For years the resentment had been building. And now, at lunch, it began to erupt. Lewis Glucksman, the co-chief executive officer of Lehman Brothers Kuhn Loeb, a short, rumpled man with the face of a Russian general, who was disparaged by Wall Street blue bloods as a lowly “trader,” Lew Glucksman would leave the lunch table determined to remove Peter G. Peterson, his imperious co-C.E.O. at the venerable investment banking house, from his job.

The luncheon took place on July 12, 1983, and the fallout from the explosion it triggered carried the story from the business pages to the front pages.

Thirteen days later, Peterson, a celebrated success story — president of Bell & Howell at the age of 34, Secretary of Commerce under President Nixon and the man who had helped rescue Lehman from collapse in 1973 — would be forced out of the firm he had helped steer to five consecutive record profit years.

Ten months later, Wall Street’s oldest continuing investment banking partnership, a firm that had survived for 134 years (box, page 31), would fall to survive the reign of Lewis L. Glucksman and would be sold to Shearson/American Express, one of the great whales that now dominate Wall Street.

This is the story of the fall of Lehman Brothers, pieced together over a period of 10 months. It represents some 45 hours of interviews with Peterson and about 30 hours with Glucksman. It also represents extensive interviews with all the members of Lehman’s board of directors, with 34 active or former partners, with numerous associates, with employees and people on and around Wall Street. Many internal Lehman documents and

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financial records were reviewed. Descriptions of events have been confirmed by participants, including adversaries.

What emerges is a modern melodrama, the tale of an irreconcilable conflict between two men, a story of cowardice and intrigue, of greed for money and power and glory. In its broader implications, the fall of Lehman provides a window on the forces that are reshaping Wall Street and capitalism.

When Glucksman challenged Peterson, Lehman Brothers was more profitable than it had been at any point in its long history, averaging $15 million a month in pre-tax and pre-bonus profits over the preceding 12 months. With capital of almost $250 million, the firm ranked as one of Wall Street's largest investment banking houses, behind such names as Salomon Brothers; Goldman, Sachs; First Boston and Morgan Stanley. Unlike dozens of old-line firms that had already succumbed to the pressures of consolidation that had been reshaping Wall Street — W. E. Hutton; Loeb Rhoades; Hayden Stone; Hornblower & Weeks; White, Weld; Kuhn Loeb, for example — Lehman had rebounded strongly from its difficulties of the early 1970's. Business was booming — partners were, by most standards, rich, and some senior partners were making almost $2 million a year in salary, bonus and dividends from their Lehman stock.

And yet, such is the volatility of Wall Street today that, in a matter of months, Lehman was hemorrhaging, losing money and partners. That selling the firm seemed to be the only way to save it raises questions, not only about the leadership of the new management team but also about whether private investment partnerships are destined to become dinosaurs.

Business will go on, of course. And it can probably be said with confidence that the merged firm will offer a broader array of investment banking services to its clients and that it might be managed more efficiently.

What is lost is a connection to the past that stretched back 134 years and, like the persistence of daylight baseball at Wrigley Field in Chicago, rooted people to a set of shared traditions, a common memory.

The Lunch That Rocked Lehman
The Story Begins in July of 1983. John B. Carter, president and chief executive officer of the Equitable Life Assurance Society of the United States, the nation's third-largest life insurer, invited Pete Peterson, chairman and co-chief executive of Lehman Brothers, to lunch in a private room at Equitable's corporate headquarters 38 floors above the Avenue of the Americas and West 51st Street.

Peterson, who just eight weeks earlier had elevated Lew Glucksman to the status of co-C.E.O., suggested Lew be invited as well. Peterson enjoyed taking credit for what he thought was the transformation of Glucksman. After almost 21 years at Lehman, Glucksman, a volcanic yet successful securities trader for the firm, had become a calmer executive; Peterson congratulated himself for the fact that Lew had shed about 70 pounds and rehabilitated a wardrobe once dominated by large suits and wide ties. Besides, Peterson needed him. For three years, Glucksman had managed the day-to-day business of the firm; all of the departments reported to him, and his knowledge of Lehman's affairs was vast. Peterson was hoping eventually to interest Equitable in a joint venture of some kind, and Glucksman's expertise might be needed.

Glucksman and Peterson arrived separately, exchanged perfunctory greetings and then mingled with the other seven guests at opposite ends of the room. It wasn't until they were ready to sit down that Glucksman began to seethe. Peterson had been seated next to Carter at the head of the table, while Glucksman was far down the side of the long table, the equivalent, to him, of being seated in the bleachers.

Then came "the speech," as Glucksman derisively called a Peterson presentation. He always knew it was coming, he says, when Peterson began to drop names. The "A" list usually included "Henry" (Kissinger), whom he worked beside in preparing the 1972 Nixon-Brezhnev Summit meeting; "Paul" (Volcker, Chairman of the Federal Reserve Board), whom he consulted on the international debt crisis; "the Prime Minister" (Nakasone of Japan), with whom he lunched; "Art" (Buchwald), with whom he played tennis.

Glucksman's pale blue eyes narrowed as Peterson talked about the menace of burgeoning Federal deficits, about how Americans, unlike the Japanese, consumed too much and saved too little. He heard "the speech" so often he could recite it. Noisily, Glucksman fidgeted with the silverware and banged his chair against the table. Peterson, aware of the din from Glucksman's end of the room, attempted from time to time to include his partner in the conversation. Glucksman would respond, according to others present, with his own mini-filibusters.

"John Carter and I both remarked after the luncheon that Lew strove to have the concluding comment on every subject," says Equitable's executive vice president, Robert M. Hendrickson. "It seemed apparent there was a fair amount of tension between Glucksman and Peterson."

