MEMORANDUM FOR THE RECORD

Event: Interview with Jimmy Cayne

Type of Event: Group meeting

Date of Event: April 21, 2010; 2:05 p.m.

Team Leader: Tom Krebs

Location: Kramer, Levin, Naftalis & Frankel; New York, New York

Participants - Non-Commission:

- Jimmy Cayne
- David S. Frankel, Kramer, Levin, Naftalis & Frankel
- Michael J. Sternhell, Kramer, Levin, Naftalis & Frankel
- Jessica Carey, Paul Weiss
- Eric Goldstein, Paul Weiss
- Matthew Cipolla, Paul Weiss

Participants - Commission:

- Tom Krebs
- Donna Norman
- Sarah Knaus

MFR Prepared by: Sarah Knaus

Date of MFR: April 26, 2010

Summary of the Interview or Submission:

EXHIBIT 1- Jimmy Cayne CRD

Tom Krebs began the interview by showing Mr. Cayne his CRD, and asking him to affirm that it is his record. Although Mr. Cayne agreed that the CRD was his own, he wanted to clarify the title he held in 1969. Tom then introduced the Financial Crisis Inquiry Commission, and informed Mr. Cayne that I was just taking notes for Tom's assistance. He continued, explaining that it is a violation of federal law to deceive us today.

KREBS: Mr. Cayne, why did Bear Stearns Fail?

CAYNE: BS failed because there was a lack of confidence in the company, which manifested in repo lines being pulled and prime business lines suffering dramatically. The loss of confidence was exacerbated by the surrounding events of the day, including the fall and collapse of the housing market. We were just one of a lot of firms, and were the smallest of the big firms. We were the first to go.

KREBS: Can you track the development of the company while you were there?

I can track my development. I joined in 1969, as a salesman in non-institutional retail. I was very fortunate in that I had exposure to some of the most important people in the company from playing bridge. I had a very strong rise in status.

KREBS: Was there a business model in place when you joined Bear Stearns, and how did it change?

The Company changed massively over the years, expanding from its original small size. The development of a sales force led to the development of a clearance effort.

Mr. Cayne's Start at Bear Stearns

CAYNE: Prior to joining Bear Stearns, I played bridge for money. My girlfriend told me to either get a job or she would break up with me. So, I started to work at Lubenthal and Co. part time and continued playing bridge. Lubenthal was a small private bond house, identical to fifteen other houses that had limited inventories and were financed by the bank at 99 cents per dollar.

CAYNE: From 1975-1977 there was a strong feeling that New York City would go into a general default. I had an idea, which became the cornerstone of my existence. When the crisis hit, my background allowed me to say that if you own NYC bonds, your statement from your bank would say that you have 5000 NYC GEOs and there was no market (NA). The newspapers were full of negative thoughts of the city, and there was no market for the bonds. A house with $100,000 in capital could only have $200,000 worth of bonds. I felt that there was a natural thing that could happen. You could make a market if you had a bond and go into NYC securities. I played by the rules internally and went to the head of the bond department, who said it was dumb. I went to Alan Greenberg, who told me it wasn't something we should do. So I went to Sy Lewis, who had dealt with R&R reorganization bonds, and he said how much do you need and what about your other duties? I said I could do it and this would work.

CAYNE: I got a box with $5million with my number and I balanced my time times as the sales manager of the retail sales department and this new endeavor. I ran an ad in the Sunday NYTimes for the securities and set myself up in a room. But, there were no calls. At the time, there was no market and I didn't know where we really were, but I felt that if I could buy these things and sell them to the houses with no credit, I could make a significant profit.

CAYNE: About 9pm I got a call from a trust manager in Denver, CO. He said that he had a client who was interested in my idea. He represented a client that had 300,000 of the NYC bond. I told him 27 cents on the dollar. The guy went ballistic and told him, "I knew that you people were like this and hung up." I got a call on the Kinny Wire, with potentials. However, I was the only bid and they wouldn't trade at 23. At this point, I realized that there was no market for the bonds. A little later, the Denver guy called back, and I told him that he was full, having bought bonds at 25. I told him that I had not sold yet.

