

The rise and fall of Jimmy Cayne

Last summer he was worth \$1.6 billion on paper. Then he nearly died and Bear Stearns collapsed.

By [William D. Cohan](#)

Last Updated: August 25, 2008: 3:39 PM EDT

NEW YORK (Fortune) -- In the early morning hours last Sept. 11, a black Town Car pulled up to the entrance of New York-Presbyterian Hospital in Manhattan. Inside the sedan Jimmy Cayne, the CEO of Bear Stearns, was close to death. At dawn Cayne's wife had placed an emergency call to his physician, Dr. Jay Meltzer, and when Meltzer arrived at the couple's Park Avenue apartment, Cayne, then 73, was drowsy and desperately weak and had no appetite. His blood pressure was dangerously low. He was breathing very rapidly and deeply. Meltzer suspected sepsis. Rather than call an ambulance, Cayne asked for a car, in part because he feared that a public disclosure about his health could further damage the firm - a firm whose stock price had already dropped close to 27% (from \$143 to \$105 a share) since two of its highly leveraged hedge funds had imploded in June.

Once he arrived at the hospital, doctors discovered that the infection was in the prostate, which meant that his chances of survival were about fifty-fifty. They pumped him with 22 gallons of saline and antibiotics and inserted a Foley catheter. He would try to sleep, wake up refreshed, and discover that he had been out for all of 17 minutes. He was in the hospital for the next ten days and shed some 30 pounds.

Cayne survived, but Bear Stearns would not. Six months later a panic among the firm's trading partners, lenders, and customers prompted the Federal Reserve and the U.S. Treasury to step in and negotiate its emergency sale to J.P. Morgan Chase, which acquired it for the fire-sale price of \$10 a share on May 30. The 85-year-old firm's demise cost Cayne \$1 billion - trimming his net worth to around \$600 million. It also marked the end of an era on Wall Street, for Cayne is typical of the breed of street-smart salesmen who elbowed their way to the top of brokerage houses back when those institutions were still private partnerships. He had not changed; the world around him had. During his almost 40 years at the firm (the last 15 as CEO), Bear Stearns went from making its money with bread-and-butter businesses - trading securities and acting as the back office for other Wall Street firms - to a publicly traded financial supermarket that was increasingly inflating its balance sheet with exotic securities. Once a fiscally conservative brokerage, Bear had become a house of cards. Worse, its leaders did not fully appreciate how vulnerable they had made themselves by using a disproportionate amount of money borrowed cheaply in the overnight-financing markets to fund the

firm's day-to-day operations.

Through it all, Cayne remained the same raffish scrap-metal salesman who left behind a broken marriage in Chicago and arrived in Manhattan in 1964 with the sole ambition of becoming a professional bridge player. Once in New York, he was able to finesse relationships he made at the card table to become a power-house on Wall Street. But by the summer of 2007 this creature of instinct was out of his element. He did not know how to deal with the devaluation of the firm's mortgage-backed securities and other illiquid assets. Nor did he know what to do after the situation worsened when two hedge funds that contained those same toxic assets collapsed and further poisoned the company's balance sheet. "That was a period of not seeing the light at the end of the tunnel," he told Fortune recently. "It was not knowing what to do. It's not being able to make a definitive decision one way or the other, because I just couldn't tell you what was going to happen."

As a result, his career at Bear Stearns ended with his legacy in tatters. He alone among the very top men at "the Bear" (as insiders called the firm) has not been offered a face-saving senior-level job at J.P. Morgan Chase ([JPM](#), [Fortune 500](#)) (although Cayne claims it is because he is retired). Alan "Ace" Greenberg, 80, who preceded Cayne as CEO, is now vice chairman emeritus at the merged firm and gets to keep 40% of any trading commissions he generates. Alan Schwartz, 57, who took over as CEO when Cayne stepped down in January, was offered a senior investment-banking post there (instead, he is planning to leave the firm at the end of August). Not Cayne. Perhaps unfairly, he will probably go down in the annals of finance as the Nero of the credit crisis. Instead of fiddling while Bear Stearns burned, his detractors say he was golfing a little too regularly at the Hollywood Golf Club in Deal, N.J., and playing championship-level bridge in Nashville, San Francisco, and Detroit.

