BOOK REVIEW

Greed And Glory On Wall Street: The Fall Of The House Of Lehman, KEN AULETTA, Random House, New York, New York, 1986, pp. 253.

"The world is still deceived with ornament."
—The Merchant of Venice
Act III, Scene ii

Recent periodicals as well as current television and radio news announcements are rife with the developing Wall Street stock trading scandals. Such events are not mere aberrations, particularly with arbitrager Ivan Boesky being fined $100,000,000 in a "compromise" settlement, the Levine Scandal, "Yuppie" Inside Traders, and the most recent scandal at prestigious Goldman-Sachs.[1] Moreover, multiple subpoenas have been issued by the Securities and Exchange Commission to various members of the Wall Street elite, not a few of whom have been practicing attorneys or have at least obtained a law degree. These events have thrown wide the casements and allowed a view through the usually closed windows of the tightly-knit world of Wall Street. There are astronomical financial gains to be made and great power to be had on Wall Street, and fortunes are won or lost in hours if not minutes.

Into this whirlwind, and as topical as today's headlines, is *Greed and Glory on Wall Street: The Fall of the House of Lehman* by Ken Auletta. After compiling hours of interviews with key personnel and reviewing countless articles and statistics, Mr. Auletta narrates in great detail the final days of Lehman Brothers Kuhn Loeb, one of the most prestigious, influential, elegant, and historically wealthy investment banking firms.[2] It is a fascinating account which literally opens a

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[1] *See generally A Raid on Wall Street*, TIME, Feb. 23, 1987, at 64.

[2] K. AULETTA, GREED AND GLORY ON WALL STREET: THE FALL OF THE HOUSE OF LEHMAN 4 (1986). The Lehman brothers, Henry, Emanuel, and Mayer, arrived in the United States in late 1840 and established a trading and dry goods business in Montgomery, Alabama. They moved operations to New York in 1868 and were instrumental in founding the New York Cotton Exchange. *Id.* at 27-30. By 1967, building on the success of raising capital for various southern ventures, Lehman Brothers was worth 3.5 billion dollars in underwriting and was among the top four investment banks. During the 1960's, Lehman Brothers began for the first time to actively participate in the trading of commodities futures and commercial paper. By July of 1983, Lehman Brothers was a powerhouse with an average of 15 million dollars a month in pre-tax and pre-bonus profits and capital of 250 million dollars with an equity of 175 million dollars. *Id.* at 4.

window on the obscurity of Wall Street for both the neophyte and the experienced.

Prior to being swallowed by Shearson/American Express in 1984, Lehman Brothers had been a private partnership in the investment banking and trading field for nearly 134 years.[3] Mr. Auletta's book relates the facts surrounding the disagreements and heated opposition between the two co-chairmen/co-chief executive officers, Peter G. Peterson and Lewis L. Glucksman, who were charged with protecting and enhancing the partnership. Significantly, Mr. Auletta highlights the mutual distrust between the two men, as well as the neglect and economic "blinders" exhibited by the remaining boardmembers and partners at Lehman Brothers. Mr. Auletta also refers to the splendor enjoyed by partners at the usually profitable Lehman Brothers, including the sumptuously appointed oak paneled dining room, where a meal prepared by world class chefs could be enjoyed on monogrammed china with sterling silver utensils followed by the finest hand rolled cigars available.[4]

In 1973, Peter G. Peterson was made a partner at Lehman Brothers, which at the time was in management chaos.[5] Mr. Auletta indicates that two months after Peterson's partnership status was attained, he was elevated to the position of sole chairman and chief executive officer.[6] He maintained those titles for the next ten years.[7] According to Mr. Auletta, Peterson was not well liked and was perceived as distancing and unapproachable.[8] Nonetheless, he was able to restore Lehman Brothers to an efficiently run, cost effective, organized, and highly profitable investment banking firm.[9]

Peterson was perceived as a "Mr. Outside." He sat on various

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3 *Id.* at 210.