Lew Glucksman had spent a lifetime accumulating resentment. The son of lower-middle-class Hungarian Jews, Glucksman constantly inveighed against the "Our Crowd" Jews in his business — symbolized in his mind by the Lehman family. He thought of them as WASP's, not as fellow Jews. "All my life I resented it," Glucksman says, referring to the bigotry that he felt kept Eastern European Jews and other minorities off Wall Street for so long. He sometimes interpreted adversity as a snobbish rejection of his ancestry. He still remembered the exact number of blackballs — 17 — he had received before he had tried to join the New York Athletic Club. He attributed to condescension the fact that many at Lehman wanted to sack him in 1973, when his trading department had suffered large losses.

Although Pete Peterson was the son of Greek immigrants, his ties to the Establishment, his patronizing manner, made him one of them in Glucksman's eyes. Peterson was, in Glucksman's opinion, too much the Washington "insider," cultivating clients over expensive meals, dropping names, worrying about his own press notices, behaving as if investment banking were still about old-school relationships rather than character-responsive transactions — acting, in other words, like a banker.

In part, the animosity between Peterson and Glucksman flowed from the antagonism that had grown up at Lehman and all over Wall Street between "bankers" and "traders."

Essentially, a trader buys or sells securities — bonds, stocks, options, financial futures, commercial paper, certificates of deposit, Treasury bills, Eurobonds — either for clients (collecting a fee), or gambling directly with the firm's own money. The trader must make quick, firm decisions, often by consulting a jumble of numbers on a cathode-ray tube during and after hurried phone calls.

Bankers, on the other hand, usually have a longer horizon, serving as financial consultants to corporations and earning fees on the putting together of new issues, mergers and providing advisory services.

Ten or 20 years ago, sales and trading activities were subordinate to banking, offering supplemental services to banking clients; in recent years, as interest rates have fluctuated wildly and new financial products have blossomed, sales and trading have become a profit center, accounting for hefty portions of the revenues of most major investment banking firms.

The new environment has pushed bankers and traders to work more closely together, forming hybrid functions such as "capital markets groups" — teams of bankers who both work the trading floor and provide companies with advice on financing possibilities.

But the war of stereotypes between bankers and traders per-
sists—"like cowmen and farmers in the West," observes Andrew G.C. Sage 2d, Lehman’s most senior partner in terms of service.

Traders are often depicted in banker cartoons as poorly educated drones with digital minds, robots hunched over Quotron and Telerate screens, barking orders, thinking of the moment, not the long term.

Bankers, in turn, are often portrayed as elitists, as Ivy League preppies in suspenders who rise late, take leisurely lunches and massage contacts.

This polarization was particularly acrimonious at the House of Lehman, where — unlike Goldman, Sachs or Salomon Brothers — there was no history of significant trading prior to Glucksman’s arrival in the 1960’s.

Until 1980, when Peterson moved the Lehman main offices from the firm’s Italian Renaissance-style building at 1 William Street to more corporate-style quarters at 55 Water Street, the trading operation was not even in the same building as banking. Peterson says that when he suggested consolidating Lehman’s headquarters in a single location, the banking department resisted. “The toughest decision I had to make was the move to Water Street,” he recalls. “The investment bankers hated it. They didn’t want anything to do with that group. They found them a lower form of species. They were the elite. Those guys over there were referred to as ‘animals,’ as ‘crude,’ as ‘short term.’”

It gnawed at Lew Glucksman that traders were, he thought, still treated so shabbily. Trading activity, on The Street and at Lehman, was up. Commercial paper and equities — trading and sales functions that he had built almost singlehandedly at Lehman — were up. The banking division’s share of Lehman’s profits was declining, generating, in 1983, less than
a third of the firm’s profits. And yet—bankers still held 60
percent of Lehman stock, still permitted nonbanking depart­
ments only 35 of the firm’s 77 partners. And bankers still had
their own man, Pete Peterson, on top.

Glucksman was not like them. He arrived at his desk before
6 A.M., his tie already loosened.Soon, his trousers would
be sprinkled with cigar ash, his hands blackened by newsprint
from ripping out newspaper articles to review with “my
team,” as he liked to refer to his staff.

He almost always ate lunch at his desk on the trading floor
instead of in Lehman’s elegant 43d-floor partners’ dining
room. Instead of a windowed office overlooking New York’s
East Side waterfront, he had private quarters off the trading
floor that were windowless and cramped. It was dubbed “the
chart room” because Glucksman, who loves boating and fish­
ing, had hung navigational charts on the walls.

On the trading floor, Glucksman worked in a glass-walled
office known as “the fishbowl,” where his people could see
him, feel his presence, hear him bellow profanities, watch his
round face redden with rage, see him burst the buttons on his
shirt or heave something in frustration, watch him hug or kiss
employees to express appreciation. “Lew managed people
the way Lyndon Johnson did—through a combination of fear
and love,” observes then-Lehman vice president Ralph L.
Schlossstein, a capital-markets-group banker who worked on
the trading floor and respected Glucksman.

This combination, along with Glucksman’s shrewdness in an­
ticipating the flow of stock prices and interest rates, forged a
trading operation much envied on Wall Street. According to Pe­
terson: “Lew built commercial paper into an $18 to $20 billion
business. Even his more ardent critics will tell you that he was
one of the best in the business at credit analysis.”

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Now that trading was achieving its day in the sun, Glucksman feared that Peterson was angling to sell the firm (for a substantial premium) within a few years. He believed that Peterson was "greedy," and, because partners were required to begin selling back their stock when they reached 60, he worried that the chairman, then 57, had a secret plan to sell the firm before his 60th birthday. Glucksman, also 57, picked up hints to this effect, but never anything concrete.

Peterson is an attractive man, with a hatch of striking black hair; his deliberate manner, trim figure and deep voice convey authority. Instead of pictures of fish or navigational charts, his office walls were hung with signed lithographs by Jasper Johns and Robert Motherwell and autographed photographs from former Soviet Premier Leonid Brezhnev and from Presidents Nixon and Ford.