CAYNE: I ended up selling piece meal to all of the little houses. It was a catapult for me. In 1978 Sy Lewis died, and I became a member of the Executive Committee after requesting it for years. In 1985 the company went public. When this happened, I was at that time the 2/3 partner in the company. I became co-president in the public offering, sole president in 1987, CEO in 1993, and became Chairman in 1997.

CAYNE: During this period, the company had a lot of different businesses. Fixed income started in mid-80s with the hiring of Michael Chech and Mattone. They joined us and changed the picture of the company. Sometime there after, John Sites developed the mortgage effort. The guy at Solomon, Lou Maneri, was the grandfather of the mortgage business and Sites brought that to us.

KREBS: After Sites joined you, when did you ramp the department up?

Late 80s, something like that. They did a significant portion of the market, I believe, those measures (lead tables), significant jumps in 1998-1999? Howie [Rubin] left in 1999.

KREBS: Was the mortgage department in fixed income?

Yes.

KREBS: Who ran the department?

Michael Chech and [Vinny] Mattone.

KREBS: When did Spector come in?

1980s, maybe 1985. He came in after Michael Chech left, and before Mattone died. When Mattone died, [John] Sites became head of the department. Not sure when he left.

KREBS: When you were developing your NYC bond, and took it to Greenburg, who has a reputation to get rid of losers, did he tell you to dump the NYC bond?

No. There was never any question about dumping anything.

KREBS: After the mortgage department was built up and Fixed Income was significant, was Greenburg one of the folks saying to cut mortgage securities?

KREBS: When did you become aware there were difficulties in the mortgage department in subprime related issues? It came to clarity when the funds went down.

KREBS: Those are the BSAM funds?

Correct. I got a call and was told that Merrill Lynch had collateral from the funds and they were making a margin call on that collateral. The fund managers, or at least the head of BSAM, didn't agree that there should be a margin call. I was also informed that Merrill Lynch said that in the event you don't meet the margin call, we're going to blow you out (a Wall Street expression for putting you on the Kinney Wire in the mortgage area).

NORMAN: Was this after the redemptions were stopped on the funds?

I don't know.

KREBS: Are you aware that there was a decision to halt the leverage on the funds?

No, I don't recall.

KREBS: Did Merrill Lynch seize that collateral and attempt to sell it?

They had it.

EXHIBIT: Merrill Lynch Analysis, Bear Stearns Asset Mgm't: What Went Wrong

KREBS: How much hands on did you have in the BSAM?

None.

KREBS: So you do not know if this timeline comports with your recollection?

Correct.

KREBS: Page 2, Merrill Lynch says this is what they think went wrong with BSAM in funding and crisis management. Do you agree with their conclusions?

This is from ML?

KREBS: Yes.

And your question is do I agree with their assessment?

KREBS: Yessir.

Did they write this at the time?

KREBS: It was done shortly after.

This was not Citi saying watch out for this, it was after the fact?

KREBS: Yes, I believe so. I have not examined anyone from ML other than to produce this.

KREBS: With respect to funding, would you agree that the High Grade Fund and the Enhanced Leverage Fund held illiquid assets?

I don't think I'm qualified to answer that.

KREBS: Do you know whether the leverage was, as depicted here [on page 13], with 12:1 and 6:1 leverage?

I am aware of that.

At the time were you told what the leverage in the funds were?

No.

KREBS: What was your understanding of why these two funds failed?

Again, it's a lack of confidence. It's recognition to the fact that you thought things were 99.25 and we went out for a bid and it was 80. A revelation took place, that this market was not what we thought it was.

KREBS: Are you aware of how BSAM was run? Was it part of Bear Stearns or separate?

There was really a wall that had to be there. I had very little to do with BSAM, if anything. The guy who ended up running it I met at the airport 2 years prior to his arrival at the company. Spector hired him.

NORMAN: Did you meet him before he was hired?

I met him at the airport but didn't know if he was good or bad. When he interviewed at the company, my portion was really just meet the CEO. There were no questions. I basically had the idea that his history was pretty good and the guy who hired him [Spector] had built a lot of things at BS well.

KREBS: Do you know why Spector hired him, Marin?

Don't know.

KREBS: Do you know how many hedge funds BSAM had in 2007?

No.

KREBS: Any idea?

A couple, I don't think it was 10, but I'm not sure.

KREBS: It's not something you would know?