4 *Id.* at 40-41, 87-88.

5 In 1973, Lehman Brothers began losing money at the alarming and frightening rate of nine million dollars annually, costs were completely out of control, and Lehman Brothers had just been censured by the New York Stock Exchange for "sloppy" record keeping. *Id.* at 34. Peterson, Secretary of Commerce in the Nixon Administration, was courted as a savior. He was to engage in cost cutting and belt tightening practices. *Id.* at 35-40.

6 *Id.* at 40.

7 Peterson's resignation was demanded in a meeting with his then co-chairman/co-CEO Lewis Glucksman in July of 1983. *Id.* at 21-24.

8 Peterson, it is said, would call partners at odd hours, ask them to ride uptown in his limousine, and then ignore them as he talked on the phone or read a memo. He was seen as imperious and a name dropper. Peterson lectured Glucksman about the stains on his ties, obesity, unfashionable clothes, and the proper image for the firm. It is also said that at one board meeting, he complained of a headache and ordered a fellow partner to run out and get him some aspirin. *Id.* at 16, 69, 83, 84.

9 *Id.* at 3, 41-44.

corporate boards, was involved with the State Department due to his former position in the federal government, and was quite active politically.[10] He was the archetypical "Wall Street Banker," and if he was sympathetic to either of the factions developing at Lehman Brothers, it was to the "Bankers."[11]

On the opposing side, the quintessential "Trader," and the titular head of the other faction at Lehman Brothers, was Lewis Glucksman.[12] He had come to Lehman Brothers some ten years prior to Peterson, and in contrast to him, Glucksman worked his way to the top of Lehman Brothers from department head to boardmember and officer.[13] Throughout his rise, Glucksman maintained the same glass-enclosed office on the Lehman Brothers trading floor so that all of "his boys" could see him and be encouraged. He was volatile, lugubrious, and unstinting in both praise and blame, and was often described as a "wildman."[14]

Peterson and Glucksman symbolized the constant conflict existing between the bankers and traders. The banking division,

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10 Peterson graduated summa cum laude from Northwestern University and became president of Bell and Howell at age 34. He was Secretary of Commerce in the Nixon Administration, and was credited with saving Lehman Brothers from ruin in 1973 when he assumed control and aided in turning in five consecutive record breaking profit years. *Id.* at 36-43. Currently, he sits on the boards of six "blue chip" corporations, and is treasurer of the Council on Foreign Relations as well as a trustee of both the Museum of Modern Art and the Japan Society. *Id.* at 14. He accepted, enjoyed, and apparently expected to play the "ambassadorial" role with clients, governments, the press, and John Q. Public. *Id.* at 14-15, 74.

11 Peterson is quoted as saying that "the great successes of this company . . . [are] that the essence of this firm has been in creative entrepreneurial work, and *not in other areas, such as trading, etc.*" *Id.* at 54. (emphasis added).

12 Raised on Manhattan's upper west side during the depression, Lewis Glucksman graduated from DeWitt Clinton High School. He spent a year at Indiana University, transferred to the College of William and Mary, and obtained a liberal arts and accounting degree in 1947. *Id.* at 45. He first worked as a credit reporter with Dun and Bradstreet, received an M.B.A. from New York University night school, and began work for A.G. Becker as a securities analyst. He then became an arbitrager, returned to A.G. Becker as co-manager of the Commercial Paper Division, and was eventually "lured" to Lehman Brothers in 1962 to begin Lehman Brothers' own Commercial Paper Trading department. *Id.* at 45-46.

13 *Id.* at 17, 45, 74, 76.