Many Bear Stearns employees, who watched their retirement savings and children's college money vaporize last winter, revile Cayne. "It's just incredible to me that this could happen to the fifth-largest securities firm in the United States," says Alex Manos, who started working in the firm's Brooklyn back office not long after emigrating from Haiti in 1970. He watched his nest egg shrink from \$325,693 to \$19,000. "The firm always had a good reputation. Ace Greenberg was all about that. He always said he would rather make \$2 a day than risk losing more. Then this turkey," he says, referring to Cayne, "chose not to do that and put all his eggs in one basket."

This notion that Ace stood for financial prudence while Jimmy was risk incarnate is, to Cayne, revisionist history. In a series of lengthy interviews with Fortune, he spoke out for the first time since the death of Bear Stearns, presenting his version of how things went wrong, how his and Ace's relationship changed over the years, and how a man who prided himself on making fast, intuitive decisions - about people, risk, and opportunity - in the end did not know how to save the firm that once flourished under his leadership.

"I didn't stop it. I didn't rein in the leverage," he says by way of a mea culpa. He would like people to remember, though, that the firm's stock rose from \$16.61 per share when he took over as CEO on Bastille Day 1993 to its dizzying height of \$172.69 nearly 14 years later, in January 2007. Until it crashed, the stock -including dividends - provided its holders a compound annualized growth rate of 21%. Or as Fares Noujaim, a former Bear vice chairman and longtime Cayne partisan, puts it, "The thing I just would leave you with on Jimmy is that from the outside, Ace had this reputation of being this lovable CEO and Jimmy this tough guy. It's ironic when I see Jimmy being billed that way, because we all have such admiration for him, although that opinion is not 100% uniform."

If you had stopped an 18-year-old Jimmy Cayne on the streets of his hometown of Evanston, Ill., and asked him what he wanted to be when he grew up, he would have answered, "A bookie." He was an indifferent student at Purdue University, spending more time playing bridge at his fraternity house and on intramural sports than studying. He left college one semester shy of his degree and joined the Army. ("I don't read and absorb," Cayne explained of one of the differences between him and his father, a patent attorney. "I hear and I absorb.")

Before heading to New York, Cayne drove a cab in Chicago, sold photocopiers in the Mountain States, and worked for his father-in-law's scrap-iron business. To make some money while playing bridge in Manhattan, he again drove a cab, sold adding machines, and worked at Lebenthal & Co. selling municipal bonds. When he met Patricia Denner, who would become his second wife, at a bridge club, she quickly gave him an ultimatum: Either get a serious job, or get a new girlfriend. (They married in 1971 and still attend bridge tournaments together, but not as teammates. They have a grown daughter, Alison, who is married to former hedge fund manager Jack Schneider, and seven grandchildren.)

His skill at cards would pave the way for him at Bear Stearns. During his 1969 interview with Harold C. Mayer Jr., the son of one of three founders of the firm, he felt there was no chemistry between them. As he got up to leave, Mayer Jr. suggested he say hello to Ace Greenberg, "the man who is going to run this place." Again there seemed to be no connection between the two men, but in an effort to make a little small talk, Greenberg asked Cayne if he had any hobbies. Along with magic and yo-yos, bridge was a serious interest of Greenberg's. "And I said, 'Yes, I play bridge,'" Cayne recalled. "You could see the electric light bulb. He says, 'How well do you play?' I said, 'Mr. Greenberg, if you study bridge the rest of your life, if you play with the best partners and you achieve your potential, you will never play bridge like I play bridge.'"

Unbeknownst to Greenberg, Cayne had won his first national bridge tournament in 1966, and George Rapee, the late legendary bridge champion, had invited him to play as a professional in bi-weekly rubber bridge games at the now defunct Cavendish Club, on East 73rd Street. Rapee told Cayne the rules for the pros sitting across the table from some of New York's leading financiers were simple: no frowning, no berating your partners for dumb moves, and no soliciting the other players for business. Greenberg guaranteed Cayne \$70,000 a year if he joined Bear Stearns. He took the job and his first cold call, with Rapee's permission, was to an acquaintance from the Cavendish Club, the late Laurence Tisch, a self-made billionaire who would come to own CBS. Tisch agreed to let Cayne handle his brokerage account but initially neglected to tell Cayne he was already the client of Salim "Cy" Lewis, the imposing senior partner of Bear Stearns and a bridge player himself. A row of biblical proportions ensued, but in the end Tisch chose Cayne.