I know it's small, but then I might have known. I would be guessing if I gave you an answer.

KREBS: Prior to June 2007, how often did you talk to Richard Marin?

Once every three months.

KREBS: What was the nature? He wouldn't report the business line?

No.

KREBS: Any regular reports about what was going on in the BSAM funds?

Not to my recollection.

KREBS: Ever ask what was going on in the BSAM funds?

There wasn't really a reason to ask when they were okay. There were no red flags, they were doing well, and they were profitable. I didn't know the makeup of the profits and how they did.

KREBS: Did the fact that they were profitable indicate to you that all was well?

Yes.

KREBS: To whom did Marin report?

Spector.

KREBS: And how often did you get reports from Mr. Spector on how Marin was doing?

It didn't happen.

NORMAN: In June 2007, were you aware of what composed the hedge funds or know what they were exposed to?

Not at all.

NORMAN: Any idea of approximate leverage?

No.

NORMAN: Financing?

No.

NORMAN: Any idea they were highly reliant on the overnight repo market?

No.

NORMAN: Do you think you should have in hindsight?

No.

NORMAN: Do you think it was a failure of risk management? Should any of the above be known to you, as you sit here today?

The answer really is no. When you have 30 divisions, with somebody in charge of each division that you have confidence in, you don't spend too much of your time on it. This was something that on the surface you could be very proud of, because their record was great.

NORMAN: Were there 30 divisions at the time?

There were about 17 lines, and with subdivisions there were about 30.

NORMAN: How big was the profit of the BSAM?

Small.

KREBS: Who was in charge of risk management in summer 2007?

Alix. He reported to members of the exec committee.

KREBS: Who composed the exec committee?

Schwartz, Spector, Molinaro, Alan Greenburg, and yours truly.

KREBS: Do you know if Mike Alex had supervision or responsibility of the oversight of the BSAM funds?

My recollection is that he wasn't allowed to, because of that wall.

KREBS: When was it put into place?

At some point.

KREBS: Were you aware Cioffi's funds were purchasing CDOs from Bear Stearns?

Yes, we stopped that early on, I think. I can't give you dates, but I know we stopped it.

KREBS: Was it after reports circulated about Cioffi's not obtaining prior approval of his outside directors to purchase the mortgage-related securities from BS?

I don't know.

KREBS: Was there was a recommendation made to the exec committee and to you in terms of the difficulties of the BSAM funds?

I don't understand.

KREBS: Did anyone come and say that there was a problem and we would need to take out a repo fund?

You're talking about the $1.6 billion collateral; this did come to me and the executive committee.

NORMAN: Who made that recommendation to put in the money to fund the $1.6 billion?

There was a 2 step process. I believe that the recommendation to do the $1.6 billion, was made by I'm guessing Spector, or Jeff Mayer or Marano. I don't think it was Marin.

KREBS: Was it fair to say that each of those individuals were in favor of it?

Yes.

KREBS: What was your position regarding the $1.6 billion?

I did not want it. I saw something happening that meant that we were going to increase the shareholders' liability or potential liability to an additional $1.6 billion of this stuff. There were two hats: reputational and fiduciary responsibility to the shareholders. There was a meeting in my conference room, with additional management to the Exec Committee. We discussed whether we take the deal or do we let the investors lose their money. I went first and said that we had to make a decision and that I would be the first to say that we shouldn't take it. My backup in that room was Earl [Hedin]. Bear Stearns was not a dictatorship.

KREBS: What was your understanding of what this stuff was?

Mortgages. I got an education that there was no market for stuff that did not have an AAA rating, even if it was indeed AAA composition. Our question was whether we take the $1.6 billion or let the fund go down.

KREBS: How is this different than 1975 when you took the distressed bonds?

They are two different issues. In the general obligation picture of municipal bonds there are no defaults. It was a very remote possibility that NYC would into a general default, and if the city did default, it could still be okay. I took a look at a table about the West

Virginia Turnpike and Chesapeake Toll Bridge, which were still traded while in default. NYC was not in default, and if an investor could get a curve tax free, why not try.

KREBS: You're saying that the mortgage funds were not going to recover?

I didn't think it was correct to do as the parent company. I knew it was a bad thing reputationally to let the funds go down, but that was my recommendation.