14 Glucksman was THE Trader—he arrived at his desk before six each morning, his tie already askew, his pants soon dusted with cigar ash, and his fingers stained from newsprint. Proudly wearing an inexpensive Seiko watch with a plain band, he always ate lunch at his desk, and never in the Partners' dining room, where "they" (the bankers) were always to be found. *Id.* at 12. He would redden with rage, burst buttons on his shirt, or heave objects across the room in frustration, and just as easily hug and kiss his employees to express his gratitude. It was said he once ripped his shirt off his back while in a rage and tore down curtains from the windows. He was also seen, however, as a very caring man, very emotional, and very smart. *Id.* at 13.

though accounting for only one-third of the total revenues at Lehman Brothers, nonetheless maintained power and control by having a clear majority on both the board of directors and in the partnership roles.[15] According to the traders, bankers received too high a share in the profits for doing less work, and were never "down in the trenches" where the trading was going on and where the real work was being done. The bankers, meanwhile, viewed the traders as inelegant and unable to understand the rich history and tradition behind nurturing clients and procuring capital.[16]

After detailing the incongruous backgrounds and positions of Peterson and Glucksman, Mr. Auletta noted that the stage was set for imminent disaster. In early 1983, Glucksman was elevated to co-chairman and co-chief executive officer. Among other reasons, Glucksman's appointment hopefully would mollify existing tensions.[17] Glucksman shared titles with Peterson, but was in reality responsible for the day-to-day operation of the firm.[18] Glucksman, "Mr. Inside," who deplored the Ivy League air cultivated by Peterson, soon began acting without consulting with his co-chairman.[19] Peterson, meanwhile, was only three years away from mandatory retirement and the resulting forced divestiture of his partnership shares.[20] An open confrontation or schism would only devalue

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15 *Id.* at 12, 17-18.

16 Tensions inevitably arose between the "Bankers" and the "Traders." Basically, a trader buys and sells securities, that is, bonds, stocks, options, financial futures, commercial paper, certificates of deposit, Treasury bills, and Eurobonds, either for clients (thereby generating fees and commissions for the firm), or by risking the firm's money directly. A trader makes quick firm decisions, often by consulting a puzzling array of numbers on a computer monitor, before, during, and after hurried telephone calls.

Conversely, bankers supposedly have a longer view, extending to the horizon. A banker invests several years in nurturing and cultivating a relationship before it becomes a client. They earn fees for serving as financial consultants to corporations, for pulling together new issues, and for merging or divesting companies.

Traders are drawn as poorly educated drones with "digital" minds, robots sitting mesmerized before glowing screens, crassly spitting out orders through cigar-clenched teeth, thinking only of the moment, and animal-like. Bankers are likewise stereotyped. They are shown as elitist "Ivy League" preppies in suspenders who would rise late, take long lunches, deftly work over contracts, but not produce a product. This schism was developed at Lehman Brothers due to the historical lack of trading practices—Glucksman's arrival in the 1960's was the first significant trading done at Lehman Brothers. Thus, there existed the constant "Us v. Them" philosophy. *Id.* at 11, 53-54.

17 *Id.* at 74.

18 *Id.* at 17.

19 *Id.* at 77-82.

20 All partners at Lehman Brothers had to commence selling back shares to the partnership once they reached age 60. Peterson, at the time of the May 1983 meeting was 57. *Id.* at 17. The rumor mill was producing talk of a sale of the partner-

those shares and an intermediary was used so that the two heads of Lehman Brothers would at least communicate.[21]

In July of 1983, after years of pent up frustration, Glucksman demanded that Peterson resign without the usual transition phase.[22] Peterson complied and did not offer a struggle, but the price of peace was high—a multi-million dollar "golden handshake"—which became the first death rattle of the painful demise of Lehman Brothers.[23]

Money and power and the unquenchable thirst for more were the prime motivating factors behind the demise of Lehman Brothers. According to Mr. Auletta, both were easily attainable. For example, in the fall of 1983, an average partner at Lehman Brothers had an equity of 2.3 million dollars. An average senior partner with some 2000 shares (about one-fifth of the partners owned that amount) made pre-tax income equal to two million dollars.[24] Power was just as easily attainable. Indeed, the chairman and boardmembers set the amount of bonuses for each partner.[25] Therefore, the higher Glucksman could rise, the closer to the actual reigns of power and control he would be.

