# How Buffett, AIG and Goldman Sought Long-Term Capital, but Were Rejected

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**HEARD ON THE STREET**

Investor Warren Buffett, together with **American International Group** Inc. and **Goldman, Sachs & Co.**, offered last week to buy **Long-Term Capital Management** LP for $250 million, in a bid that would have required the ouster of founder John Meriwether.

But the ailing hedge fund rejected the offer, and later that same day agreed to the big bailout that also included Goldman, and was orchestrated with the help of the Federal Reserve Board.

*By Wall Street Journal staff reporters Mitchell Pacelle, Leslie Scism and Steven Lipin*

Under the alternate bid submitted on Wednesday of last week, the fund's investors would have received just 5% of the roughly $4.6 billion their stakes were worth at the beginning of the year. The buyout group intended to put up another $3.75 billion to run the highly leveraged portfolio, which was then under pressure from lenders.

*Warren Buffett*

Later that day, some 15 commercial banks and Wall Street securities firms, including Goldman Sachs, agreed to a separate $3.65 billion rescue plan that gave them 90% of the Greenwich, Conn.-based hedge fund. That deal left existing investors with a 10% stake valued at about $405 million.

It was known that Mr. Buffett had considered some kind of a bid for Long-Term Capital, but the identity of his partners and the details of his plans haven't been previously disclosed.

The simultaneous involvement of Goldman Sachs with the successful bank proposal and the separate takeover bid provides yet another illustration of how many different roles Wall Street firms were playing when it came to the formerly highflying hedge fund.

An executive at one financial institution that participated in the bailout said Goldman Sachs's dual role raised the eyebrows of some participants. "Were some people uncomfortable? Yes," he said. Many firms provided financing for the fund, executed trades for it, invested in it, and ultimately bailed it out.

Under the unsuccessful bid, Goldman Sachs would have invested $300 million and managed the portfolio, according to several people familiar with the plan. **Berkshire Hathaway Inc.**, the Omaha, Neb., insurance and investment company headed by Mr. Buffett, planned to invest $3 billion, and the insurance and financial-services giant AIG would have put up $700 million. AIG Chairman Maurice Greenberg is considered one of the insurance industry's savviest investors.

The group planned to oust a number of

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**HIGHLY CONFIDENTIAL**

September 23, 1998

Mr. John Meriwether
Chief Executive Officer
Long-Term Capital Management, L.P.
One East Weaver Street
Greenwich, CT 06331-5146

Dear Mr. Meriwether:

Subject to the following deal structure, the partnership described below proposes to purchase the assets of Long-Term Capital Management (and/or its affiliates and subsidiaries, collectively referred to as "Long-Term Capital") for $250 million.

The purchaser will be a limited partnership whose investors will be Berkshire Hathaway for $3 billion, American International Group for $700 million and Goldman Sachs for $300 million (or each of their respective affiliates). All management of the assets will be under the sole control of the partnership and will be transferred to the partnership in an orderly manner.

This bid is also subject to the following:

1) The limited partnership described herein will not assume any liabilities of Long-Term Capital arising from any activities prior to the purchase by the partnership

2) All current financing provided to Long-Term Capital will remain in place under current terms and conditions.

The names of the proposal participants may not be disclosed to anyone. If the names are disclosed, the bid will expire.

This bid will expire at 12:30 p.m. New York time on September 23, 1998.

Sincerely,

Warren E. Buffett /PK    Maurice R. Greenberg /PK    Jon S. Corzine /PK

Agreed and Accepted on behalf of Long-Term Capital

John Meriwether

**Copy of the $250 million offer for Long-Term Capital Management**

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