KREBS: were the lenders also repo lenders to BS?

I don't know.

KREBS: What portion of the firm's revenue was generated in 2007 as a result of Fixed Income?

Around 60.

KREBS: And what percentage of that was generated from mortgages?

I'd say 60. I'm being really broad.

(Short break taken)

KREBS: The issue with respect to BSAM was resolved by taking out the repo lenders?

We boarded it.

KREBS: Shortly after that there was, those funds filed for bankruptcy on July 31, 2007?

Don't recall.

NORMAN: I believe the historical landscape was that BS boarded the High Grade Fund and not the Enhanced Leverage Fund?

I can't agree with you, I don't recall.

NORMAN: My understanding is that the decision was made largely for reputational reasons, that BS loan agreements were cleared and that it was done for reputational reasons. Why was it not a reputational concern that the other fund failed, why save one and let the other one go down?

I'm not sure that one wasn't just a hell of a lot larger than the other. The answer to your question is I don't know.

NORMAN: You don't recall discussions about take both or other choices?

No.

NORMAN: Did this come to a vote?

There were very few votes. There may have been another [manager who said] no, but I didn't hear it. I was the only no vote.

NORMAN: Did they convince you otherwise, or to this day do you still think it was a bad idea?

After the fact, obviously would have been better not to take it. Reputationally we got crushed anyway.

NORMAN: Because you didn't bail out both funds?

No, because we went down.

NORMAN: Had you not boarded, do you think things would have been different in March 2008?

No.

KREBS: After you unboarded the High Grade Fund, I believe S&P placed Bear Stearns on negative outlook. Can you tell us about that and what your response was?

What my feeling was? I was sorry to see that it had happened. I'm not equipped to say they didn't know what they were doing, but I am equipped to say that they were very bad. A negative outlook you can touch a number of parts of your businesses. I don't remember ever being downgraded. It was like having a beautiful child and they have a disease of some sort that you never expect to happen and it did. How did I feel? Lousy.

KREBS: How did BS react to that negative outlook? Specifically did you try to raise more money?

I don't know the time frame, but I know I visited both Citi on a Monday and JPMorgan on a Tuesday.

KREBS: For what purpose? A credit line.

KREBS: What did they tell you would happen? That we were a very good customer and they were interested, but nothing happened.

KREBS: Following Spector's departure what steps did you take?

We elevated Jeff Meyer and put him on the Executive Committee.

EXHIBIT: Oliver Wyman Slides

KREBS: Did you or anyone authorize a study to look at BS risk management?

I know the name, but I can't recall it. [Krebs showed Mr. Cayne the exhibit.] See again, this was February 2008, and I wasn't there.

KREBS: Do you recall having requested such a study being taken, presumably it was asked for earlier?

I didn't ask for it and don't recall hearing about it. I have reasonably good recollections.

KREBS: Where did BS get funding in 2007?

I don't remember when we stopped using CP but the term and overnight repo became our funding.

KREBS: When you say CP you mean unsecured CP?

Yes.

KREBS: How long had BS been operating with unsecured CP?

Not a long time.

KREBS: Was there a time when you switched to term repo versus CP?

Maybe 2006, something like that, I could become wrong.

KREBS: You became ill in September 2007, how long were you hospitalized?

Eight days.

KREBS: Was it a lengthy recovery, during which time you were out of touch?

No, I was in touch the whole time. After the hospital, I was in the office every day. I was in touch with the office when I was in the hospital.

KREBS: Were you aware that when you ordered the securities in part from the BS hedge funds that a writedown occurred?

I don't recall.

KREBS: Let's not guess, let's look at the financials.

EXHIBIT: Consolidated Financial Statements

KREBS: Do you see there in 2006 versus 2007 there was an increase in the repo numbers?

I would guess that there was that much less commercial paper. The number grew because the commercial paper scaled back.

KREBS: Why was commercial paper scaled back?

The person who made the decision thought term and overnight repo was more expensive but safer.

KREBS: How was the expense allocated across the departments?

I don't know. Whoever uses it gets charged.

NORMAN: You've spent a lot of time at BS. When was the strategic decision made that BS would have a highly leveraged, short-term funded business strategy to for its fixed income business?

