

Chapter 1

A Long, Hot Summer

I just remember the nights. George would come in from the office at what seemed like 4 A.M. every single night. I don't know how he got through those months. I don't know how any of them did. It was crazy.

—*Nancy Dorn Walker*

By nightfall on Saturday, June 7, 2008, the Manhattan streets were still radiating heat, an unwelcome harbinger of a long, stifling summer. At the Skylight Studio, a sprawling private event space in SoHo, George Herbert Walker, a 39-year-old second cousin of then President George Walker Bush, and at the time head of Lehman's Investment Management division, was celebrating his marriage to Nancy Dorn, 31, a pretty blonde hedge fund analyst from Texas. The couple—who had exchanged their vows at New York's City Hall a few weeks earlier and had already celebrated with family down in Texas—ate Southern food, danced to the overwrought musical stylings of a suitably ironic wedding singer, and drank margaritas with 400 of their friends. It was, however, a celebration tempered by the first signs that Lehman Brothers was about to come crashing down.

The newlyweds had planned for their party to be casual and low-key—cushions on the floor and a buffet. Dorn wore a strapless Missoni dress that was asymmetrical and calf length. Walker—tall, bespectacled, a “cuddly bear,” some friends said—rather typically and charmingly cannot recall what he wore that night.

The last thing the couple wanted was to be perceived as grandiose. In fact, Walker had instructed their friend, party planner Bronson van Wyck, “Just make sure we don’t make it into Page Six,” the gossip page of the *New York Post*. The public outrage over the \$3 million extravaganza hosted by Blackstone Group CEO Stephen A. Schwarzman for his 60th birthday on February 13, 2007, was still echoing throughout New York City. The star-studded, 500-guest event held at the Park Avenue Armory, featuring performances by Rod Stewart (who was paid \$1 million) and Patti LaBelle (who sang “Happy Birthday”), had been an ill-timed disaster of self-congratulation: Blackstone’s stock had fallen steadily ever after and was then teetering at \$18 per share, nearly half of its value a year earlier. And now, *all* of Wall Street was suddenly standing on the edge of a precipice, and everyone—especially those in attendance at the Walkers’ party—were acutely aware of it. “We wanted people to come and go when they wanted to, and not force them to sit down for a formal dinner,” Dorn said. The band—a Neil Diamond cover band, Super Diamond—was chosen by Walker in order to keep the mood light.

Just months earlier, on March 17, Bear Stearns had imploded, and was scooped up by JPMorgan Chase, which paid \$2 per share (that was eventually elevated to \$10 per share with the aid of a \$29 billion government nonrecourse loan); the rescue operation had stunned the financial market. Worried eyes were now staring at the next domino in Wall Street’s Big Five: Lehman Brothers. Walker had moved to the bank only two years before from the larger, more capitalized (and therefore safer) Goldman Sachs.

Since March, most of Lehman’s senior management had been working nights and weekends, furiously trying to shore up their balance sheets. That weekend, many of the guests at the Walkers’ “second wedding” had come directly from the Lehman offices on 745 Seventh Avenue at 50th Street. Most, like David Goldfarb, Lehman’s global head of Strategic Partnerships, Principal Investing, and Risk, had met

their wives at the office and had simply grabbed their jackets from the backs of their chairs before heading hurriedly, their minds elsewhere, out the door. Even Walker hadn't been home much recently; on the day of the wedding party, Nancy Dorn had gone to a movie by herself. The June earnings were due in two days. As the new 41-year-old CFO, Erin Callan, worked on them (she did not attend the party), her colleagues knew they'd be announcing Lehman's first losses since spinning off from American Express—\$2.8 billion. They were deeply concerned.

"Everyone was stressed that night—we felt badly for George," Goldfarb said. "We were more tired than downbeat. No one at that time had any inkling that we would go down. We just knew we had a lot of work to do." Despite the tumult, nearly all the core senior management team of Lehman came to the party. Longtime chairman and CEO Dick Fuld was there with his wife of nearly thirty years, Kathy, 56, then the vice chair of the Museum of Modern Art. Sticking close to them were Joe Gregory, Lehman's president, and his second wife, Niki, a beautiful Greek-born brunette. Then there was the urbane, silver-haired Tom Russo, Lehman's chief legal officer. Famous for his charm and eloquence, he was nicknamed "the Mayor of Davos" because, as one colleague put it, "he arrives first and leaves last" at the annual financial powerhouse conference in Switzerland. Beneath his twinkling eyes is a steel core—after Lehman Brothers collapsed, in late September, Russo would offer his consolation to Lehman Europe by way of a terse telephone call, in which he told them: "You're on your own."

"Never be fooled by Tom's charm," a colleague said. "He's as tough as anyone when he wants to be."

The last member of Fuld's inner circle in attendance that night was Scott Freidheim, whom Fuld looked upon almost as a son. Freidheim, then 41, is the son of former Booz Allen & Hamilton vice chairman and former CEO of Chiquita Brands International, Cyrus Freidheim. Scott was yanked out of Lehman's investment banking unit in 1996 and appointed managing director, office of the chairman. He quickly rose to the top echelons of the organization, which earned him as many enemies as friends.

Most of the executive committee was there: Hugh "Skip" McGee (the head of investment banking), Herbert "Bart" McDade III (head of

equities), and Ted Janulis (mortgages). Also present were Steven Berkenfeld (chairman of the investment banking committee) and John Cecil, the small, earnest former McKinsey director who had risen to become the CFO of Lehman in the late 1990s and who, though he had left Lehman in 2000, was still being paid as a consultant. Also gathered were a large number of senior executives of NeubergerBerman, Lehman's asset management division, commonly referred to as its "crown jewel."