Again making effective use of his bridge connections and his own wiles, Cayne quickly became an immensely successful broker. "People, for whatever reason, think if you're a good bridge player you've got a good brain, so I might as well do business with you," Cayne said. Together with Greenberg, Tisch, and Milton Petrie, the former CEO of Petrie Stores, Cayne played bridge after work at the Regency Whist Club on Manhattan's East Side. Warren Buffett and Malcolm Forbes occasionally played on the same team as those four, and together they called themselves Corporate America's Six Honchos, or "CASH" for short.

Greenberg became Cayne's mentor at the firm. "Greenberg had very few friends," Cayne remembers of those years when he was Ace's protege. "And I was one of them." Cayne used to pick up Greenberg at his Fifth Avenue apartment every day and drive him in his Pontiac back and forth down the slow-moving FDR Drive to the Bear Stearns office at 55 Water Street. "It's like the Mafia, where the driver becomes the No. 2, except I insisted he sit in the front," he said. "He couldn't sit in the back." But Greenberg rarely spoke to his younger partner during these rides. "If you understand the makeup of the man, he can't carry a conversation," Cayne says. Nevertheless Cayne managed to turn these awkward trips to his advantage, using the 25 minutes to occasionally lampoon his colleagues to his boss.

One day Greenberg told Cayne a story about his personal life that Cayne never forgot. At that time Greenberg was between marriages and had been dating regularly, but was growing increasingly concerned about the risk of contracting AIDS. "He decides he's going to get married," Cayne says. "And he's one of the guys that's dating Barbara Walters.... He says to me, 'I've decided I'm going to marry Barbara Walters.' The very next day in the papers she's engaged to Merv Adelson. I never said a word. Now normally - you know, if it was one of my buddies - I'd say, you know, 'Pretty good call there, pal. You're marrying her, except that she's marrying somebody else.... That's called bigamy.'"

```
#pagefooter ul{margin:0;padding:2px;} #pagefooter ul li{margin:0;padding:0;list-style:none;float:left;padding-left:8px;}
#diggLink{ #diggLink a{padding-bottom:2px; padding-left: 20px;cursor: pointer;background: url(http://i.cdn.turner.com/
money/.element/img/2.0/fortune/buttons/digg.gif) no-repeat top left;} #fbLink{ #fbLink a{padding-left: 20px;cursor: pointer;
background: url(http://i.cdn.turner.com/money/.element/img/2.0/fortune/buttons/facebook.gif) no-repeat left;}
```

The rise and fall of Jimmy Cayne (cont.)

By [William D. Cohan](#)

Last Updated: August 25, 2008: 3:39 PM EDT

The two had their differences. As New York City's finances collapsed in 1975, Cayne saw an opportunity to make a killing. The

city was teetering on the edge of bankruptcy, and one of his clients wanted to sell some of his New York City bonds, but no one wanted to buy them. Cayne decided that Bear Stearns should make the market. All it would take was \$5 million and some guts. He took the idea to Greenberg, then the firm's second-most-senior partner. Greenberg shot it down. "It's too racy," Greenberg told him. Cayne decided to go over Greenberg's head to the boss, Cy Lewis - an action that would likely be a career-ender at any other Wall Street firm. With Lewis's endorsement, Cayne bought the bonds and was able to find buyers for them at small brokerages around the city for prices higher than he paid.

"Greenberg never had the balls to take him on," Cayne said of Ace's relationship with Lewis. But in 1978, after Lewis suffered a fatal stroke at his retirement party, Greenberg did become the firm's senior partner. Cayne, however, was not the kind of guy to wait for the Grim Reaper to clear a path for him to the corner office. In 1978, Cayne maneuvered his way onto the firm's powerful executive committee, and not long after the firm went public in 1985, he became the sole president. By the early '90s he felt it was time to trump his onetime mentor. "He lost the ultimate power, I guess, in 1993," Cayne said of Greenberg. "I had the executive committee and the board completely on my side." In his estimation he and his loyalists were also responsible for 70% of the firm's profits. That year Cayne became CEO, and in 2001 he added the title of chairman of the board. Atypically, Greenberg stayed on the Bear board, and continued to show up at the office every day filling his seats on the executive committee, the risk committee, and the trading floor. Cayne chalked it up to the unusual "synergy" that existed between them. Still, he alone referred to Greenberg as "Alan," while everyone else called him "Ace"; Cayne billed those who used the nickname in his presence \$100.