I guess when you get to the point that you need funding and you don't have cash, use credit.

KREBS: There's another strategy, "buy what you can afford"?

If that had not happened, the company would still be here.

KREBS: This had something to do with profits?

Yes, that's why you are in business.

NORMAN: Was there a point in time when BS increased its leverage?

I'm sure there was, but I'm not sure of when.

NORMAN: Was that business strategy discussed?

If there comes a time when the company discusses leverage, there is a discussion about the balanced decision. This was ordinary movement into extraordinary leverage.

NORMAN: How did you get into that position? That's Wall Street. When you make a decision to get more leverage, you are increasing an opportunity to win, or an opportunity to lose.

NORMAN: In 2000-2007, when BS was directing this leverage in particular to the mortgage-related business, were there any nay-sayers who said it was risky and not a good idea? Was anybody saying either?

I don't know.

NORMAN: Was there ever any point prior to January 2008 that you personally thought BS was too reliant on the overnight repo market?

I'm trying to understand your question and I don't.

NORMAN: Was there any point prior to January 08 when your job responsibilities changed, when you thought that BS was too reliant in their financing in their overnight repo market?

I think I made a trip to China to secure funding that wasn't overnight, it was term, over Labor Day 2007. Securing it there served two purposes. First, it gave me a chance to pursue a relationship with a very important securities firm and a major bank in China to ask for a very large line of permanent term financing.

KREBS: Had you sought more permanent or term financing prior to that?

Me, no.

KREBS: Why this one?

I was pursuing a relationship with CITIC Securities.

KREBS: Had you never previously pursued term financing because you thought that BS was overly reliant on short-term financing?

Correct.

KREBS: Did you have a feeling that BS was too reliant on short-term funding?

Yes, that's fair to say that at the time.

EXHIBIT: Email to Jimmy Cayne, last four numbers 1548

KREBS: This is an announcement of a meeting to discuss issues, is that correct?

I have no idea what this is. I see Notice of Special BS meeting.

KREBS: Do you see the date?

Yes.

KREBS: Were you having a number of meetings around then about the items in the email?

I don't know.

KREBS: Were you having a lot of special meetings about BSAM around that time?

Not that I recall.

EXHIBIT BSSC (two page with chart). 2376

KREBS: Did you have any meetings with the CSE program?

I don't think so.

KREBS: Did you attend a meeting in Washington, DC where you intended to explore your eligibility in that program?

I don't recall, but I can guess that I wasn't there. I don't remember going to Washington.

KREBS: Are you familiar with Everquest, a program that was attempted to be done out of BSAM?

Is it where they were attempting to put a lot of stuff into… (trailed off, Tom showed another document)

EXHIBIT

KREBS: Did the executive committee approve the following of the IPO by BSAM?

I don't recall. My guess would be affirmative.

KREBS: There's something called daily flash, what is Daily Flash?

P&L.

KREBS: You received this daily, was this for the company or the broker-dealer?

Broker dealer.

EXHIBIT: Email from Thomas Wong to Jimmy Cayne

KREBS: Do you recall that document or receiving that email?

I don't remember seeing this. Looks to me that the guy is pretty smart.

KREBS: The date is 12/21/2007. Were you interested in any of the items in 1, 2, or 3.. "lack of revenue…."?

I don't recall.

KREBS: Who is Thomas Wong?

I never met him, I talked to him on the phone. He was in the mortgage area, not sure.

KREBS: Do you think the statement in item 3 is accurate at the time?

I don't remember reading it. He was right.

KREBS: Did you have a belief at the time that the mortgage base was not manageable on its current capital base as a small write down would eat into liquidity?

No.

KREBS: Did you make attempts in December 2007 to acquire more capital?

Did I? No.

KREBS: Did you encourage the firm to do that?

No.

KREBS: At the very last shareholders meeting you attended, there was a statement attributed to you "lofty heights, ran into a hurricane", what were you trying to describe?

Tsunami, not hurricane. The housing bubble had busted.

Goldstein- This was May 2008.

I would prefer not to go into that, because it's a personal thought not based on facts. I know that the SEC was very interested in the issue and I'm still waiting for something from them.

KREBS: Was this hurricane exacerbated by the involvement of BS in the housing-related securities?

I would say so.

