buyouts of media firms. "I don't go out and forage for deals," Parsons says, munching M&M's in a glass-enclosed conference room high above Central Park. "I'm here to give advice and general comic amusement."

The son of an electrical technician and a homemaker, Parsons grew up in the Bedford-Stuyvesant area of Brooklyn and didn't do much schoolwork as a youngster. It apparently didn't hurt him. He skipped a grade in elementary school and another in high school. "I test well," he says by way of explanation.

He went to the University of Hawaii, where he partied more than he studied. After four years, he still needed six credits to get his diploma, but he discovered that if he aced his pre-law exams he could get into law school in New York state without a college degree. He did well on the test and was accepted to Albany Law School, where he graduated at the top of his class.

In 1971 he joined Governor Nelson Rockefeller's legal staff and became a then-rare creature—an African-American Republican. "I was a huge Rockefeller fan," he explains. Rockefeller encouraged Parsons to make money first and then go into politics. In 1977, after two years at the White House when Rockefeller was vice-president, Parsons joined the New York law firm Patterson Belknap Webb & Tyler. In 1988 he became second in command to Harry W. Albright Jr., CEO of Dime Savings

Bank, a Patterson Belknap client, which put him on track to fulfill Rockefeller's material ambitions for him.

Albright was considered something of a visionary in the savings and loan field: He helped popularize "no-doc loans," which were strikingly similar to the subprime variety. Dime Savings doled out loans without regard to a borrower's ability to repay. Instead, the bank just looked at the value of the home. Not surprisingly, Dime was nearly wiped out when the real estate market crashed in the early Nineties. By the time Parsons became CEO in 1990, 10 percent of the bank's $12 billion loan portfolio had gone bad. Expecting the Federal Deposit Insurance Corp. to arrive at his office demanding the keys, Parsons says he urged the agency to give him some time to sell off the bad loans. "You can trust us," he says he told the regulators. "We'll manage this book at least as well as any liquidator. We won't do any more stupid stuff."

Even though Dime's reckless lending got them into the mess, the FDIC went along with Parson's plan. Regulators "appreciated that he wasn't one of those people who work on Wall Street and think they can get anything they want just because they've made a few contributions," says Richard F. Hohlt, a Republican banking lobbyist who worked with Parsons at the time.

The real estate market recovered, and Parsons was able to merge Dime Savings with Anchor Savings Bank in 1994. He also found time while he was still running Dime to serve as chairman of his former law partner Rudy Giuliani's successful campaign to become mayor of New York City.

In 1995, Levin asked him to become president of Time Warner, and Parsons took the job even though he knew very little about the media business. "I'd never thought about it before," he admits. "It was a surprise. But I had never thought about banking either."

"People wondered what I was doing," says Levin. "But I was confident, given his style and his approach and his people skills. And I was proven right."

Parsons says his primary duties were to deal with Washington agencies such as the Federal Communications Commission, stabilize the company's debt-laden balance sheet, and bring the company's headstrong chiefs in the company's film, music, magazine, and cable divisions under control. "You had a king, but you all these dukes and barons who ran their own things and who were sort of obstreperous," Parsons recalls.

A late-1990s boom-time atmosphere permeated the company; it hosted grand parties and unveiled plans to build a lavish headquarters, complete with a jazz club on the fifth floor, thanks to Parsons. The good times ended in early 2000 when Levin announced a deal to sell Time Warner to AOL for $184 billion in stock and assumed debt. Time Warner's revenue was nearly six times that of AOL, a dial-up Internet-access company based in Dulles, Va. Indeed, the only reason AOL could make a credible offer was that its share price was swollen by the dot.com bubble. "It's easy to look back and say, 'Oh, worst deal in history,' " Parsons says. "In terms of evaporation of value, it probably was. But if you looked at all the press back then, everybody thought it was the greatest thing since sliced bread."

Not everybody. One of the skeptics was one of his own employees: Carol Loomis, a veteran writer at Time Inc.'s *Fortune*. She wrote that the merger would only succeed if Levin and AOL CEO Stephen Case were able to meet their wildly optimistic financial goals, which would be akin to "pushing a boulder up an Alp."

By the time the deal closed in January 2001, it was already widely seen as a disaster. AOL Time Warner's shares fell sharply, and there was open warfare within the company. The AOL people tried to seize control. Parsons explained to them that Time Warner management would never allow such a thing. He confronted Robert W. Pittman, a former top AOL executive with whom he now shared the title of co-COO. "Bob, you have to understand," Parsons says he told Pittman. "You can't take over Continental Europe with a platoon. You don't have the troops. It's not going to happen." (Pittman says that he doesn't remember the conversation.)