Months earlier Joe Gregory had taken Walker aside. "You know, you didn't have to invite all these people," he said. "Remember: These are just the people you work with. They are not your friends."

Gregory was the only person at Lehman who had been at the firm longer than Fuld. Their careers began in the early 1970s when Lehman was one of the leading advisory mergers and acquisitions (M&A) houses on Wall Street, before it became a bond and mortgage shop.

Fuld and Gregory had fought in what became known as "the Great War" of 1983 and 1984, an epic battle for control of Lehman between their professional mentor, the bond trader Lewis "Lew" Glucksman, and Peter G. "Pete" Peterson, the former commerce secretary. A preening sophisticate who dominated luncheons with his prattle, Peterson was widely disliked by the relatively blue-collar traders for his patrician demeanor. Glucksman and his traders won the Great War and ousted Peterson, chiefly because by the mid-1980s the traders were making more money than the advisory bankers aligned with Peterson. But the fight cost the firm dearly. Top banking talent fled and revenues plummeted, making it vulnerable for a takeover by the newly merged entity of American Express Shearson in April 1984. Peterson hadn't left without implanting a lethal sting. It was greatly in his financial interests to get Lehman sold. In fact, it was greatly in the interests of pretty much *all* the senior investment bankers to get it sold. This was precisely what happened, as detailed in a 1986 saga chronicled by Ken Auletta in *Greed and Glory on Wall Street*. Glucksman was offered a \$15.6 million noncompete buyout fee (on 4,500 shares). He and most of the other partners took the money and ran.

And Gregory and Fuld began their ascents into the ruling elite of the new Lehman Brothers.



The firm was founded in 1850 by three cotton trader brothers—Henry, Emmanuel, and Mayer Lehman. The cotton business had evolved from trading and general merchandising into an exchange in lower Manhattan. With the post-Civil War expansion of trading in stocks and bonds, the firm prospered and expanded. The next great leap for Lehman Brothers occurred after World War II, under the reign of Bobbie Lehman, who had a Rolodex bursting with names like Whitney, Harriman, and most of the rest of New York's ruling class. He decorated the walls of Lehman's offices downtown at One William Street with works from his private art collection—paintings by Picasso and Cezanne, Botticelli and Rembrandt, El Greco and Matisse. He was a gentleman, and his great strength was that he knew how to unite the people who worked for him.

Andrew G.C. Sage II, a former employee, told Ken Auletta, "Bobbie was not much of an investment banker. He wouldn't know a preferred stock from livestock, but he was a hell of a psychologist." Under him, Lehman became the *gentleman's* banking house.

"The partners at Lehman were all men of stature," Felix Rohatyn, the banker who kept New York City from the throes of bankruptcy in the 1970s, told Auletta. "They were principals. You dealt with them as owners of a great house. You felt that if there was any such thing as a business aristocracy, and at the same time a highly profitable venture, that was it."

The firm's stellar reputation survived Bobbie's death in 1969. Many of its M&A bankers in the 1970s and early 1980s are still famous, still the icons of their profession. Their ranks included Eric Gleacher, Stephen A. Schwarzman, Peter Solomon, J. Tomlinson "Tom" Hill, Robert Rubin, Roger Altman, and a young Steve Rattner; they all achieved great success—and wealth—after leaving Lehman Brothers. It was infighting—typical in the firm's last half-century—that brought Lehman low enough to be bought by Shearson American Express in 1983. And through that strange marriage ("Shearson taking over Lehman is like McDonald's taking over '21,'" a Lehmanite told Bryan Burrough and John Helyar for their 1990 book, *Barbarians at the Gate*), Lehman stewed. And schemed. Its Lehman Commercial Paper Inc. (LCPI) unit grew to eclipse Shearson's own department, and provided

enough momentum for Lehman Brothers to finally spin out once again, its egos intact.

As for Fuld and Gregory? It had taken immense grit, courage, and a warlike mentality to restore the burnish to the once golden brand. They had defied the naysayers who believed that a tiny bond shop would never survive the Mexican peso crisis of 1994; and they did the same again through the Russian crisis of 1998. They had weath-ered rumor, had survived scandal, and had even ousted their longtime colleague, T. Christopher Pettit, to preside over a fully fledged global investment bank.

Since Lehman, in their hands, had gone public and had grown from 8,500 employees to 28,000, the stock price had risen by a factor of 16. The partners were all rich. In 2007, Fuld was named CEO of the Year by *Institutional Investor* magazine in the Brokers and Asset Managers category. The bank was once again competitive, once again a respected force on Wall Street. They weren't now going to let it go down just because of an asset and housing crisis. They had survived 9/11, when their three floors of offices in the World Trade Center had been destroyed and their headquarters in the nearby World Financial Center badly damaged. They'd been through far worse.



And so, on this evening, for the sake of the well-liked George Walker, Lehman's top management tried to have a good time, tried to forget about their troubles. They chatted, they danced, they drank.

Gregory and Fuld slipped away early. This was not unusual—Fuld had never been much of a party guy. He was famous for showing up at in-house cocktail parties for ten minutes and then leaving to be with his family. "We're going to be fine," Fuld told a stranger who approached him just before he left the party. And if worse came to worst, he believed, the U.S. government wouldn't let Lehman fail.

We're going to be fine.