At the firm, Peterson was Mr. Outside; Glucksman was Mr. Inside.

Peterson accepted and enjoyed an ambassadorial role—with clients, competitors, governments, the press and public. And he had a social life outside of Lehman. He and his third wife, Joan Ganz Cooney, president and founder of the Children's Television Workshop, which produces "Sesame Street," enjoyed the riches of New York, attending art and theater openings, making the rounds of East Side dinner parties.

Glucksman's life, on the other hand, revolved around Lehman. His two daughters were grown and his marriage was shaky. He rarely saw, outside of the office, even those he considered his closest friends, and when he did, it was usually to conduct business. At the end of a long day, Lew Glucksman would often scoop up some memos or a tool catalogue and have his driver wait outside as he dined alone in a Chinatown restaurant.

Peterson derived his strength from his contacts, his considerable intelligence, and the aggressive preparation he did before meeting a prospective client, which could be dazzling. His skill at bringing in new business staggered even his detractors, like Lehman partner Henry R. Breck: "The leavings from Pete's table were enough to run a good little investment bank." But the attention Peterson could lavish on clients was rarely turned toward his partners, much less to those who worked in the trenches.

One of Peterson's Lehman admirers, partner Stephen W. Bershad, says: "He would set his mind on something and see nothing else. He would walk down the hall with a stack of letters, read the mail, write replies and just throw them over his shoulder, assuming someone would be there to pick them up."

He would call partners at all hours, summon them to ride uptown in his chauffeured Oldsmobile and then ignore them as he talked on the telephone or scanned a memorandum. Many partners thought him self-centered, haughty, unfriendly, uncaring.

Glucksman found other things annoying. "Over the last five years, Peterson didn't play an active role in the management of the business," he says. "I brought him up to date. We played a charade with him"—pretending he was in charge. It galled Glucksman that Peterson got all the credit for Lehman successes. "I got sick and tired of Pete always saying the same thing," says Glucksman. "Pete was a guy totally obsessed with the world hearing the name Pete Peterson."

To Glucksman, the way he was treated at lunch at Equitable was the final indignity. He returned to Lehman Brothers that afternoon in a rage. One of those he turned to was partner James S. Boshart 3d, then 38, a 6-foot-5-inch former basketball star at Wake Forest University whom Glucksman had recruited 13 years earlier, partly to improve the Lehman basketball team. Boshart's role at the firm had expanded from clerk in the money market division to chief administrative officer of Lehman. In his various jobs at the firm, Boshart worked directly with Lew Glucksman.

Jim Boshart was a staff man. Unlike his more aggressive partners, he was a superb listener. Over the years he had become the son Glucksman never had and a bridge between Glucksman and Peterson. Peterson felt comfortable with this arrangement; he liked Boshart's modest, Jimmy Stewart
wholesomeness, his decency. He felt Boshart could decipher Glucksman's true feelings, could serve as a translator between the top men. By Peterson's count, they met at least three times daily. It did not appear to bother the chairman that his eyes and ears within Lehman belonged to a man more devoted to Glucksman than to him.

Boshart recalls what Glucksman said to him after the Equitable lunch: "He described the meeting and said he really felt he hadn't been viewed with respect commensurate to his role in the organization."

Glucksman was even more blunt with fellow board member Robert Rubin, his closest friend at Lehman since both had become partners in 1967, and the man he called "my consigliere."

Rubin recalls Glucksman saying of Peterson: "I couldn't believe his performance. I'm going to talk to Pete. This can't go on. Something's got to change."

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GLUCKSMAN LAYS CLAIM TO THE HELM

THE PHONE IN PETERSON'S OFFICE began ringing early the next morning. "Has Mr. Peterson come in yet?" Glucksman asked Melba Duncan, Peterson's principal secretary.

She explained that Peterson was attending a breakfast meeting outside the office. When Peterson arrived around 10 A.M., Miss Duncan told him of Glucksman's calls. Peterson jotted a few notes on a yellow legal pad and walked down the two flights to see Glucksman.

"I just thought it would be one of our weekly meetings," says Peterson. Quickly, he noticed that Lew "seemed a bit tense, as if he were psyching himself up." Peterson put down his pad and, like a doctor talking to a patient, peered at his co-C.E.O. Both men agree on the exchange that followed.

"What do you want out of life, Lew?" asked Peterson.

"I've been a little bit of a thought to my life," answered Glucksman. "You know how important boats and cruising and ships are to me. Kind of in the same way I have satisfaction when I'm in charge of a boat, I'd like to do the same thing at Lehman Brothers."

Peterson was astonished. He remembered how happy and honored Glucksman had said he was when Peterson had volunteered to make him co-C.E.O. eight weeks earlier. He could not imagine that Lew Glucksman, a trader, an inside man who displayed little fondness for the client side of the business, was hardly known to the outside world, would think he could run Lehman Brothers.

Peterson is a man of many talents, but few associates would say that sensitivity to people is among them. He was unaware that many of his partners, including some he felt close to, while respecting him, did not like him; they had tired of his one-sided conversations. Nor had it occurred to Peterson that Glucksman felt demeaned by him and longed to run Lehman himself.

What, Peterson asked, did he mean about ships and Lehman Brothers?

"This is my whole life," said Glucksman. "I really don't have alternatives. It seems to me that with all of your talents and associations, you have options. You've talked of other things you can do. Are you at the point in your life where you're really ready to do something else?"

"Lew," said Peterson, "let me see if I understand what you're saying. Are you saying you want the business alone?"

"Well, there are things I want to do differently," said Glucksman. "It's time to heal the wounds at Lehman Brothers."

"What wounds? Heal wounds with whom, Lew?"

"You've had this problem with Bob Rubin."

"Yes, I've had problems with Bob Rubin."