While Bear Stearns under Cayne became a far larger firm in terms of employees, revenue, and profitability, the basic business model-which had worked so well for so many years-remained unchanged. Those tried-and-true businesses - trading, mortgage underwriting, prime brokerage, private-client services - received the bulk of the firm's capital and management attention. Investment banking and asset management remained small and relatively undercapitalized. As a result Bear Stearns was never a major player in equity underwriting or M&A or in the accumulation of assets under management. The firm also never diversified, despite numerous opportunities. For instance, when Bear had the chance to buy asset manager Neuberger & Berman in 2001 for around \$1 billion less than it eventually sold for, Cayne declined. Lehman Brothers then scooped up the respected money manager and its \$64 billion of assets under management - now \$277 billion-for \$2.6 billion in 2003. "Acquisitions weren't my forte," he says. "The devil you know, that sort of thing. Yeah. I'm not saying I'm right. I was wrong about Neuberger Berman."

There was, however, one business that acted like rocket fuel for the firm's balance sheet - debt securitization. When persistently low interest rates during the middle years of this decade caused an explosion of debt issuance - whether to back mortgages, credit card receivables, or leveraged buyouts - Bear's debt-focused securitization businesses boomed. As the firm's stock price zoomed, Cayne looked like a hero to his investors. "They're a wealth-creation machine," explained Bruce Sherman, the CEO of Private Capital Management, then Bear's largest shareholder, at the end of 2006. "Jimmy's leadership over the past decade has been central to that."

Cayne's first inkling that something was terribly wrong at Bear Stearns came in the weeks before the firm announced, on June 22, 2007, that it was willing to invest up to \$3.2 billion to try to rescue one of its two highly leveraged mortgage-related hedge funds, run by Ralph Cioffi (chee-OFF-ee). The hedge funds - and everything else at the firm except for investment banking, private-client services (the brokers), and operations - reported to Warren Spector, ostensibly the second-ranking executive at Bear and its rising star. (Alan Schwartz was head of investment banking and, like Spector, a member of the executive committee.)

Spector, then 49, was a bridge player too. Growing up in Chevy Chase, Md., he took a year's sabbatical from Bethesda-Chevy Chase High School after his sophomore year to play bridge full-time. In 1976 the American Contract Bridge League named him the Scholastic King of Bridge. That fall, after graduating from high school, he matriculated at Princeton but after a semester moved on to Maryland's St. John's College. After receiving his MBA from the University of Chicago, he went to work at Bear Stearns in 1983 because the firm would allow him to start on a trading desk immediately rather than work as an analyst. Cayne thought Spector was a brilliant trader but also "an elitist with his own people" - in other words, a perfect personality, in his estimation, for an early appointment to the executive committee. Cayne made that move in 1992, when Spector was just 34.

In the beginning the firm's hedge funds were winners for Spector. In the winter of 2003 he staked Cioffi - a 22-year Bear employee who had worked as an institutional bond salesman - to \$10 million of the firm's money to start a hedge fund. Even though Cioffi had never managed money before, he did well enough with his grubstake that the firm decided to set up the first fund-the High Grade fund - in October 2003. All went well - 40 months straight of positive returns. But in 2006, returns started

falling, and redemption requests increased. In August 2006 the second hedge fund - the Enhanced fund - was set up to take bigger risks, using even more leverage. Many of the investors in the High Grade fund moved their money to the Enhanced fund on Cioffi's recommendation. Both of the funds, which ended up with about \$1.6 billion of investors' money, were housed in Bear Stearns Asset Management (BSAM), which reported to Spector.

By June 2007, as the funds' performance had been deteriorating for a few months, their short-term lenders, among them Merrill Lynch ([MER](#), [Fortune 500](#)) and J.P. Morgan ([JPM](#), [Fortune 500](#)), became increasingly concerned about the value of their collateral - all those mortgaged-backed securities Cioffi had invested in. They wanted Cioffi to put up more collateral or, better yet, give them their money back. Sensing an impending crisis, Cioffi hired the Blackstone Group ([BX](#)) to advise him on a way to keep the creditors and investors at bay. They decided that Cioffi and his bosses at BSAM should hold a series of meetings with the creditors, urging them to sit tight and allow Cioffi to attempt an orderly liquidation of the funds' assets. But that was like yelling "Fire!" in a crowded theater.