KREBS: March 10-March 16, when BS ran into trouble, and as having liquidity problems, were you involved in any of that?

No, I was playing bridge in Detroit, MI.

KREBS: Was there a point when the Board became involved?

I wasn't in New York. I may have been on a call on Saturday.

KREBS: Do you remember the substance of the call?

No, the tsunami had hit.

NORMAN: As CEO of BS, what was your role in setting the risk limits of the firm?

My individual role?

NORMAN: Your individual role and your role as a member of various committees.

I was on the executive and compensation committee.

NORMAN: Did you have a role in setting risk limits?

Just input.

NORMAN: Did you ever think they were too aggressive?

No.

NORMAN: Not aggressive enough?

No.

NORMAN: Are you familiar with the term "hot money," in the sense that it's very short term and may fall away quickly? Yes.

(another break occurred)

NORMAN: You mentioned that you had never challenged the risk appetite of the firm before, what did you think of Tom Marano's risk appetite?

I thought of him in terms of capability and internal perception and client perception. Everyone who I introduced him to thought he was a solid guy, and I thought he was great.

NORMAN: You thought his risk barometer was in place?

Yep.

KREBS: Alan Greenburg says that you did not take his advice as the credit crunch unfolded?

I don't agree.

KREBS: Do you recall him giving you advice that you did not take?

No.

KREBS: There was no group of conspirators in the Cayne mutiny?

I had never heard about it.

KREBS: I'd like to talk about the executive compensation plan at Bear Stearns.

KREBS: The executive committee had an executive committee compensation plan that was shareholder approved, it was an ROE formula, purely mathematical. That was the only bonus pool that had strict guidelines not to be moved one way or another. The other senior people were subjectively rated, unless they were on commission, in which case they were on a commission basis. Base salary for senior people was $200,000 and it became $250,000.

KREBS: How was the pool size determined?

It was mathematically calculated on the return to equity. The choice to do so was made by just me, I became really popular at the time.

KREBS: Options?

The options represented a very small portion of the total package.

KREBS: The stock?

Was restricted.

KREBS: Over how many years?

I'm not sure.

NORMAN: What was your understanding of how your own compensation was set?

By the pool.

NORMAN: There as just a percentage of the pool that you received?

Yes, that I awarded myself.

NORMAN: Did anyone else have any discretion?

No. The Compensation Committee had nothing to do with the executive committee pool.

NORMAN: For other executive committee pools who determined their bonus portion?

Me.

NORMAN: The pool itself was pre-determined correct?

Yes. I don't know if the middle manager pool existed.

NORMAN: Do you know what amount of net revenue was paid out each year?

About 50, that was my guideline. Wall Street was highly competitive, and we had to keep our employees.

NORMAN: Was there any discussion that it was unusual that you had sole discretion over compensation, including your own?

No, I think people thought I did it very fairly. No one discussed it with me.

NORMAN: Do you recall how much you were paid in 2006?

I think it was 34 million.

NORMAN: Half of which was in stock and half was in cash? Correct.

NORMAN: Who was the 2nd highest person paid in 2006?

Schwartz and Spector became co-presidents and I kept them at the same percentage.

NORMAN: In first quarter 2008, you were still chairman of the board?

Yes.

NORMAN: Did you take compensation on that quarter?

I don't think I got paid anything. I certainly didn't take a salary because I was not an employee.

GOLDSTEIN: He was the non-executive chair.

NORMAN: When you left BS, was it at the point of acquisition?

I never really left, I was in my office. As of January 2008 I was in my office three and a half to four days a week. I was no longer an employee, but I was obviously a very vested interest in what happened.

NORMAN: In January when you retired did you have a walk away package?

0.

KREBS: have you given testimony about the last two years of Bear Stearns, in a court or in a Congressional hearing?

GOLDSTEIN: He gave testimony in connection with a shareholders suit in the NY state Supreme Court action. That's the only one.

NORMAN: Are you involved in any litigation right now?

We are being sued by Sherman. He's personally named in a number of suits.

KREBS: But to date the only testimony is the NY State Supreme Court action?

Yes. It was dissolved on the summary of the action.

NORMAN: Were you interviewed by the SEC? No.

KREBS: Did you have any discussions with staff of the SEC who may have been in the offices of BS and part of the CSE program?