Robert S. Rubin had joined Lehman in 1958, after Yale, an M.B.A. from the Harvard Graduate School of Business Administration, and service in the Army. As a member of the banking department, Rubin had been singled out as a comer early on, a man who might one day preside over Lehman. Rubin had been on the Lehman board since 1972 and served as co-chairman of the pricing committee, which determined the firm's position in pricing securities before they were sold; he also served on the important committees, which decided on the clients Lehman would do business with. But Bob Rubin's star had faded.

He and Peterson were not on good terms, and it was no coincidence that Rubin had been shunted aside as head of the banking division in 1977, or that his office was on the 41st floor, next to the trading department. His responsibilities, apart from shepherding the RCA account, were vague. The only person reporting to him was his secretary.

Rubin was a loner, a tense, taciturn man whose nervous manner made colleagues uneasy. Nevertheless, partners — including Peterson — freely consulted Rubin on a range of issues, for his financial acumen was legendary. Around Lehman he was known as "the senior partner for judgment." Like Glucksman, he was revered by some partners and disliked by others. To Peterson, Rubin was a negative man, a "passive" banker, who rarely left the office, who resisted the merger with Kuhn Loeb in 1977 and objected to many of Peterson's new business-development and marketing efforts. To Glucksman, Rubin was an outsider, like him, and this strengthened the bond between them.

"Who else?" asked Peterson.

"Bill Morris,"

"Yes,"

"Who else?"

"Eric Gleacher."

"Yes,"

"Who else?"

"Henry Breck."

"Yes,"

"Who else?"

"Bill Morris, who formed the head of the investment banking division in 1982. He reminded Glucksman that Glucksman had agreed that should be done. Peterson repeated that, in his opinion, Bill Morris — whose main clients were the Kerr-McGee Corporation and Daniel Industries Inc. — was another traditional, passive banker who waited for the phone to ring.

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"Bill Morris." Glucksman.

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"Who else?"

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"Yes,"

"Who else?"

"Bill Morris, who formed the head of the Lehman Management Company, Lehman's investment management subsidiary, was "not a guy who builds managers and thinks about marketing."

"Those are only four people out of 77 partners that there have been some problems with," said Peterson. "That's not a great piece of news that I have problems with those four partners."

"I think I can heal the wounds," said Glucksman.

"You mean you think I can heal them."

"That's right."

"What do you want, Lew?"

"I'm talking about running the business now, Pete."

"What do you mean now?"

"September 30," said Glucksman, picking the last day of their fiscal year, a day just over two months off. "I don't want to wait the three years for you to retire, because I know now that I'm fresh and eager to do the job. Who knows how I'll feel in three years."

Glucksman says he then pressed Peterson for a timetable when he might leave.

Peterson was dumbfounded. He wondered whether Lew had quietly polled the 10 other members of the board and lined up votes. Peterson had assumed that his success at Lehman, his access to corporate boardrooms, would assure him support from Lehman's board of directors in any showdown. But as his mind raced over the names, he was uncertain. He had not said more than a perfunctory hello to some of them for months.

Peterson was not an impulsive man. He liked to sift options. He knew that on his 60th birthday, just three years hence, he
In May of 1983, Peterson promoted Glucksman for the last time. Two months later, outflanked and outfoxed by the trader, he would cut his ties with the firm — taking with him a multimillion-dollar severance package.

Glucksman did not retreat. He was a gambler, a trader, used to making instant, firm decisions. After the meeting, he hurried to Bob Rubin's office down the hall and told him and Boshart what had happened.

Glucksman said he was quite explicit with Peterson and wanted him out now. He was surprisingly confident Peterson would leave, sensing he did not have the stomach for a fight. Peterson had been through his share of soul-wrenching experiences in recent years — surgery in 1971 for a brain tumor that turned out to be benign, a painful and much-discussed divorce, a happy remarriage clouded by several cancer scares. Glucksman admits he calculated that Peterson would not want to get into a messy public brawl that could hurt Lehman and tarnish Peterson's public image. Even if Peterson prevailed, he would have to assume that Glucksman would not only move to another firm but also leave Peterson once again to manage Lehman on a day-to-day basis, something Peterson recoiled from.

Glucksman smelled weakness. He had sized up this transaction, and he told Rubin and Boshart he believed that with a generous golden handshake, Peterson would leave.

Obviously, Lew, you and I have to have many more discussions on this. I want to be sure I understand your problem."

The meeting lasted five hours and ended inconclusively. The two men agreed to talk some more. In the meantime, they would call upon retired partner George W. Ball, who was Under Secretary of State in the Kennedy and Johnson Administrations, whom each respected, to act as a kind of mediator.

Peterson says he was not alarmed. He thought of Lew as a tempestuous person, capable of irrational behavior. He looked on the session, he recalls, as "a first discussion." He thought Glucksman might cool off and retreat.

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See full page image or microfilm.
lost several more partners, further depleting its capital. And in those days, nothing prevented partners from withdrawing their cash at once, instead of over a three-year period. "It was like the fall of the Roses — continuous warfare," says former partner Kenneth Lipper, who later became Deputy Mayor of New York, a post he recently resigned.

Soon after Bobbie Lehman's death, Frederick L. Ehrman, a banking partner, was installed as chairman. Ehrman was an unpopular leader. In large meetings, reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Continued from Page 36

...then a senior partner, still savoring the memory.

Aware that the days ahead would be stormy, that Lehman would need to cut employees, tighten cost controls and locate fresh capital, the board turned to the partner with the most administrative experience, the former Secretary of Commerce who had joined Lehman less than two months earlier — the vice chairman, Peter G. Peterson.

PETE PETE  Peterson AND and GLUCKSMAN, THE CONTRASTS

PETE PETE

Ehrman compounded his difficulties by setting out to restore "discipline" at Lehman. This did not sit well; the partners did not wish to feel "managed."

