



Mr. Fuld arrived at Lehman's office at 7 a.m. on Saturday, wearing a blue suit and tie. The talks with [Barclays](#) were still moving. If the government could be moved, there could also be hope for a [Bank of America](#) deal.

Merrill, meanwhile, was beginning its own pursuit of [Bank of America](#).

At his home in Rye, N.Y., Mr. Thain was getting dressed for a day at the New York Fed when his phone rang. It was Merrill's president, Mr. Fleming.

"John, you really need to call Ken Lewis," Mr. Fleming said.

"Get me his number," said Mr. Thain, who added it to his papers for the day.

Mr. Thain's black SUV pulled up in front of the New York Fed just before 8 a.m. Top executives from all four investment banks -- minus Lehman's Mr. Fuld -- were there.

Federal officials broke Messrs. Thain, Mack and Blankfein and their top aides into groups. One studied the potential fallout from a Lehman failure. Another was charged with putting a value on Lehman's controversial real-estate investments. A third group, which included Mr. Thain and Morgan's Mr. Mack, was supposed to discuss an industry-led bailout for Lehman.

Lehman's president, Bart McDade, walked the group through the embattled firm's books. Mr. McDade did not respond to requests for comment for this article.

Mr. Mack questioned [Wall Street](#)'s ability to repair markets. The firms could try to backstop Lehman, he argued, but there was no guarantee they wouldn't have to rescue another rival later. "If we're going to do this deal, where does it end?" he said.

As Mr. McDade discussed Lehman's position, Mr. Thain had an epiphany: "This could be me sitting here next Friday."

Mr. Thain pushed his chair back and left the group to caucus with top Merrill officers. "Lehman is not going to make it," he told them.

Mr. Thain stepped to a sidewalk behind the New York Fed and called the [Bank of America](#) chief at his home in Charlotte. "I can be there in a few hours," Mr. Lewis said.

Members of [Bank of America](#)'s deal team, exhausted from scrutinizing Lehman's books, had just landed in Charlotte. Mr. Lewis ordered them back to New York.

Up in Lehman's midtown office, Mr. Fuld was also dialing Mr. Lewis's North Carolina home. His calls went unreturned. "I can't believe that son of a bitch won't return my calls," he told a top adviser.

Lehman's bankruptcy team, meanwhile, was rolling into action. Shortly before noon, Mr. Miller, the Weil Gotshal bankruptcy head, sent an email to several partners. Lehman's name didn't appear in the email. Its subject line read: "Urgent. Code name: Equinox. Have desperate need for help on an emergency situation."

Throughout the day, Mr. Miller's attorneys, working with Federal Reserve officials and their attorneys, began seeking information from Lehman. But with Lehman's top officials tied up at the Fed and in [Barclays](#) negotiations, the lawyers were hard-pressed to get the details they needed.

"We were a distraction to the Lehman people," said Lori Fife, a Weil partner. "It felt like it was just a fire drill."

Later that afternoon, Merrill's chief executive met [Bank of America](#)'s CEO, Mr. Lewis, in the bank's corporate apartment in the [Time Warner](#) Center. In a one-on-one meeting overlooking Central Park, the two men agreed that it looked like Lehman would be forced into bankruptcy.

Mr. Thain made his opening offer. "How about buying a 9.9% stake" in Merrill, he proposed.

Mr. Lewis said the bank doesn't tend to buy minority stakes. He suggested [Bank of America](#) could buy the whole firm.

"I am not here to sell [Merrill Lynch](#)," Mr. Thain responded.

"Well, that is what I want," Mr. Lewis countered.

The two parted with an agreement to keep talking.

Lehman's talks with [Barclays](#), meanwhile, were moving forward at the New York Fed, under the eye of government officials. "Shouldn't I be there?" Mr. Fuld said to Lehman President Mr. McDade and to attorney Rodgin Cohen of [Sullivan & Cromwell LLP](#), a longtime adviser.

What Mr. Fuld appeared not to know was that some top government officials had instructed key Lehman representatives at the Fed building to keep Mr. Fuld away that **weekend**. The federal officials had explained that Mr. Fuld -- not only [Wall Street](#)'s longest-serving boss, but a director of the New York Fed -- could be an unnecessary distraction and a lightning rod for criticism.