Merrill ran for the exit. In the previous weeks the firm had repeated its demands that Cioffi put up more collateral, but Cioffi refused. Then, on June 15, the day after a creditors meeting, Merrill seized \$850 million worth of the collateral. Other lenders soon followed Merrill's lead. The strategy of asking for more time had failed. (A year after the funds' collapse, Cioffi and a colleague were indicted on nine counts of conspiracy, securities fraud, and wire fraud for allegedly misleading investors about the condition of the two funds.)

Initially Cayne was not focused on the problem. He viewed his role as Bear's CEO as similar to that of Joe Torre in his Yankee heyday: He was managing a team of superstars, and he expected Spector to handle the problems in the hedge funds.

From July 18 to 29, Cayne participated in the elite Spingold KnockOut event at the North American Bridge Championship in Nashville. His team made it to the 16th round. Spector was also there-taking his first vacation of the year. But given the hedge fund mess, Spector's presence in Nashville irked Cayne no end. When Cayne returned to Bear's 47-story office tower in Midtown Manhattan on July 30, he convened a meeting of the 20 most senior executives at the firm to come up with a strategy for dealing with Cioffi's hedge funds. Before going into the meeting Cayne asked Steve Begleiter, the firm's head of strategy, how much money Bear had invested in the funds. Cayne thought the amount was \$20 million. Begleiter told him the firm actually had \$45 million invested. Cayne wanted to know where the other \$25 million had come from, but Begleiter said he did not know. "So, we walk in," Cayne recalled. "I said, 'Before we discuss what we're going to do, does anybody know about the \$25 million that was put into the funds at the last minute?' Spector: 'I did. I fucked up.' Now, there's silence. People were expecting me to say, 'Are you fucking crazy? You yourself authorized putting \$25 million into the hedge funds?' Well, I didn't, and I didn't say anything for like 30 seconds."

Cayne felt the firm had two options: to shut the funds down and stiff the lenders and investors, or become the lender itself and risk the deluge that would follow. He contended that it was better to damage the firm's reputation than its balance sheet. Greenberg, according to Cayne, disagreed. (Both Greenberg and Spector declined to comment for this article.)

```
#pagefooter ul{margin:0;padding:2px;} #pagefooter ul li{margin:0;padding:0;list-style:none;float:left;padding-left:8px;}
#diggLink{ } #diggLink a{padding-bottom:2px; padding-left: 20px;cursor: pointer;background: url(http://i.cdn.turner.com/
money/.element/img/2.0/fortune/buttons/digg.gif) no-repeat top left;} #fbLink{ } #fbLink a{padding-left: 20px;cursor: pointer;
background: url(http://i.cdn.turner.com/money/.element/img/2.0/fortune/buttons/facebook.gif) no-repeat left;}
```

The rise and fall of Jimmy Cayne (cont.)

By [William D. Cohan](#)

Last Updated: August 25, 2008: 3:39 PM EDT

In the end, Bear Stearns decided to lend around \$1.6 billion to take out those lenders to the High Grade fund that had not already seized their collateral or had negotiated another arrangement with Cioffi. (The firm let the Enhanced fund fail.) But as the value of Bear's loan collateral - the prime and subprime mortgages in which the funds invested - continued to fall, the strategy quickly

proved to be the wrong one, just as Cayne had feared. The firm lost around \$1.2 billion of what it had just lent. The fallout was swift.