"I organized a palace revolution," says George Ball, a small, vivacious woman who would eventually bear him five children. They lived in a beautiful house in Kenilworth, a Chicago suburb. When a neighbor, Charles H. Percy, the president of Bell & Howell, urged him to become the market researcher with Market Facts Inc; at night he studied business at the University of Chicago, graduating with an M.B.A. in five quarters. He married Dorothy Krengei and joined the University of Chicago faculty, teaching nights. A few years later he went to work for the advertising agency McCann-Erickson in Chicago as a market researcher. Before long, Peterson was managing the Chicago office.

By the age of 27, Peterson had divorced his first wife and married Sally Hornbogen, a few other Nixon Administra-tion luminaries, they parted in Georgetown and hobnobbed with the mighty. But several months into the Nixon Presidency, Peterson was looking for work. He had angered the Nixon Administration by his strong opposition to the Vietnam war and his support for peace talks.

In early 1971, President Nixon offered Peterson a position as Assistant to the President for International Economic Affairs, which he accepted. Early in 1972, Nixon asked him to serve as Secretary of Commerce. He became Nixon's international economics fireman, working closely with Henry Kissinger and various foreign leaders.

In Washington, Sally and Pete Peterson went into orbit. Along with Kissinger and a few other Nixon Administration luminaries, they parted in Georgetown and hobnobbed with the mighty. But several months into the Nixon Presidency, Peterson was looking for work. He had angered the Nixon Administration by his strong opposition to the Vietnam war and his support for peace talks.

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Upper West Side. His mother, Zipporah, tended a series of West End Avenue apartments as well as the three children, of whom Lewis was the second. Jack Glucksman assembled table lamps, making barely enough money to push the family into the middle income bracket. Lewis graduated from DeWitt Clinton High School in 1941 at the age of 15 and enrolled at the University of Indiana. He stayed a year and then transferred to the College of William and Mary, a school that now claims him as a loyal member of its board of visitors. He also serves on the board of sponsors of its business school.

On his 17th birthday, Glucksman enlisted in the Navy, lying about his age. He served during World War II on a submarine chaser in the Atlantic. The Navy, he says, taught him that loyalty begets loyalty, up and down the line. He was released from the Navy a lieutenant in June 1946 and returned to William and Mary that fall, changing his major from pre-med to accounting.

In 1947, with a liberal arts and accounting degree in his pocket, Glucksman migrated to Wall Street, where he held a series of jobs while attending night school at New York University's business school. He received his M.B.A. in finance in 1951. He credits his years spent at N.Y.U. with opening his "intellectual horizons"; his gratitude is returned through his service as an N.Y.U. trustee and his sponsorship of the L. Glucksman Institute for Research in Securities Markets at the Graduate School of Business Administration.

In 1952, Glucksman became a securities analyst at A. G. Becker & Company, a Wall Street investment bank. He left to become an arbitrager for L. F. Rothschild in 1954, and during his four years there met and married Inez Salinger, a book editor. He returned to Becker in 1958 as co-manager of its new commercial paper business. At that time, he recalls, only Gustave L. Levy at Goldman, Sachs was in commercial paper to any extent. Becker was so determined to catch up that the company offered Glucksman a percentage of the profits. Within five years, he says, he built a business that had $1 billion of commercial paper outstanding at any given time, and he was earning up to $2 million annually.

Bobbie Lehman admired Becker's commercial paper operation as well as Gus Levy's successes at Goldman. It bothered him that his clients went to those two firms to issue and trade paper. Although there was resistance to forming a trading capability at Lehman, resistance to hiring the "pushy" Glucksman, as some referred to him, and resistance to raiding another firm — then, it was considered ungentlemanly — Bobbie hired Lew Glucksman and much of his Becker team in 1962 to start up Lehman Commercial Paper Inc. Glucksman says Lehman offered him 10 percent ownership of the subsidiary in return for an investment of $35,000.

Commercial paper works this way: Instead of borrowing from a bank or the bond market, a company issues an unsecured i.o.u., usually repayable in 30 days, sometimes longer. (The company

Robert Rubin (top) was Glucksman's best friend at Lehman. Peter Solomon (middle) resented the cavalier way the board was treated. Sheldon Gordon (bottom) was one of three men Peterson thought might succeed him in the long run.
employing more than 100 people and generating pre-tax, pre-bonus profits of $7.6 million in 1972. Glucksman had built a commercial paper division - and Lew Glucksman - made a spectacular comeback. With Peterson concentrating on cost cutting and raising new capital and crafting a full-service strategy for Lehman, Glucksman concentrated on rebuilding and expanding the firm's trading capacities. By 1975, Lehman was in the black again, earning $24 million, pre-tax, and pre-bonuses. By 1978, the firm had had consecutive record-profit years. During the first nine months of the 1983 fiscal year, Lehman had enjoyed higher earnings than at any time in the firm's 133-year history; by the end of that fiscal year, pre-tax and pre-bonus profits would reach $148 million. Lehman was on the brink of breaking into investment banking's elite "special bracket" underwriting firms - Merrill Lynch; Goldman, with a few employees and generating pre-tax, pre-bonus profits of $7.6 million in 1972. Glucksman had built a commercial paper division - and Lew Glucksman - made a spectacular comeback. With Peterson concentrating on cost cutting and raising new capital and crafting a full-service strategy for Lehman, Glucksman concentrated on rebuilding and expanding the firm's trading capacities. By 1975, Lehman was in the black again, earning $24 million, pre-tax, and pre-bonuses. By 1978, the firm had had consecutive record-profit years. During the first nine months of the 1983 fiscal year, Lehman had enjoyed higher earnings than at any time in the firm's 133-year history; by the end of that fiscal year, pre-tax and pre-bonus profits would reach $148 million. Lehman was on the brink of breaking into investment banking's elite "special bracket" underwriting firms - Merrill Lynch; Goldman,
Lew's growth. almost as if they were deeply
convinced of their strategic slice costs and to set the
question. Peterson knew

Glucksman needed him to... Glucksman had always
tried to honor. Peterson knew

Peterson asked Jim Boshart,... Glucksman had always
managed the firm; he believed

he needed Glucksman to co-C.E.O. After all, a co-equal
team — John L. Weinberg and John C. Whitehead — managed Goldman, Sachs. At First Boston, Peter T. Buchan,
a former trader who had become president and C.E.O., divided responsibility with the chairman, Alvin V. Shoemaker.