At the Fed meetings, much of the talk was on the sidelines. When Mr. Thain returned to the New York Fed from his discussions with Mr. Lewis, Merrill advisers told him they had been approached by top Goldman executives. The rival house was interested in taking a 9.9% stake in Merrill and offered to extend a \$10 billion line of credit.

Mr. Thain was digesting the news when he was approached by Mr. Mack of [Morgan Stanley](#). "We should talk," Mr. Mack said. The bosses of Merrill and Morgan agreed to meet that evening. Soon, Mr. Thain and two advisers were en route to the Upper East Side apartment of a Morgan co-president.

Mr. Thain drank a Diet Coke as the Morgan and Merrill executives talked. Both sides felt there were benefits to merging. Mr. Thain indicated he needed a deal quickly. The meeting ended without a firm plan. "We have a board meeting Tuesday and can get back to you soon," Mr. Mack said before the group broke up.

As Mr. Thain and his advisers left the apartment, the Merrill chief suggested he had faint hopes for a deal with [Morgan Stanley](#). "I don't think they share our sense of urgency," he said.

Merrill's talks with [Bank of America](#), however, were on track at the bank's law firm, Wachtell Lipton. Merrill's team was camped out on Wachtell's 34th floor. [Bank of America](#)'s team was on the 33rd. Around midnight, Mr. Lewis left the law firm for his apartment in the [Time Warner](#) Center. Pizza arrived at Wachtell at 3 a.m.

At Lehman's offices that evening, Mr. Fuld still hadn't heard back from Mr. Lewis. Attorneys from Weil were poring through documents, drawing up what would be the largest bankruptcy in U.S. history.

But in a rare piece of good news for Lehman, [Barclays](#) had agreed to buy Lehman, as long as it didn't have to take on its soured real-estate assets. Lehman's asset-management division would also be spun off. The Fed indicated that a syndicate of banks and brokers had agreed in principle to put up enough capital to support a separate company that would hold Lehman's bad real-estate assets.

Sunday, Sept. 14

A few hours later, at 8 a.m., Mr. Thain arrived at the [Time Warner](#) Center for a second one-on-one meeting in Mr. Lewis's corporate apartment. Over coffee, Mr. Thain made his case for a strong price for Merrill despite its stock's recent fall.

At the same time, Merrill officials were huddled with Goldman bankers. Some members of Merrill's team doubted that Goldman could save their firm by taking a 9.9% stake. Pete Kelly, a top Merrill lawyer, also had his reservations about letting rival Goldman see his firm's books. Still, the sides set a late-morning meeting at Merrill's offices.

At 9 a.m., the chiefs of finance arrived again at the New York Fed for a second day of meetings. By the time Mr. Thain arrived, the Merrill chief had a number of options in his back pocket.

Rolling up to the meetings at around the same time was Goldman's chief, Mr. Blankfein. A Goldman aide, referring to days of meltdowns and meetings, carpentered to Mr. Blankfein: "I don't think I can take another day of this."

Mr. Blankfein retorted: "You're getting out of a Mercedes to go to the New York Federal Reserve -- you're not getting out of a Higgins boat on Omaha Beach," he said, referring to the World War II experience of a former Goldman head. "So keep things in perspective."

At Lehman that morning, Mr. Fuld told his board of directors to gather at the firm's offices. By noon, he expected, the board would be able to approve Lehman's sale to [Barclays](#).

One hurdle remained: To ink a Lehman deal, [Barclays](#) needed a shareholder vote. There was no way to get one on a Sunday. [Barclays](#) would need the U.S. or British government to back Lehman's trading balances until a vote could be held.

Government approval never came, though there are diverging views on why. Some blame the U.S. government for refusing to commit resources. Others say the British government refused to entertain a deal they worried would expose England to unnecessary risk.

Lehman's president, Mr. McDade, and Mr. Cohen, the attorney, called Mr. Fuld from the New York Fed. Passing Mr. McDade's cellphone back and forth, they broke the [Barclays](#) news.

Mr. Fuld postponed his board meeting. He made one more call to Charlotte, answered by Mr. Lewis's wife.

By midafternoon, word emerged that [Bank of America](#) was in talks with [Merrill Lynch](#). Mr. Cohen, the attorney, broke the news to Mr. Fuld. "I guess this confirms our worst fears," Mr. Fuld said.

At the Fed, the Lehman executives and their bankruptcy attorneys faced roughly 25 officials from the Fed, Treasury and SEC. The Lehman officials pleaded for federal aid to keep Lehman afloat. But with [Barclays](#) and [Bank of America](#) off the table, Federal officials wanted a plan in place to soothe markets before trading opened in Asia.