Cayne fired Spector on Aug. 5 - the final straw being Spector's decision to invest the \$25 million in the hedge fund - and named Alan Schwartz the sole president and Sam Molinaro the chief operating officer the same day. (Schwartz, a well-regarded media M&A banker, had been at the firm since 1976; his status was such that his nickname was "Alan & Co.," a play on the media-focused investment bank Allen & Co. The affable Molinaro, at Bear since 1986, had worked his way up the ranks through the accounting and finance departments.) Personnel issues aside, the firm needed capital. Cayne's response was to embark on a series of clandestine trips. He flew to Beijing to persuade Citic, China's largest investment bank, to consummate a \$1 billion stock swap. He also went to Orlando to meet for five hours with Joe Lewis -nicknamed "The Boxer." Cayne convinced Lewis - a Bahamas-based billionaire commodities investor and Bear Stearns brokerage client - that the firm's stock was a bargain and might be worth a big bet. The two bonded over a shared love of gin rummy. In September 2007, Lewis made the first of several purchases of Bear stock, spending \$864 million for a 7% stake. (Lewis bought even more stock and lost around \$1 billion when Bear collapsed. "He's an adult, not a whiner," says Cayne of the way Lewis reacted.)

By the time Cayne recovered from his sepsis and returned to the office at the end of September 2007, he and his firm were vulnerable. During the next several weeks Kohlberg Kravis & Roberts, Fortress Investment Group ([FIG](#)), and J.C. Flowers, among others, looked at Bear Stearns's books, but it reached no deal with any of them. On Oct. 22, the Citic deal was announced, but it was not a capital infusion and would take months to close. Then, on Nov. 1, *The Wall Street Journal* reported, citing unnamed sources, that Cayne smoked marijuana at "the end of the day" at bridge tournaments - including once in Memphis in 2004, when a woman smoked a joint in the bathroom with him - as well as in "more private settings." To the suggestion that he smoked pot, Cayne told the paper, "There is no chance that it happened. Zero chance." He followed that statement up with a further message of denial to all of Bear's 14,000 employees that he had not "engaged in inappropriate conduct." What's more, he told *Fortune*, "This story about smoking marijuana with some woman in a bathroom at a tournament site is pure fiction."

Cayne's denials made little difference. Bruce Sherman, still a major shareholder, began openly questioning Cayne's leadership with board members. At the end of November, the firm reported its first-ever quarterly loss - \$854 million-after taking a write-down of \$1.9 billion on its rapidly deteriorating holdings of mortgage-backed securities and other debt obligations. The write-down shaved 7% off Bear's \$12 billion book value. By December the CEO was tired of being a "pinata," so he told his handpicked board he was thinking of retiring. "The options were limited," Cayne says. "When you become roadkill, when you happen to have lost some weight and you're not really healthy, but you know one thing - you know that you have worked your ass off and you're not smart enough to know the answer - that's tough."

It was not long before Schwartz told Cayne that a number of Spector's loyalists in the fixed-income and equity divisions were looking for his scalp. Cayne decided in January to retire rather than face further embarrassment. He continued coming into the office, trying to get the Citic deal closed. In February, he and Pat closed on the \$27.4 million purchase of two adjacent apartments on the 14th floor of the recently renovated Plaza Hotel at the corner of Fifth Avenue and 59th Street.

As Bear Stearns's liquidity dried up in March, Cayne was playing bridge in Detroit, at the North American Bridge Championships. When playing tournaments, Cayne, who only recently got his first cell phone and has no BlackBerry, was hard to reach. While he saw Schwartz's March 12 appearance on CNBC - in which Schwartz said he was not aware of any imminent threat to Bear Stearns's liquidity - from his hotel room in Detroit, Cayne was not told of the firm's crisis until late Thursday night, March 13, when the "run on the bank" was already well along. Cayne was still playing bridge in Detroit when the board met by conference call that night, so he joined the call late. He didn't know about the Fed's rescue financing on Friday or that the stock had closed at around \$30 that day after the credit agencies downgraded the firm. He couldn't get a private flight out of Detroit until four in the afternoon on Saturday (and no, he didn't think to call Northwest), so he arrived at Bear's office in New York at around 6:30 that night. "When I walked in they said, 'It's \$8 to \$12 a share. That's the deal with J.P. Morgan,'" remembers Cayne.

Given the situation, he wasn't surprised, but he understandably, gave some thought to what the deal would mean to him financially. "I'm saying, 'Six million shares,'" he remembers. "I just got my butt kicked." On Sunday morning, before J.P. Morgan lowered the price to \$4 per share and then quickly to \$2 at the urging of Treasury Secretary Hank Paulson, Cayne went to the Jackson Hole restaurant at 91st Street and Madison Avenue for a couple of eggs with Vincent Tese, the billionaire chairman of Wireless Cable International and the lead independent director on Bear's board. The two had a frank discussion about the

ramifications of what Cayne called playing the "nuclear card" threatening to file for bankruptcy. "But you can't play it," he said. "You can't play it. If anybody on earth would have played it, it would have been me."