It was his need for power and money, and more of the same, which led to the series of events which culminated in the takeover and purchase of Lehman Brothers by Shearson/American Express. Although Peterson resigned control without a fight, he did not physically leave Lehman Brothers until months after, which rankled Glucksman even further and increased tension.[26] Boardmembers

ship and that Peterson was actively pushing for a sale prior to his 60th birthday to reap the maximum amount possible. *Id.* at 61-62.

21 Glucksman's overbearing hate and Peterson's seeming inability to talk to him led to the use of one of the partners as an intermediary to pass messages between the two men. *Id.* at 69.

22 *Id.* at 101-03.

23 Peterson withdrew nearly his entire seven million dollar equity at once, rather than over the mandatory two and one-half to five year pay-off period. His bonus was as big as Glucksman's September bonus (annual bonus time). Peterson continued to receive one percent of the firm's profits for the next five and one-half years, and received $300,000 annually for five and one-half years as " 'supplemental retirement benefits.' " Further, Lehman Brothers invested five million dollars in Peterson & Jacobs, Peterson's new venture capital firm. *Id.* at 107. If Lehman Brothers was sold within the next five and one-half years, Peterson would receive the same premium (the value offered shareholders above the worth of their stock) on the sale. The premium would decline after two and one-half years. Thus, Peterson now had a stake in a quick sale of Lehman Brothers. In return for this deal, Peterson was to do nothing but resign. *Id.*

24 *Id.* at 5-6.

25 *Id.* at 127.

26 *Id.* at 121, 123.

and partners at Lehman acquiesced totally to Glucksman's sole leadership as well as the multi-million dollar severance to Peterson.[27]

After Glucksman assumed sole control, including control of the awarding of bonuses, a serious realignment took place.[28] Traders, now that one of their own was in power, began receiving more and larger bonuses with a greater number of traders elevated to partnership status. This shake up, according to the bankers, was at their expense. Ultimately, all of the partners became more concerned with the total capitalization of Lehman Brothers; that is, the value of their individual shares rather than with the welfare of the partnership as a whole.[29] This attitude, together with the climate of general losses on the Street at that time and the deepening sense of chaos, led to the inexorable fall and inevitable sale of Lehman Brothers to Shearson/American Express.[30]

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27 At the board meeting when Peterson announced his resignation and the "Golden Parachute Agreement," none of his potential supporters spoke up. All acquiesced, except for boardmember Peter Solomon, who indicated in loud terms that the idea was "nuts" and that all of the boardmembers' investments in the partnership were being placed in extreme risk. *Id.* at 107. At the July 26, 1983 partnership meeting at which Peterson resigned, although the 76 non-boardmember partners were "stunned" after Peterson's announcement, they evinced the attitude that it was a "fait accompli" and that nothing could be done. It apparently was clear that, in light of the bonus time fast approaching, any rebels in the camp would be remembered. The board was primarily focused on the money and profits the firm was realizing, not on its future or its past traditions, or the loyalty to its members. Silence reigned. *Id.* at 102-03. No one doubted, however, that as the sole CEO, Glucksman would use the power of the office. *Id.* at 112-14.

28 *Id.* at 127-29, 131-38.

29 Lehman Brothers was filled with the "every-man for himself" attitude. Personal ambition and greed are essential to the overall success of any investment banking firm. However, other factors such as teamwork, commaraderie, leadership, and a common tradition play vital roles. According to Auletta, Lehman Brothers overemphasized individual greed, that is, "blood money," and no emphasis was placed on common goals of the firm as a whole. *Id.* at 138-39.

Further, to make the trades which are necessary, a large capital base is needed. A large base is also insurance against sudden losses. Amid the chaos and losses being registered, the partners were in a state of near panic. They feared that Lehman was undercapitalized, and that soon its value as a partnership on the auction block and any return to the partners from the sale, would be made only in terms of losses. The stage was set for the push to sale. *Id.* at 47, 138-39.