The Time Warner team nominally maintained control. In 2002 the company took a $54 billion writedown, the largest ever. Levin resigned in disgrace. Parsons took over as CEO, inheriting a company that he describes as "a thing on fire." At a meeting of the company's top managers that year at the Ritz-Carlton in New York, a Warner Bros. executive stood up and suggested they hold a vote on whether AOL should be dropped from the company's name. Hands shot up around the room. AOL executives shouted protests. Parsons calmly stepped to the microphone. He told everyone to sit down and said there would be no vote on the issue.

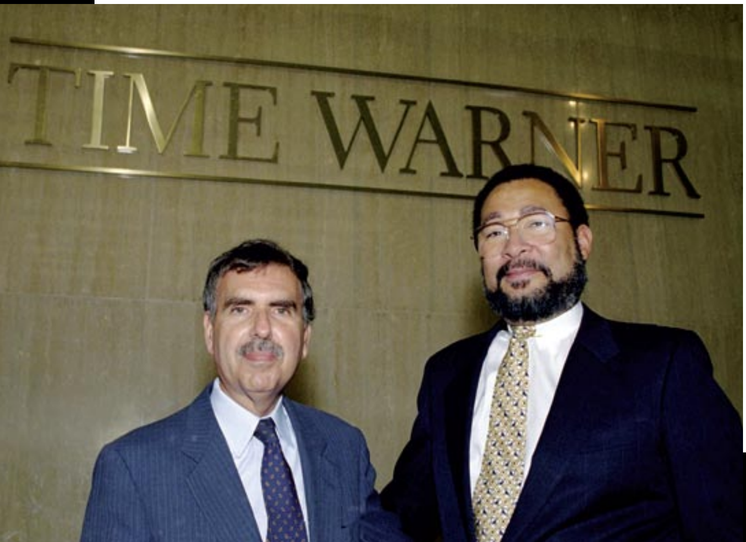
Later the same night, there was another awkward moment. The comedian Wanda Sykes, who had been hired to entertain the group, started riffing on the company's historic writedown. She joked that America couldn't be a racist country when a black man like Parsons could lose so much money and still keep his job. Nobody knew exactly how to react. Parsons tried to dispel the tension by loudly guffawing.

Behind the scenes, Parsons was less sanguine. In the summer of 2002, he called Edward Adler, the company's former head of corporate communications and now head of the strategic communications practice at MediaLink, a consulting group. "The wheels are coming off the company!" Parsons told him. Adler was startled by his boss's uncharacteristic agitation. "He was freaking out," Adler recalls. "Dick's a calm guy. He never freaks out."

The new CEO came up with a plan to right the company. He put the television and film production divisions under former HBO chairman Jeffrey L. Bewkes. He made Time Inc. chairman Don Logan responsible for AOL and the magazine and cable television units. That they were both veteran Time Warner executives signaled a victory of sorts for the old media guys.

The company had other problems, too. Two of the most pressing were investigations by the Securities and

Levin and Parsons in 1994, before AOL's arrival



MARTY LEDERHANDLER/AP PHOTO

IF THE BANKS WENT DOWN, "YOU WOULDN'T BE ABLE TO BUY A LOAF OF BREAD OR CLEAR A CHECK," PARSONS SAYS. "PEOPLE WOULD BE IN THE STREETS"

Exchange Commission and the Justice Dept. into whether AOL improperly booked advertising sales on the eve of the merger. Parsons became directly involved in negotiations with the two agencies. "He's a lawyer, and he's very government savvy," says Adler. "He was worried this was going to bring the company down." In 2004, AOL Time Warner paid $510 million to settle the charges.

A year later there was a new crisis to manage: The company's depressed stock price drew the attention of activist investor Carl Icahn, who built up a 6 percent stake and tried to pressure the company to break itself up. One of the themes of his campaign was that Parsons was a glad-hander rather than the hard-core fixer that AOL Time Warner needed.

Parsons fought Icahn with charm. He started dropping by Icahn's office in the GM Building. "I got to know his secretaries," Parsons says. "They are always the keepers of everything."

On one visit Parsons found Icahn's assistants glum at their desks. It was the boss's birthday. The women had a cupcake with a candle in it and they wanted to sing *Happy Birthday*, but they said Icahn wouldn't hear of it. He was brooding behind closed doors in his office.