At Lehman, however, one former partner, expressing the opinion of many of his colleagues, thought Peterson
was naive: "There's blood in the sea and a shark is circling and he'd ask the shark, 'Have you had enough to eat?' The shark said, 'Yes.' And Pete said, 'I'm safe!'"

Peterson drafted a memo setting out the division of responsibilities. The memo stipulated that Peterson would — in addition to "continuing to work with investment banking clients" — "focus more time on a number of future initiatives," such as business strategy and development and "expanded special investment activity." Glucksman would, it said, exercise "principal day-to-day responsibility for our various divisions and departments." Together, the memo said, somewhat vaguely, Peterson and Glucksman would "continue to share in basic organizational and strategic decisions" as co-chief executive officers. The chairman felt satisfied, felt he had behaved magnanimously, thinking first of the long-range interests of Lehman.

Glucksman acted pleased, effusively praising Peterson, but says he felt no gratitude. Peterson thought he was being generous; Glucksman saw the move as noblesse oblige. "I was very unenthusiastic about this co-C.E.O. thing." Glucksman says today. "It was a slap in the face. Another example of Pete's unwillingness to let go when his interests were out of the business." What he really wanted, Glucksman now says, was for Peterson to announce plans to step down eventually, as he thought Peterson planned to do when he wrote the memo in 1980 alerting Rubin and Glucksman of his thoughts about a "transition" at Lehman.

The co-C.E.O. announcement was made on May 16, 1983. After reviewing Lehman's impressive growth, the two-page Peterson memorandum to all Lehman employees concluded: "I doubt that this move will in fact result in Lew and I working more closely together in the future than we have in the past, for that would hardly be possible."

The board and most of the partners were pleased. No matter how crude some partners thought Lew was, he was a proven money maker. Even board member Peter J. Solomon, who made no secret of his dislike for Glucksman, was satisfied. "It was O.K.

Sachs; First Boston; Solomon Brothers; Morgan Stanley — a ranking destined to attract even more business.

A BRIEF SHARING OF POWER

PETERSON BEGAN tying with the idea of elevating Glucksman to co-C.E.O. as early as 1981. By that time, all of the divisions at Lehman were reporting to Glucksman, and Peterson was thinking about the eventual succession. In the short run, he told associates he wanted "to build up Lew." In the long term, he had his eye on three younger prospects who were developing broad familiarity with all aspects of the business, and he hoped one of them might one day manage the firm. They were Sheldon S. Gordon, then 47, a member of both the operating committee and the board, who ran the equity division; Roger C. Altman, then 37, one of three men then running the banking division, and François de Saint Phalle, also then 37, who shared an office with Altman and also shared responsibility for the banking division.

The immediate plan began to unfold in early 1983, when Peterson quietly polled a number of board members about the idea of elevating Glucksman to co-C.E.O. Clearly, Peterson was feeling pressure to assuage Glucksman; he received signals through intermediaries that Lew "wanted more recogni-
tion." Glucksman had always made it clear that he wanted managerial freedom to make decisions, which Peterson tried to honor. Peterson knew he needed Glucksman to manage the firm; he believed Glucksman needed him to police costs and to set the strategic framework for growth. Glucksman and Peterson conducted much of their business through others, almost as if they were deeply uncomfortable or apprehensive when together.

In one of their regular meetings in the spring of 1983, Peterson asked Jim Boshart, "Is Lew happy?" Boshart remembers responding that Lew had some frustrations,
GLUCKSMAN FLEXES HIS MUSCLES

GLUCKSMAN BEGAN to nibble at Peterson's authority. Instead of con­
vinced that Glucksman and Rubin would go for any deal, he wanted
 lurk in their on the airwaves.

"We have no choice," Glucksman said. "We have to move.

"I wasn't running for office. I wasn't running for executive office. I was

achieve that. I was going to get it."

The decision of Glucksman, the chairman of the firm, was really
down, and that was the first indication I had that he was not following our written agreement of May 16, in which all significant organi­
izations were reviewed in advance," says Peterson.

Despite the chairman's ex­
pressions of concern, Glucksman's decision prevailed. Pet­
erson's allies were dis­
raught; they felt they had
died over and sacrificed Hajim.

Other differences of opinion or procedure surfaced. Glucksman was more gruff," explains Melba Dun­
can, Peterson's secretary. "He wasn't as controlled as before. He was now co-CEO."

"It was a time of transition. I had very little time to say good morning." Tensions were

"palpable," recalls James Hoon, who joined Lehman in September of 1983 after leaving Citigroup. "It wasn't very coherent," Ball says. "He was angry. He was jealous. I sat there in a state of considerable surprise because I seemed so incoher­
ent. I could only think of Mac­

beth's line: 'O, full of scor­

pions Is my mind.' "

Ball came away from this first encounter of about three hours feeling that the two men to work as a team. Ball also doubted that Peterson could win a board showdown, and felt that even if Glucksman were to, victory would not be worth the price.

Ball reached that conclu­

sion, in part, because Glucksman had suggested in their first meeting that he had secretly polled the board. "It was repeated two or three times that 'We've got the votes. The board is totally on our side,' " recalls Ball.

Glucksman denies implying that he had polled the board; he admits to saying something that could have left that impression: "I think I may have said the following sentence memo was de­

livered to each Lehman board

member announcing "a spe­

cial meeting of the board" to be held the next day at 2 P.M.

