

# FORTUNE

SEPTEMBER 5, 2011



Sandler O'Neill today has 340 employees, up from 171 before the attacks. Here, most of the New York staff is gathered outside the office on E. 56th Street.

Photograph by FLOTO + WARNER

10  
YEARS  
AFTER  
9/11

*by David Whitford*

# Sandler O'Neill's *Journey From Ground Zero*

The Wall Street firm is thriving—not in spite of the horror it endured, but because of it. A story of loss, love, rejuvenation, and disquiet.



**DO YOU REMEMBER THE STORY OF SANDLER O'NEILL?** It's the "little big firm" that had its headquarters on the 104th floor of Tower 2. Where 83 people came to work on a blue September Tuesday and 66 never went home.

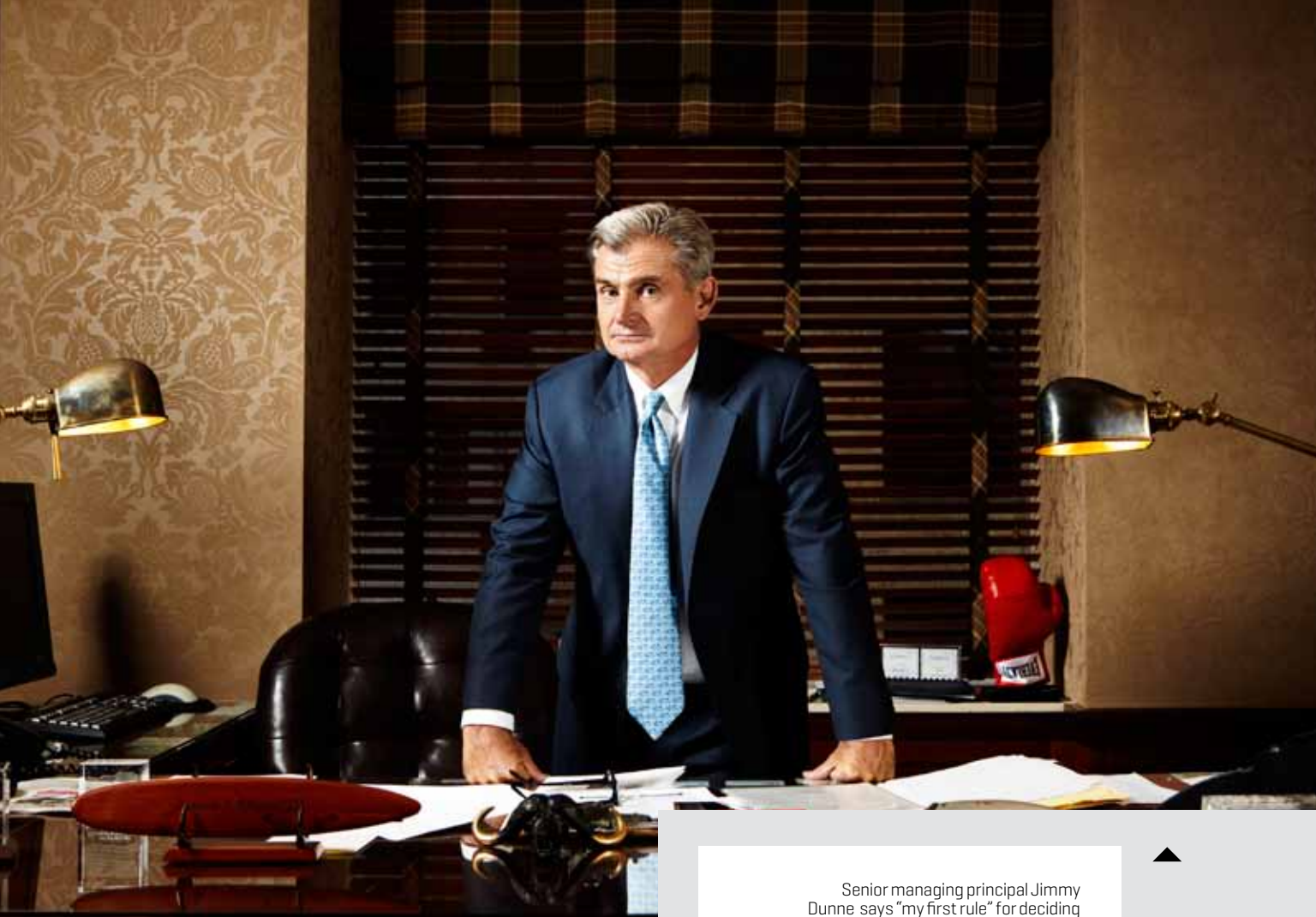
If you do, you probably know about Jimmy Dunne, Sandler's senior man left standing. Jimmy was not in the office that day. Nothing unusual about that. He was 44 years old and the co-founder of a thriving boutique investment bank that the partners had begun referring to as the "money machine," and he was restless. The "great thrill" he had experienced when he and his pals broke away together from Bear Stearns in 1988 was a fading memory. It had reached the point, Jimmy says, "where the successes were less fun than the failures were painful." There was quiet talk among the senior partners about exit strategies.