Parsons marched into his adversary's office with the secretaries and started a round of *Happy Birthday*. At first, Parsons says, Icahn objected vigorously, but finally he calmed down and enjoyed his cake. "It turns out he's like everybody else," Parsons chuckles. "Who doesn't want to have a little celebration on their birthday? He might take offense at this because it makes him sound like a regular guy as opposed to the fearsome Carl Icahn."

"[Dick] is a very disarming guy," concedes Icahn.

Ultimately, Parsons endorsed a share buyback, and Icahn abandoned his campaign, selling his holdings for a profit.

Parsons turned over the company intact to Jeffrey L. Bewkes, who became CEO in 2008. A year later, Bewkes spun off AOL just as Icahn had demanded. Why didn't Parsons do it earlier? He struggles to find a compelling answer. "We hadn't arrived at the place where Jeff ultimately arrived after I left," he finally says.

Parsons stayed on as the company's chairman until the end of 2008, when he departed for good. This would have been an appropriate time to slow down. He had his vineyard in Tuscany in which he took considerable interest. He was a member of the board of directors of the Apollo Theater in Harlem, Howard University, and the Museum of Modern Art; his social calendar was always full. But catastrophe has a way of calling Dick Parsons. He had been on Citigroup's board of directors since the late '90s, and by 2008 the bank's future was in doubt.

Parsons's fellow directors asked him to be chairman of the board. He says he felt he couldn't say no. After all, he bore some responsibility for Citigroup's state, having, among other things, led the search committee that selected Vikram Pandit as CEO in 2007. "This guy is super smart," Parsons says of Pandit. "And he is also a very good problem solver." Unfortunately, his protégé had some significant shortcomings. Pandit had made $165 million selling his hedge fund to Citigroup, but the fund later closed. He had never run a large financial institution. He had no relationships with federal regulators, some deeply concerned about whether he was the right guy to turn Citigroup around.

Parsons was convinced that Pandit simply needed more time to work out the bank's troubled loan portfolio, just as Parsons did at Dime Savings. He made frequent trips to Washington, where he made his case to the likes of Treasury Secretary Timothy Geithner, then-Comptroller of the Currency John Dugan, and FDIC Chairman Sheila Bair. He says they all understood what was at stake if the government let Citigroup go the way of Lehman Brothers. "You would go home in a cab, swipe your credit card, and it wouldn't go though," Parsons says. "You wouldn't be able to buy a loaf of bread or clear a check. It would be like Egypt. People would be out in the streets."

Parsons had a chummy relationship with the Treasury Secretary. "Timmy Geithner would say, 'Call me directly, because this is too important an institution to go down,' " Parsons says. According to the Treasury Secretary's schedule, available online, Geithner spoke frequently with Parsons in 2009. The Citigroup chairman also got along with well with Dugan, whom he calls a "good guy."

The relationship between Citigroup and the FDIC was more fractious. The federal bank insurance fund would have been on the hook for billions of dollars in losses if Citigroup failed, and Bair was understandably more inclined to meddle. The FDIC urged Parsons to repopulate the board with more directors with banking experience, which he did. The company replaced its CFO to placate the agency.

In the end, Citigroup came through. In December, the Treasury Dept., which had been the bank's largest shareholder, sold its last remaining shares for a $12 billion profit. Parsons says he feels vindicated, and he plans to stand for reelection at Citigroup's annual meeting in April. "We have to get the truck out of the ditch, back on the road, and moving in the right direction," he says. "When we are all comfortable that that's been accomplished, it will be up to Vikram and the remaining board to get it up to speed again, but we are not there yet."

Meanwhile, Parsons has a rescue mission even closer to his heart. He wants to revive Minton's Playhouse, the Harlem jazz club where Monk and colleagues such as trumpeter Dizzy Gillespie and saxophonist Charlie Parker gathered after hours in the 1940s. Parsons is negotiating with the club's current owner, the State of New York's Harlem Community Development Corporation, to get the lease on the club so he can reopen it as a more upscale place, where well-heeled jazz aficionados like himself can enjoy a good meal along with live music. "We are going to spiff it up and bring it back to life," he says. "We can't declare victory yet, but we are close to getting it done."

As he leaves the Lenox Lounge with his wife, the Citigroup chairman runs into Dr. Lonnie Smith, a gray-bearded organist who wears a turban. He has been playing in Harlem for decades, and fans cross oceans to see him. Parsons walks over to Smith and clasps his hand.

"Listen, I'm trying to reopen Minton's," he says. "The real Minton's."

Smith grins. "Oh yeah?" he says. "I've played there. I'd like to go back."

"Well," says Parsons, "hang in there." B

PHOTOGRAPH BY JEFF MERMELSTEIN FOR BLOOMBERG BUSINESSWEEK