When the board gathered in the large conference room —

a replica of the original one at 1 William Street, with Ital­

ianate brass chandeliers and Fortuny curtains — Peterson and Glucksman, both glum, took their places at the head of the long table, flanked by nine other directors: Robert Rubin, Richard S. Fulld, Harvey Perlman, Andrew Got­

iel, Sheldon Gordon, Will­

liam Morris, William Welsh, Peter Solomon and Edward Hajim. (Only Eanrico Brag­

otti, chairman of B.C.I., the one outside shareholder Leh­

man had and a man who thought Glucksman was un­

qualified to guide Lehman, was absent.)

Based on interviews with each of the 11 directors who were there, this is what hap­

pened.

Referring to handwritten notes and notes that he had taken, Peterson made the following announcement: "Thirteen days ago Lew said he wanted to run this business, and he wanted to do it now."

"I think I may have said the following sentence: 'Put it to a vote, and it's a lay­

down.' Ball analyzed it and
came to the same conclu­

sion."

Peterson weighed his op­

tion over that weekend and into the next week, considering with his wife and Ball as well as his attorney, Morton L. Janklow; Janklow's law part­
ners, Jerome Traum, and his friend and sometime business associate, venture capitalist Eli Jacobs.

But, in fact, after confer­

ring with Ball Sunday night, Peterson and his wife walked home, went to a Mex­

ican restaurant, and Peterson made the fateful decision. He worried that a fight would tear Lehman apart: If he won, "He would go con­

sumed with day-to-day man­

agement of Lehman, and he would probably lose the valu­

able services of Glucksman; if he lost, he would be humili­
ated and partners, if forced to choose sides, might suffer retribution. It's a battle I couldn't afford to win," Pe­

terson told friends.

Besides, Peterson and his wife were Fatals. She had had a radical mastectomy in 1975 and three further biop­
sies (no malignancy was found); he had survived a brain tumor operation from which he was still waking up. "When people ask why we didn't fight that summer," says Joan Cooney, "I say to them that we are dif­
ferent. We can't win. We just can't see it."

"I wasn't as controlled as before. I just couldn't focus on the issues," Ball says. "He was angry. He was jealous. I sat there in a state of considerable surprise because I seemed so incoher­
ent. I could only think of Mac­

beth's line: 'O, full of scor­

pions Is my mind.' "

Ball unbent. He decided that he would not fight for the firm. "To bring in a trusted third party, and that was George Ball, who is outside

without permission.

THE DECISIVE DAYS OF JULY

IN THEIR FIVE-HOUR meeting on July 13, 1983, the day after the Equa­

tiy lunch — Glucksman had informed Pet­

erson that he wanted a di­

vorce, and he was willing to pay alimony to get it."

George Ball agreed to enter the firm as a mediator on Thursday, July 14. He met with Glucksman and Rubin the next day and recalled lis­
tening to a Glucksman dia­

logue by the phone to go to the conference. It wasn't very coherent," Ball says. "He was angry. He was jealous. I sat there in a state of considerable surprise because I seemed so incoher­
ent. I could only think of Mac­

beth's line: 'O, full of scor­

pions Is my mind.' "

Ball unbent. He decided that he would not fight for the firm. "To bring in a trusted third party, and that was George Ball, who is outside
without damaging this firm, leaks, without divisiveness, visualize this process without
There was no way I could
now. " Members of the board
say they were stunned.
"My plan had been to re­
main as co-C.E.O. for two to
three years and turn it over to
Lew at the end of that time," Peterson continued. With
George Ball as an intermed­
iary, several options were dis­
cussed. "The theme of all of
my options was a gradual
transition." The chairman
said he had even offered to
step aside as co-C.E.O. in
May 1984. That was not sat­
sfactory to Lew.

Peterson explained his choices: "I could talk to a
number of you and get your
consent. I could see if there
were other alternatives.
There was no way I could
visualize this process without
leaks, without divisiveness,
without damaging this firm,
without re-creating the very
problems we had done so
much to overcome.

"As for Lew, no one on Wall
Street knows as much about
many broad aspects of this busi­
ness — not just trading, not
pricing and distribution and
many broad aspects of fi­
nance." He is "a rare talent. I
have concluded that he is far
more indispensable than
many of us, and more indis­
pen sal than I am. Lew is 57,
and every red-blooded Amer­
ican boy deserves the oppor­
tunity to run his own show at
some point.

"As for myself, Lew said I
had more options than he did.
He's probably right."

Peterson said that he would
remain at Lehman until the
first of the year and help in
any way he could; after Jan.
2, he said, he would be start­
ing a venture capital firm
with his friend Eli Jacobs.
Then he added: "What I want
out of life is to see the firm
flourish. And I want my re­
putation, to the maxi­mum ex­
tent possible, protected."

Peterson stood up to leave, saying there were "some re­
irement arrangements for
me," and that Bob Rubin
would explain them. If there
were any questions, George
Ball was outside and could
answer them.

Peterson and Glucksman
turned to step outside, and as
they did the heavy silence
was punctured by the boomin­
g voice of Peter Solomon,
who was seated directly to
Peterson's left. "Have you re­
signed, and are asking us to
vote? Or is this an issue open
to discussion?"

"I have resigned," said Pe­
terson.

Solomon did not like that
answer. And the then-44-year­
old banking partner had a
way of saying what was on his
mind. He tended to think of
himself as fearless; many of
his partners thought of him as
an egomaniac.

Solomon had joined Leh­
man in 1963 and risen to part­
er in 1971. In 1978, he left to
become Deputy Mayor of
Economic Policy and Devel­
opment for New York. In
1980, he joined the Carter Ad­
mistration as counselor to the
Treasury Department, re­
joining Lehman in 1981.

Solomon glanced around
the table, hoping for some
support. Most of his partners
were other alternatives.
kept their heads bowed. He
said he was outraged that
Glucksman and Peterson
would take such a momentous
step without discussing it
with their partners. What
right did Glucksman have to
decide alone how much of the
partners' money to give Pe­
ton? Solomon waited for
someone else to speak up. No
one did.