Meanwhile, Jimmy was playing what some might consider an obscure amount of golf, nearly 200 rounds a year, and not always with clients. Today he was at the Bedford Golf and Tennis Club up in Westchester County, attempting to qualify for the elite U.S. Mid-Amateur, which should tell you something about the level of Jimmy's game; let's just say he was no duffer. He had started on the back nine, and after three pars, one birdie, and one bogey, he was about to tee off on 15 at even par—a solid start—when a tournament official rolled up to the tee in a golf cart and told Jimmy he should call his office.

Jimmy was irritated (also not unusual). Three men ran Sandler O'Neill in those days: Herman Sandler, the senior managing principal; Chris Quackenbush, head of investment banking; and Jimmy, the tough guy in the triumvirate, who managed (delegated) things day to day. If this was a business issue, he was pretty sure the other two could handle it. "Are my kids okay?" Jimmy asked. "Is my wife okay?" He took two more shots. The guy followed him down the fairway. "A plane hit the World Trade Center," the guy finally said. "Did it break a window?" Jimmy asked.

Years later Jimmy would recall how he had left work early the afternoon before—Sandler, his mentor, and Quackenbush, his best friend, nearly pushing him out the door, saying, "Go. Go. Get a good night's sleep." He remembers arriving in Bedford at dinnertime, driving around town searching for a place to eat. "A very lonely night," he says now. "I didn't have any friends. I was there on a mission, but it was kind of silly. The next morning the mission changed dramatically."

Jimmy called the office from the bag room. No answer. He called home and reached his wife, but she was unable to speak. She handed the phone to a friend, who told Jimmy, "You have to come to terms with the fact that most of the people in your firm are dead." Still wearing his golf clothes, he rushed back to Manhattan. He did not yet know who was dead and who was alive. He could not be sure who



Senior managing principal Jimmy Dunne says “my first rule” for deciding what to do and how to act is, What would Osama bin Laden think?

among the living would be willing and able to return to work. He had no idea what remained of the firm, whether there would be enough pieces left to start over—or to sell, if that’s what it came to. He could not have imagined the ways in which volunteers, clients, even competitors would rush to Sandler’s aid. Nor did he have a clue—never having been tested before, not like this—what he was capable of.

That night, staring at the TV, Jimmy was introduced to Osama bin Laden. He heard a pundit declare that this man’s ultimate goal was not simply to kill as many people as he could but to cripple the capitalist system, and destroy the American way of life, by attacking Wall Street. That spoke to Jimmy. Right there he came up with “my first rule” for deciding what to do and how to act: What would Osama bin Laden think? Would he think, for instance, that Jimmy’s putting on a Brooks Brothers suit and going back to the work the very next day, not having slept and numb with grief, was a bad thing? Exactly. So Jimmy went back to work.