A senior Fed official asked Mr. Miller, the Weil veteran who'd been involved in bankruptcy filings of companies including [Bethlehem Steel](#) and [Marvel Entertainment](#), if Lehman was ready to file.

"No," Mr. Miller answered.

"You need more of a plan to prepare to do this," Mr. Miller continued. Lehman had tens of billions of dollars in derivative positions with countless parties. Unless these trades were unwound in an orderly way, it could shock all corners of the financial market. "This will cause financial Armageddon," he said.

Now, Merrill's Mr. Thain needed his own deal more than ever. With a Morgan tie-up looking like a long shot, Merrill focused its attentions on Goldman and [Bank of America](#).

Temper at Merrill flared as two rival teams pored over the firm's records. Merrill's head of strategy Peter Kraus, a Goldman alumnus hired by Mr. Thain, wanted to pull some of the firm's due-diligence staff away from the [Bank of America](#) project to look at Goldman's offer. "We need some people down here," Mr. Kraus said.

"We have a great deal in hand, and need to finish doing this deal," retorted Mr. Fleming, Merrill's president. A few minutes later, Mr. Thain called Mr. Fleming, telling him to send some people to work on the Goldman offer.

Mr. Fleming and [Bank of America](#)'s lead negotiator, Mr. Curl, hammered out a price. [Bank of America](#) would buy Merrill for \$29 a share.

Mr. Fleming informed Mr. Thain. At 6 p.m., Merrill's top managers and directors gathered in person and by phone.

"When I took this job this was not the outcome I intended," Mr. Thain told directors. After the board meeting broke up after 8 p.m., Mr. Thain called the chief of [Bank of America](#). "The decision was unanimous," Mr. Thain told Mr. Lewis. "You have a deal."

A more somber scene was playing out at Lehman. Directors, who had been camped at the Midtown offices all day, gathered at around 8 p.m. in the firm's board room. Weil lawyers and Lehman executives summarized the Fed meeting to the frustrated board.

"They bailed out Bear," said Roland Hernandez, the former CEO of Spanish-language TV network Telemundo and a longtime Lehman board member. "Why not us?"

One of Mr. Fuld's assistants broke in to hand him a note: The SEC chairman wanted to address Lehman's board by speakerphone.

Mr. Cox, criticized for his allegedly minor role in the government's bailout of Bear Stearns, had been reluctant to call Lehman. The SEC chief finally called from the New York Fed, surrounded by several staffers, at the urging of Mr. Paulson, the Treasury secretary.

"This is serious," said Mr. Cox. "The board has a grave matter before it," he said.

John D. McComber, a former president of the Export-Import Bank and a Lehman director for 14 years, asked: "Are you directing us to authorize" a bankruptcy filing?

The SEC chief muted his phone. A minute later, he came back on the line. "You have a grave responsibility and you need to act accordingly," he replied.

As the meeting wrapped up around 10 p.m., Mr. Fuld, his suit jacket now off, leaned back in his chair. "I guess this is goodbye," he said. Lehman would file about four hours later.

Just a few blocks away, Merrill and Bank of America executives met to toast their deal. "I look forward to a great partnership with Merrill Lynch," Mr. Lewis said around midnight, a glass of champagne in hand.

The End

Rather than soothing markets, Lehman's bankruptcy filing roiled them -- slamming trading partners that had direct exposure to the firm and sowing fears that Wall Street's remaining giants weren't safe from failure. Shares of Morgan and Goldman plunged. In the credit-default swap market, the price of insurance against defaults of Morgan and Goldman soared.

Hedge funds sought to withdraw more than \$100 billion in assets from Morgan Stanley. The firm's clearing bank, Bank of New York Mellon, wanted an extra \$4 billion in collateral.

Morgan's chief, Mr. Mack, negotiated a cash infusion from Japan's Mitsubishi UFJ Financial Group. Fed and Treasury officials, concerned that a deal could be derailed by a declining Morgan share price, asked if Mr. Mack had other options. One regulator suggested Morgan Stanley consider selling itself to J.P. Morgan -- from which it had been famously split, 73 years earlier, amid post-Depression banking reform laws.

"We're going to get Mitsubishi done. There is no Plan B," Mr. Mack told one regulator.