On Sunday night he voted along with rest of the Bear board for the now infamous \$2-a-share stock deal with J.P. Morgan rather than allow the firm to be liquidated beginning Monday morning. He also voted for the revised \$10-a-share deal a week later, likewise to avoid another serious threat of liquidation. "I felt nothing," he says. "You got a bad grade on your test. That's it. No appeal. I felt sad for me and sad for my Bear Stearns family." To the bitter end, though retired, Cayne showed up in his office and in the executive dining room as if nothing had changed.

On March 25 - the day after J.P. Morgan revised its bid upward - Cayne and his wife dumped their 5.66 million Bear shares, at \$10.84 each, for \$61.3 million. (Arbitrageurs pushed Bear's stock to as high as \$13.85 on March 24.) In a fit of pique, Greenberg charged Cayne \$77,000 to execute the block trade when the employee discount would have merited a fee of just \$2,500. "If he doesn't like it, he should do his future business elsewhere," Greenberg told the *New York Times*. (Cayne had previously sold some of his other Bear shares in February for roughly \$80 each.) Now that the deal has closed, Cayne will also receive another \$4.6 million in J.P. Morgan stock in exchange for his restricted stock units and for the shares in his capital-accumulation plan.

About the only unscripted moment in the final Bear Stearns shareholders meeting on May 29 came when Cayne commandeered the microphone on the dais in the company's auditorium. "When I retired [on Jan. 4], that was a sad moment," he told the crowd of roughly 400 people who were there to rubber-stamp the \$10-per-share price. "This is equally sad. That which doesn't kill you makes you stronger. And at this point we all look like Hercules. Life goes on." With some anger he then launched into his view that nothing less than a "conspiracy" of unnamed financial sharks was responsible for the firm's downfall, and he hoped that the authorities would "nail the guys who did it."

By a "conspiracy" Cayne means that several hedge funds that stood to benefit financially from Bear's demise exploited the rumors about the firm's troubles to the point that customers and lenders decided not to do business with it. He looks forward to seeing if the Securities and Exchange Commission's investigation reveals any organized, concerted effort to bring down Bear Stearns, but he is skeptical. "That's not even a 100-to-1 shot," he says of the likelihood of the SEC's bringing charges. "That's a 500-to-1 shot." Still, he thinks a good place to start such an investigation would be with those firms that profited the most - to the tune of billions of dollars - from Bear's demise, including Goldman Sachs; hedge fund Paulson & Co., which cleared through Bear Stearns and whose principal, John Paulson, was a former Bear Stearns investment banker; and Kyle Bass, the head of Dallas-based Hayman Capital. ([See Hayman's response.](#)) In an interview, Gary Cohn, the co-president of Goldman Sachs, said it is "just preposterous and laughable" that his firm would be involved in a conspiracy with a select group of clients to bring down a fellow Wall Street bank. Neither Paulson & Co. nor Hayman Capital returned a call seeking comment.

What Cayne's conspiracy theory overlooks is the fragility of Bear's balance sheet. Regardless of whether hedge funds and short-sellers exploited the firm's weakness, it was Cayne and his colleagues who made the firm financially vulnerable. They sealed the firm's fate by choosing to finance the vast majority of the firm's daily needs - about \$50 billion a day - in the overnight repurchase agreement (or "repo") market, using some 71% of its mortgage book as the collateral. (By contrast, Goldman Sachs finances less than 10% of its mortgage book in the overnight market, according to Cohn.)

Secured repos are crucial for investment banks, which borrow and lend billions to fund their daily business. Think of it this way: Wall Street firms have an inventory of hundreds of billions of dollars of securities that have been built up over the years (in the case of Bear, it was about \$350 billion of assets). Like Macy's, the firms try to move this inventory as rapidly as possible, hoping to sell it for more than they paid. In the meantime, like Macy's, they use those assets as collateral to obtain financing to run their business. While Macy's uses its inventory and receivables to secure a revolving line of credit with a maturity of around four years, Bear and other Wall Street firms finance part of their inventories in the repo market. They sell their securities to investors at one price and agree to buy them back the next day for a slightly higher price. The difference is the investors' compensation for providing the financing. It is called "overnight repo" and for years it worked mostly without incident.