30 Many partners pushed for sale of the firm so that they could all become instant millionaires. According to the author, other factors regarding the sale of the firm were greed, lack of confidence in Glucksman, unhappiness, and worries about the adequacy of capital. The purchase price of Lehman Brothers was $360 million with an aggregate cost of $380 million due to advances and "pot sweeteners." *Id.* at 224. As a result of the sale, the average junior partner netted anywhere from $500,000 to $1 million. This did not include any incentive bonuses to remain with Shearson/American Express after the sale.

Following the sale, Glucksman netted $15.6 million, and became a consultant with Shearson/American Express at a substantial annual salary. *Id.* at 220. Peter-

Mr. Auletta's book raises issues which are particularly topical, chiefly that of the responsibility of partners to the partnership as a whole. The law of partnerships and the fiduciary duties of the partners is quite clear.[31] The question is raised, however, whether the best interests of the Lehman Brothers partnership and its clients were served. Mr. Auletta's book indicates that both boardmembers and partners acquiesced totally and complacently to the ouster of Peterson and his multi-million dollar severance check. Further, when losses began to be felt in late 1983 and early 1984 at Lehman Brothers and throughout Wall Street, neither the partners nor boardmembers were concerned with cost cutting measures or the survival of the partnership. Rather, they were calculating the total capitalization of Lehman Brothers as it affected the value of their individual share holdings. They seemed far more interested in realizing as much personal gain as possible, rather than insuring the survival of the partnership.

Was the conduct of the partners actionable fiduciary neglect? A full answer may never be had, but it is quite clear that the prime motivating force behind the sale of Lehman Brothers was the desire for wealth. Even assuming fiduciary neglect, however, it is doubtful that policies of any governing body such as the Securities and Exchange Commission would have any significant deterrent effect. The desire for wealth is part of the American Dream. The most recent news reports are indicative of its pursuit despite laws to the contrary. Significantly, despite the supposed rich history and long

son received about $6 million on top of the $7 million severance pay. He also received $200,000 per year for the remainder of his severance contract, plus $650,000 which both he and Glucksman received in the fall of 1983 as a one percent profit bonus. He also received a 1.5 million dollar bonus in 1983 and a 1.5 million dollar retirement benefit for a total of about 18 million dollars. He actually received $23 million if one counts the five million dollars invested by Shearson in Peterson's new firm. *Id.* at 221.

[31] The partnership relationship is one of a fiduciary character, such that an obligation exists among all partners to conduct themselves with the utmost good faith and loyalty to the partnership. *See* D. FESSLER, ALTERNATIVES TO INCORPORATION FOR PERSONS IN QUEST OF PROFIT 97 (1980). In accord with this relationship, partners are required to fully disclose information that would be material and significant to the life and fortune of the partnership. *Id.* Indeed, partners are trustees of the partnership, and the trust relationship extends not only to the financial assets of the partnership but to its business opportunities. *Id.* at 100.

Finally, the Uniform Partnership Act, codified in many states, and serving as a significant guideline in the remaining states, indicates that partners are fiduciaries and must render all information regarding the partnership, or on matters affecting the partnership to the partners. *See, e.g.*, N.Y. PARTNERSHIP LAW §§ 20, 43 (McKinney 1948); N.J. STAT. ANN. §§ 42:1-9, 1-20 (West 1940). The act also indicates that each partner is held accountable to the partnership for any profits made with regard to business conducted on behalf of the partnership.

tradition of Lehman Brothers, as one partner stated, the sale was a tragedy and only "because the business was not sold at the optimal time" and therefore did not realize an optimal price.[32]

Greed and Glory on Wall Street: The Fall of the House of Lehman, is thus highly recommended, although more input from the "non-partner" viewpoint would have been appreciated. Nonetheless, the book is a fascinating account and is as topical as the current issue of the Wall Street Journal.

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32 K. AULETTA, *supra* note 2, at 243.

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