Bob Rubin admits he
loathed Solomon, thought he
was vain and a loudmouth,
and he was delighted to see
Solomon isolated on the board
once again. Rubin could
barely suppress a smile as he
rose to discuss the proposed
terms of Peterson's sever­
ance.

Under the negotiated
agreement, Rubin said, Pe­
terson would be permitted to
withdraw all of his approxi­mately $7 million in equity at
once, rather than over the
mandatory three-year payout
period; he would be entitled
to a bonus as big as the one
Glucksman would receive in
September; he would con­
tinue to receive 1 percent of
the firm's profits for the next
five and a half years; he
would receive $500,000 annu­ally for five and a half years
as "supplemental retirement
benefits": Lehman would in­
vest $5 million in Peterson,
Jacobs & Company, his new
venture capital firm; and if
Lehman was sold anytime in
the next five and a half years,
unlike other departing part­
ers, Peterson would receive
the premium — the value of
offered shareholders above the
worth of their stock — on the
sale. Under the terms of the
agreement, the size of his pre­
mium would decline after two
and a half years, which gave
Peterson a financial stake in
the sale of Lehman. In ex­
change for this generous set­
ttlement, nothing was re­
quired of Peterson.

"You guys are nuts to allow
this to happen!" shouted
Peter Solomon. "We repre­
sent an investment of $40 mil­
lion, which dwarfs the invest­
ment of Peterson and Glucks­
man. We are allowing them to
harm our investment." Again, Solomon looked about
for support.

Silence.

"Come on, guys. That's our
money!"

Silence.

Then, like clerks inspecting
the details of a legal docu­
ment, the board members
began to quibble about Pet­
erson's severance agreement.
For two and a half hours, they
reviewed the details of the
agreement and debated the
draft press release. Finally,
they made just one amend­
ment — they asked Peterson
to sign a clause, saying he
would not, over the next five
and a half years, join one of
Lehman's five principal com­
petitors: Goldman, Sachs;
Salomon Brothers; Morgan
Stanley; Merrill Lynch, and
First Boston. He agreed.

Solomon again seized the
floor. If the board wouldn't
discuss larger governance
issues (What is a partner­
ship? Who has the ability to
make decisions for partners?
Why weren't they consult­
ed?), and if they wouldn't dis­

(Continued on Page 92)
missing Peterson, but adds: "If I did summarily dismiss him it was in bad taste and inadvertent." Very little else of what Glucksman said in his brief remarks is remembered.

The partners were even more pleased that the board had been. When the meeting broke, they wandered out of the auditorium singly and then gravitated, like wounded birds, to the offices of colleagues. At a moment when the firm had just concluded the most successful nine-month period in its history, how could that happen? What would this mean for the firm? What would this mean for them?

Some partners were openly thrilled. Trader Richard Fuld received "It didn't bother me." Mergers and acquisitions specialist Eric Gleacher told colleagues he felt "like celebrating." He had heard a good rumor along with Peterson, and as someone who befriended Glucksman during his troubles in 1973, Gleacher said, "was the failure of the firm had in the banking department. "A critical shortcoming of Peterson's years at the helm," Gleacher says, "was that he didn't create sense of teamwork across the firm — it was absent when he arrived, as well as when he departed. Lehman was held together strictly by money, blood money."

At the time, most partners put on a public face, professing pleasure that the firm was not put through a protracted succession struggle; that they had returned to the board room. Glucksman did not make a lengthy presentation, or a particularly emotional one. Speaking quickly, he thanked Peterson for his statesmanship, his good wishes and decade of service to Lehman. Glucksman made but one promise to his partners: In the future, he said, there would be "more participation in the management of Lehman."

The meeting broke three hours after it had begun, and everyone rushed to attend a partners' meeting at 5 P.M. in the auditorium on the 42nd floor. Full partnership gatherings were held irregularly, but there was usually one in the fall, and most of the 77 partners were puzzled as to why they had been summoned at this time. Peterson and Glucksman sat alone at a table in the front of the auditorium. Then Peterson rose to speak:

"More briefly than at the board meeting, he announced that he was leaving. He explained why, and said an announcement would be "livvered to the media at that moment. He thanked the partners and wished them well."

When he finished, Lew Glucksman stood up, turned to Peterson, and uttered words that would haunt many partners for months to come: "Would you, and me, and everyone with my partners." (Glucksman remembers dis-

which I complained about. If Pete had not all this money, perhaps he would have fought.

However, the entire transaction had been rubber-stamped. Board members tend to defend their passivity by saying that they were merely complying with Peter's wishes, affirming a fait accompli. "It was a trade that had been done, and we were there to bless it," explains William Welsh. Nevertheless, he concedes, board members were fearful of retribution; "those who rebelled might be remembered."

Those partners who criticize the board say that board members were preoccupied with their bonuses and their shares, which were decided every September. "Because compensation at the firm has always been set by the top two men," explains one partner, "a guy can throw you a tip of a half million dollars. The chief executive is the ayatollah."

The firm was focused on the riches the firm was gushing and on the fears of Glucksman harbored by some members, not on whether the coup made sense for the firm, not on the violations of the consensual traditions of a partnership, not on whether Glucksman possessed the qualities to lead Lehman or whether it was time for Peterson to move on. This was just another transaction.

"Everyone enjoyed being raped," said one embarrassed former partner. "We were making money. All the people cared about was their money. Greed."

That's a bit hyperbolic, since there were directors who honestly believed the firm would be strengthened with Glucksman steering the ship alone. However, a significant number of partners were troubled. Yet, with the exception of Solomon's outburst at the board meeting, and a few stray dissent from partners and Peterson allies like Stephen Schwarzman and Mario d'Urso, most partners were silent. Only later did many come to agree with Peter Solomon's immediate assessment: "Attilla the Hun has just arrived!"