If Macy's ([M](#), [Fortune 500](#)) creditors had the ability to decide every night whether to finance its inventory, they could pull the plug on the company - especially if they felt Macy's had loaded the stockroom with questionable merchandise. Macy's would never do such a crazy thing, but this is exactly how Wall Street operates. Bear's reliance on overnight repo effectively gave the overnight

lenders - such as Fidelity and Federated Investors - a vote on the firm's viability every night. And during that fateful week in mid-March, those overnight lenders voted a collective no. The result? Bear Stearns did not have enough cash on hand to meet customers' demands during the run on the bank.

After the final shareholders' meeting in May, Cayne spent his last hours at Bear Stearns chatting with a few loyalists who stopped by his lair to say their goodbyes. He took a call from Jamie Dimon, the CEO of J.P. Morgan Chase, who was checking in from Positano, Italy, to make sure the shareholder vote went off without a hitch. Finally it was time for him to leave his sixth-floor refuge at 383 Madison. But already things had changed. For years on Thursday afternoons, Cayne headed off early to the East 34th Street Heliport for the short \$1,700 chopper ride down to the Hollywood Golf Club. But since his retirement in January, some luxuries had to be eschewed. So he put on his suit jacket, grabbed a freshly baked chocolate-chip cookie from his secretary's desk, and headed down to Vanderbilt Avenue. A car and driver were waiting to take him down the Garden State Parkway to Deal and his next round of golf. There would be no helicopter ride this day.

Hayman Advisors responds:

In "The Rise and Fall of Jimmy Cayne," Cayne asserts that there was a "conspiracy" responsible for Bear Stearns's downfall. He then suggests that a good place for the SEC to start an investigation would be "those firms that profited the most-to the tune of billions of dollars-from Bear's demise," including Kyle Bass, head of Dallas-based Hayman Advisors LP.

Cayne's inaccurate and sad comments only further illustrate the extent to which he was, and remains, deluded about his firm's demise. Hayman - which does not ordinarily disclose its holdings - did not have any positions in Bear Stearns' securities at the time of its failure and forced sale to JP Morgan. In short, Hayman did not stand to profit from the firm's failure. To the contrary, Bear Stearns was, and still is, one of Hayman's two prime brokerage relationships, and Hayman continues to maintain cash and security balances at the firm, now a part of JP Morgan.

Bass was a long-time Senior Managing Director of Bear Stearns and has many friends and former colleagues who have been seriously affected by the failure of Bear Stearns. He is saddened by the demise of Bear Stearns and the losses sustained by its employees. Bass finds it shameful that a Wall Street institution that took Ace Greenberg and thousands of hard working employees decades to build, could be destroyed so quickly by his successors.

While it is easy to dismiss Cayne's rant as a feeble attempt to deflect blame, if he truly believes that a "conspiracy" (rather than an ill-managed institution with a massively-leveraged balance sheet supported by toxic assets) caused Bear Stearns' demise, it leaves one trying to imagine the color of the sky in his world. Cayne probably summed up the situation best when he admitted that he was not "smart enough to know the answer."


Christopher E. Kirkpatrick, General Counsel, Hayman Advisors, LP ■

First Published: August 4, 2008: 7:04 AM EDT

```
#pagefooter ul{margin:0;padding:2px;} #pagefooter ul li{margin:0;padding:0;list-style:none;float:left;padding-left:8px;}
#diggLink{ } #diggLink a{padding-bottom:2px; padding-left: 20px;cursor: pointer;background: url(http://i.cdn.turner.com/
money/.element/img/2.0/fortune/buttons/digg.gif) no-repeat top left;} #fbLink{ } #fbLink a{padding-left: 20px;cursor: pointer;
background: url(http://i.cdn.turner.com/money/.element/img/2.0/fortune/buttons/facebook.gif) no-repeat left;}
```

Find this article at:

http://money.cnn.com/2008/07/31/magazines/fortune/rise_and_fall_Cayne_cohan.fortune/index.htm

 Click to Print

[SAVE THIS](#) | [EMAIL THIS](#) | [Close](#)

Check the box to include the list of links referenced in the article.

© 2007 Cable News Network LP, LLP.