Morgan did the deal. But investor fears remained. By Thursday, Fed officials were urging Morgan to become a commercial bank. Such a move would require Morgan to scale back its bets with borrowed money, run the risk of selling lucrative business lines and accept new onsite regulation from the Fed.

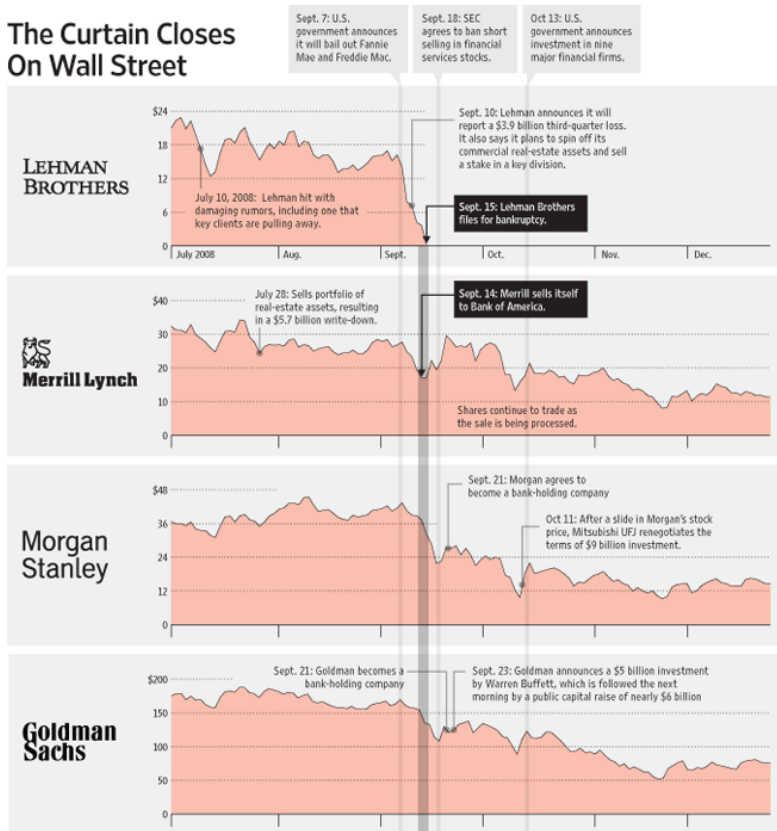
Mr. Mack consented, and the following weekend, Morgan Stanley formally ceased to be a securities firm.

The same weekend, Mr. Blankfein convened top lieutenants on his 30th-floor office. After 139 years as a securities firm, he said, Goldman, too, would also reshape itself as a commercial bank. Within hours, the era of Wall Street's giants was over.

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Dan Fitzpatrick contributed to this article.

## The Curtain Closes On Wall Street



Sources: FactSet (Lehman Brothers data); WSJ Market Data Group (Merrill Lynch, Morgan Stanley, Goldman Sachs data)



**'We have access to Fed funds. We can't fail.'**

CEO Richard Fuld Jr. to his management team, after the government allowed investment banks to borrow directly from the Fed.

**'This has been very painful on all of you, both personally and financially. For this, I feel horrible.'**

In a Sept. 16 memo to employees regarding Lehman's bankruptcy filing.



**'I don't think they share our sense of urgency.'**

Merrill Lynch CEO John Thain to his team, following secret Sept. 13 talks about a possible tie-up with Morgan Stanley.

**'When I took this job this was not the outcome I intended.'**

To his board, before they voted Sept. 14 to sell Merrill to Bank of America



**'Where do I sign?'**

Morgan Stanley CEO John Mack on Oct. 13, to government officials and Wall Street chiefs after hearing of the government's plan to invest \$125 billion in the financial services industry.

**'We're going to get Mitsubishi done. There is no Plan B'**

Days after Lehman's collapse, to a federal regulator who asked what Morgan Stanley would do if its bid to raise funds in Japan fell through.



Associated Press

**'We're probably in the third or fourth quarter' of the game.**

Goldman CEO Lloyd Blankfein told shareholders at his firm's April 10, 2008, annual meeting.

**'You're getting out of a Mercedes to go to the New York Federal Reserve, you're not getting out of a Higgins boat on Omaha Beach, so keep things in perspective.'**

On Sept. 14 to a Goldman aide, who had said he couldn't take much more following weeks of market turmoil and two days of meetings with Fed officials.

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