I don't recall.

KREBS: Do you recall having any discussions with the SEC during your tenure at BS?

I talked to Levin, Cutler, and Nazareth.

KREBS: Why would you talk to Steve Cutler when he was at the SEC?

I talked to him because he was the head of enforcement, but I don't remember specifics. I do recall dealing with the SEC over a long period of time.

KREBS: You talked in connection with AR Barrons?

NORMAN: Probably mutual trading if it was during Cutler's era?

Yeah.

NORMAN: Any conversations with the SEC in 2007 to 2008?

No.

NORMAN: Any with the Fed in 2007 or 2008?

No. I talked to Paulson. I specifically remember one conversation; I was playing golf and the phone range. He wanted to know whether I had seen any change in the picture. I told him that the banks were still not lending and that I was going to try to go do something in China.

NORMAN: This was around labor day in 2007?

Yes.

NORMAN: Did Paulson encourage you to do that?

No.

NORMAN: But he called you to ask about the funding had improved?

It wasn't specific about BS but about the atmosphere. I knew him from his time as Board Member of the NY Board. Did you talk with him after China? Not that I remember. I got a call from him when that book came out (*House of Cards*). It was a congratulatory call, that although he had not read it, he had been told that I was well portrayed and to tell me that I was one of the most fierce workaholic managers he had met. Did Mr. Cohan interview you about the book?

Some.

KREBS: Did you read it?

I have read parts of it.

KREBS: Are there parts of what he wrote that are inaccurate?

Yes, not a little amount.

KREBS: About you?

Yes, but why is it important, that's my business.

KREBS: Anything you know to be inaccurate about the downfall of Bear Stearns?

No, but I didn't read the whole book.

NORMAN: In relation to the Oliver Wyman study discussed earlier, Wyman delivered a report in February 2008 to BS that made some observations about risk management at BS and some recommendations. One of the things the report mentioned was that there was no framework for risk management at the time. Do you disagree with it?

I don't understand.

NORMAN: When you were at BS was there a formal framework for risk management?

What does that mean? What does formal framework mean? Either there was or there wasn't…

NORMAN: Was there a formal framework for setting and taking action on price limits?

In general, we were probably as adept and as conscious as anybody on Wall Street. The report may have spelled out the things that we did not do right, but my feeling was that we were always exemplary.

NORMAN: In more specific comment, the report concluded that there was no clear process for trades?

I disagree with his analysis.

EXHIBIT: Investor Day Fixed Income Overview

KREBS: Do you agree or disagree generally with the matters set out here? Particularly, on page 5, do you generally agree that this depicts BS growth and credit derivatives in June 2006?

Yes.

KREBS: What credit derivatives was BS involved with?

None that I'm aware of. I can't break it down.

NORMAN: Do you know what BS's exposure was to credit default swaps?

No.

KREBS: On page 6, the section on lead bond and lead bank deals. Is this a correct assumption? The 2002-2006 lead arrangement on deals?

Correct.

KREBS: On page 8, the section on growth in BS leading mortgage franchise. Were these captive originations?

No reason to think this isn't correct.

KREBS: Are you familiar with Bear Residential Mortgage corporation?

Yes.

KREBS: Any reason to believe the first point is not accurate?

No.

KREBS: Page 11, encore credit corporation?

I am familiar with it.

KREBS: Any reason to believe this is incorrect?

No.

KREBS: To the right there's a graph depicting 1Q, 2Q06 any reason to believe these are not correct?

No.

KREBS: Page 16, any reason to believe bullet points 1, 2, 3, 4 are not correct?

No.

KREBS: Did Bear set out to become a leader in the securitization of mortgages?

It evolved. If your goal is to succeed measured in terms of your market position, by definition you are going to be number 1. In late 2006 and early 2007, there were studies about the mortgage market about how they may not be as good as they had been in the past.

KREBS: Do you remember talking about this?

No.

KREBS: Did anyone have discussions about leaving the mortgage business?

No.

KREBS: Why did you resign?

