PART ONE

A Charity Case and Greenlight Capital

CHAPTER 1

Before Greenlight

My father and grandfather were businessmen. The family business was Adelphi Paints in New Jersey. When the first energy crisis came in the early 1970s, the business suffered. My grandparents decided to sell. Though my father was a chemist, he worked on the sale of the company. When it was over, he enjoyed the work so much he decided that his future would be in mergers and acquisitions (M&A). He tried to get a job on Wall Street but did not have the right background.

My dad decided to open his own M&A shop in the basement of our house in Demarest, New Jersey. After a year with little success, my mom convinced him to move us back to Milwaukee, where she grew up and where her family remained. We moved in 1976, when I was seven. My father started his business again by working out of a converted bedroom in our house in the suburb of Fox Point.

Suburban Milwaukee was a great place to grow up. I rooted for the Milwaukee Brewers and its stars, Robin Yount and Paul Molitor. I went to a lot of games, including the World Series in 1982. The Brewers may have been a bad team for most of my life, but to have your team at its peak when you are thirteen years old is an experience I wish for every fan.

I was a pretty good student, especially in math. I spent most of high school working on the debate team, probably at some expense to my grades. Being a member of the team was great training in critical analysis, organization, and logic. I was very excited when my wife, Cheryl, announced that in honor of the tenth anniversary of Greenlight Capital, she had sponsored the creation of an Urban Debate League in Milwaukee, where hundreds of high school students will get debate training and experience. Apparently, debate raises test scores, literacy, and graduation rates. I am not surprised—I benefited enormously from the experience.

My parents often discussed business at the dinner table. Like his father, my dad has an enormous reservoir of patience and persistence. My mom is much more demanding. The M&A business was tough. My dad was paid mostly on contingency. This means that he would often work hard for a deal that did not close and would get paid little, if anything, for his effort. Other times, the deal would go so smoothly that the client would look at Dad's work and conclude that it was so easy that the fee was not fair. Because the fee was not due until after the closing, many of the clients would take the opportunity to renegotiate. Mom always thought Dad was soft in these negotiations. Dad tended to take a longer-term view. Eventually, he moved the business out of the house. As it grew, it became successful and enabled Dad to provide well for our family. On my best days, I fancy myself a combination of Dad's persistence/patience and Mom's toughness/skepticism.

I majored in government at Cornell University, but became more interested in economics after I interned during my junior year at the Office of Economic Analysis at the SEC in Washington. I wrote my thesis on the cyclical regulation of the U.S. airline industry. Policy makers balance two competing interests: Airlines want to make money, but consumers want cheap, ubiquitous air transport. In the anticompetitive phase of the cycle, regulators allow airlines to generate generous profits by operating monopolies on routes, capturing cities as hubs, and eliminating competition by merging. This leads to unhappy consumers and politicians, who then require procompetitive measures to provide more and cheaper service, which kills the profitability of the industry. After the airlines suffer through losses or even bankruptcies, policy makers realize that having airlines is a good thing. To induce airlines to buy planes and provide service, there has to be a profit opportunity, so the anti-competitive phase of the cycle returns. This vicious pattern perhaps explains Warren Buffett's quip that investors should have shot the Wright brothers' plane from the sky at Kitty Hawk. This thesis won me highest honors in the Government Department, and Greenlight, not surprisingly, has never owned a U.S. airline stock.

I started to look for a job through on-campus recruiting. I met with a lot of companies, including *The Company*—the Central Intelligence Agency. I received a few offers and decided to take the one as an investment banking analyst at Donaldson, Lufkin & Jenrette (DLJ), even though it offered the lowest salary. I chose it because I liked the people I met during recruiting. I later realized I needed to work on my judgment.

I had two miserable years at DLJ, which provided a different kind of education. Working there felt like pledging a fraternity, except the hazers had no interest in even pretending to be friends. I won't go into the gory details, but a few years ago John Rolfe and Peter Troob wrote *Monkey Business,* a graphic account of life as a junior investment banker at DLJ. Their description is consistent with my memory, including the true-to-life, hysterical description about managing the copying-center personnel. The main difference between their experience and mine: I was one level on the totem pole junior to them, which made life that much worse.

Part of my problem was that I did not have any idea what the job entailed when I started working there. When DLJ recruited its analysts, it sought a mix between finance/economics types and liberal arts types. As a government major, I fell into the latter group. I did not have any friends who had taken junior investment banking jobs, so I did not understand what the company's representatives meant when they asked me during the recruiting process, "Are you willing to work hard?" I gave the right answer, but I didn't realize I had just committed to 100-hour-plus workweeks. When I grew up, Dad made it home for dinner every night, and, I believe, so did all of my friends' dads. I had never heard about jobs that required sitting in the office all day waiting for assignments that were generally passed out around dinner. The work lasted into the wee hours and often overnight. I did not understand the concept of staying in the office until everyone senior to me left—even when I had nothing to do. Further, I did not understand that being an analyst was a rite of passage that required "sacrifice" for its own sake, even when it provided no benefit to the project at hand. But I did it anyway because that was the culture.

I would often sleep on a pillow under my desk while the word-processing department prepared documents or the copy center made them into presentation books. Cheryl, my wife, would bring me a clean shirt in the morning on her way to work. I had certainly never before heard the adage, “If you aren’t coming in on Saturday, don’t even think about coming in on Sunday!” I started in August 1991 and by Thanksgiving had lost fifteen pounds.

After two years, analysts were expected to need a break that would be provided by business school. I had no intention of continuing my life as an investment banker, so I decided not to go to school. When a headhunter called and asked if I would like to interview at a hedge fund, my first response was, “Yes.” Then I asked, “What’s a hedge fund?” That is how Siegler, Collery & Company (SC) found me.

Gary Siegler and Peter Collery managed the SC Fundamental Value Fund, a mid-sized hedge fund with about $150 million under management. Today, a similar fund would have a couple of billion dollars. SC grew to about $500 million by the time I left. It was a great place to learn the business.

There, I learned how to invest and perform investment research from Peter, a patient and dedicated mentor. I spent weeks researching a company, reading the SEC filings, building spreadsheets and talking to management and analysts. Then I went into Peter’s office to discuss the opportunity with him. He heard me out and then took my file on the train. The next morning he returned to work having read everything and made a detailed list of questions that I *wished* I had asked. When I started working at SC, I would not know the answers to any of them; after a couple of years, I usually could answer about half.

Peter combed through the SEC filings for ambiguities in the description of the business or the discussion of the results. He spotted signs of good or poor corporate behavior, not to mention aggressive or conservative accounting. There were three basic questions to resolve: First, what are the true economics of the business? Second, how do the economics compare to the reported earnings? Third, how are the interests of the decision makers aligned with the investors?

In early 1996, along with an SC colleague, Jeff Keswin, I resigned from the firm to start Greenlight Capital. Cheryl named the firm, giving me the green light. When you leave a good job to go off on your own and don’t expect to make money for a while, you name the firm whatever your wife says you should.