# Did Pay at Bear, Lehman Cause Collapses?

*SmartMoney*
By Jack Hough
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Top bosses at Bear Stearns and Lehman Brothers lost bundles on company stock when those firms collapsed. Just punishment for excessive risk-taking, you might say. But was it?

A new post-mortem report suggests not. A trio of Harvard Law School professors have tallied the cash these management teams collected for their performance during the boom years that preceded — caused, really – the bust. The numbers make failure look lucrative.

To be sure, the paper losses at the end were dramatic. James Cayne, former chief executive of Bear Stearns, collected $61 million for shares he held at the time of the firm's emergency sale to JP Morgan in March 2008. That's $900 million less than the shares would have fetched at their peak price in January 2007. Richard Fuld, who ran Lehman Brothers until it declared bankruptcy in September 2008, received nothing for a stock position that had been worth $931 million at its peak in February 2007. That these two held so many shares at the end suggests they didn't know their firms would fail, and that they wanted them to survive.

However, the more important question is "whether the executives had an incentive to make decisions that created an excessive risk – though by no means certainty – of massive losses at some (uncertain) time down the road," writes Lucian Bebchuk, Alma Cohen and Holger Spamann in a study scheduled for publication in The Yale Journal on Regulation.

To determine that, the researchers tracked incentive pay beginning in 2000, long before the financial collapse. In doing so, they compared the early, cash rewards of certain decisions, like becoming heavily involved with mortgage securities, against the later penalties, in order to determine the net gain or loss.

Bear Stearns halted executive bonuses in 2007, but before it did, Cayne received more than $87 million in cash for his efforts from 2000 to 2006. The next four highest-ranking managers together received $239 million. At Lehman, Fuld collected cash bonuses of more than $61 million from 2000 to 2007, while his Nos. 2 though 5 got $102 million. That's about $490 million in total, with compensation committees at both firms attributing the rewards to increases in sales, profits, book value and share price. No funds were confiscated later though so-called claw-back provisions.

The real money was in selling stock, though. From 2000 to 2008, Cayne and his officers cashed in $1.1 billion worth of shares, while Fuld and his sold $850 billion worth. The amounts are net of purchased shares, and all figures are in January 2009 dollars.

Put it all together, and the top executives at Bear Stearns and Lehman Brothers received $1.4 billion and $1 billion in cash, respectively. That amount "substantially exceeded the value of the executives' initial holdings in the beginning of the period," the authors conclude.

In other words, for risking everything and failing spectacularly, the bosses lost plenty but gained more.