At the board meeting, I told the outside board directors that I felt we needed a fresh pair of eyes that we needed somebody to come in and look at us in a different manner than we are looking at ourselves because we need help. I asked the board's permission to a.) hire that person, b. make him president of the firm, c. elevate Schwartz to CEO, and I would remain the chair. It had to be a situation where I could find a guy and offer him the job and go into the process without having to backtrack. To pull the trigger, I had to have board approval, which I got. I won't say how long it took to get it, but I got it. I said I would remain with the company, and would resume responsibility for the things I was doing at the time, but I did want the change. I didn't think I could bring someone in to be co-president with Schwartz with him feeling comfortable about, and I didn't want him to leave.

KREBS: When did you secure the approval?

November.

KREBS: You said BS needed help?

I didn't have a solution to the malaise in the mortgage market, and we needed a fresh pair of eyes.

KREBS: You didn't have a solution then, but looking back, did you make any mistakes in 2007 to 2008 that in any way contributed to the collapse of BS?

In retrospect, I take responsibility for what happened. I'm not going to walk away from the responsibility.

KREBS: What could you have done to change Bear's fate?

Hook up with a big company, sell us to someone else, look for a solution that was eluding us. Gradually and over a period of time, that loss of customer confidence was devastating. There are books about who did what to whom and credit default loss and grades. As exasperated as I was about the state of the state, I never exercised an option in 40 years. It's not good for my heirs, but it's good for the story.

KREBS: What would have changed things?

I don't have the answer and no body else does. The answer still isn't out there.

KREBS: How could we have avoided it?

How do you avoid a war by not having the confrontation in the first place?

KREBS: You mentioned earlier the prospects of a sale, was Fortress, in Dresden, a firm you were considering hooking up with?

Yes.

KREBS: What happened to that possibility?

I really don't want to mention specifically, it wasn't bad, it just wasn't fit. The letter indicated that there was no fit. He was a very impressive guy and he had a good business. If we had hooked up with someone like that there would have been [vast differences in] compensation schedules, they could be all-stars but I've got all-stars. We almost made a deal with the commodity unit with a west coast energy company, but three of their guys had a deal where they got 54% of it. I tried to do something on how to bring them in, but the compensation just wasn't equal and could not have worked. They were the AIG commodity people. Genesis. This guy is very very impressive. I thought he was a superstar, as smart as they come, very presentable, but I think they're still alive.

KREBS: What happened to the CITIC transaction?

Instead of selling 10% of ourselves to CITIC, they wanted to swap stock where we would buy a position in them and they'd buy a position in us. This isn't exactly what we wanted. The concept of hooking up with somebody unique in securities was great, they were backed by the Chinese government. There was CITIC Holding, and I knew a bright guy from CITIC Holding since 1993. For me to make a deal with them it was a dream.

KREBS: What happened after Fall 2007?

When they came back and said they wanted a stock swap instead of just buying us.

GOLDSTEIN: I think that deal in a revised form would have happened, but then March 14-15 happened.

KREBS: Sumatoma was there, a Japanese firm? No.

NORMAN: Any conversations with the regulators 2006-2008. Any with the CFTC?

No.

NORMAN: Anything from 2006-2007 with FSA?

No. The FSA periodically every year would come in and I'd see somebody and it was really a meet and greet thing, with no substance to the meeting. My guess is that he would fill out his report and say that he met the CEO. When I went to London I met the FSA as well.

NORMAN: Anything substantive?

No, they just wanted to see a face.

NORMAN: Did the SEC ever ask BS to do anything, adjust anything in business model?

Not that I recall.

NORMAN: Anything at the holding company level?

Not to my knowledge.

NORMAN: Was the SEC ever critical of BS?

I don't think, but I don't recall.

NORMAN: From 2004-January 2008, did you ever perceive vis-à-vis BS, any difference in regulatory structure in the US and Europe that made it any more desirable for BS to do more or less business in one forum?

No.

NORMAN: Any conversations about regulatory advantage or disadvantage?

No.

NORMAN: Any conversations about an advantage for BS enter the CSE program?

No.

NORMAN: Do you know anything about window dressing, taking down repo at the end of each quarter.?

The average over the period of time was the same at the end of the quarter. There was disclosure.

NORMAN: We're just trying to figure out what happened. The practice at BS other market practice participants was to take down repo at the end of each quarter to have a lower leverage position. Did you have an understanding of that when you were Chairman or CEO?

No, not discussed at the senior management level.