‘**T**

**HINK ABOUT IT,”** *Fortune* reported in a January 2002 profile of Sandler O’Neill, written by Katrina Brooker. “The company had just lost 40% of its employees—including a third of its partners, all its bond traders, its entire syndicate desk, and almost all its equity desk. Lost along with the people was all their knowledge—their contacts, their ways of doing business, their institutional memory. The intricate communications network that connected the firm to the rest of Wall Street and fundamentally made it possible to do business—that was gone too.”

Sandler and Quackenbush were both dead. So were one young man on his second day on the job, another on his sixth day, and two people who weren’t producing, and whom Jimmy now regrets he hadn’t fired. Sixty-six souls, evaporated. A huge chunk of the firm’s intellectual capital, vanished, along with every pen and pencil, every computer, every scrap of paper, every phone number, and nearly



After the market reopened, Dunne told surviving employees, 'Come on in! There's room in the boat. Everybody can get an oar.'

every trace of the firm's financial records. (CFO May Della Pietra had just completed an August snapshot, which she had printed out and handed to Jimmy as he was leaving the office on Monday. It turned up later in the trunk of Jimmy's car. A little bit of luck, that.)

The market reopened six days later, on Sept. 17, and shortly afterward, in a cramped temporary office on West 57th Street where Sandler O'Neill would do business for the next few months, Jimmy addressed his surviving colleagues. "Look," he began, speaking as the new head of the firm, "we've been involved in an international incident. It's not something we wanted, it's not something we were prepared for, but the reality is, we're right in the middle of it." This was a time for candid self-appraisal, he went on—what he called a "mark to market" moment. Some might choose to leave the firm. Maybe for a job closer to home, one that left more room for family dinners and coaching Little League. But others, he was certain, would want to stay and rebuild, because, he said, "there is no place in the world that they would rather be and nothing in the world that they would rather do. I am in that category." He continued, "Come on in! There's room in the boat. Everybody can get an oar. Now, there are some of you that are doubting. We cannot have you in the boat! We wish you well. But you can't come in the boat. Because if you're in the boat you have to have an oar."

Jimmy took some heat for the tone of his remarks, but mostly from outsiders, not so much from employees. Turns out most of them felt the same way he did, and in fact were grateful to have a concrete set of tasks, however overwhelming, to distract them from their tears. They were joined in those early days by volunteers—skilled people like Robert "Coach" Castrignano, a Goldman vet two weeks into his retirement, who responded to a call from a friend saying, "These guys could use your help." Castrignano knew next to nothing about Sandler O'Neill, but he knew a lot about selling equities. "I was pissed off about our country and my industry being attacked," he says now. "I'm pretty sanguine about what I can do and what I can't do. I wasn't gonna be helping to clear the site."

It was a rare episode in Wall Street history, however brief, when the basic human impulse to be of use trumped survival of the fittest. Big institutional investors who never before would have stooped to do business with Sandler O'Neill tossed lucrative trades their way. Strangers took their calls for help, and in some cases even came to the office to sit with inexperienced replacements and walk them through complex deals left unfinished at the time of the attacks—nine deals total, collectively worth \$2.1 billion. Somehow they got it all done.

In September 2001, for only the second time in its history, Sandler O'Neill recorded a monthly loss. But October was a different story, and by year-end it was already becoming clear that Sandler O'Neill, despite all, was going to make it.



**SINCE THEN, SANDLER O'NEILL** has not just made a full recovery; it's bigger, better capitalized, and far more capable in more corners of its chosen universe—banks, thrifts, financial services—than it was before 9/11. Jimmy won't talk

numbers except to say that annual revenues have risen by a factor of "three or four times," and profits "four or five times." Headcount has doubled, and that's the first clue about what's going on here.

"We were 171 people that lost 66, so we needed people," says Fred Price, a founding partner who watched the horror of 9/11 unfold from a hotel room near Seattle. That need happened to coincide with a period of massive downsizing on Wall Street. "Lehman laid off people," says Price; "Merrill laid off people. Good people that were just wrong time, wrong place."

After 20 years on Wall Street, Castrignano knew who a lot of those people were. Ten days after he volunteered, Jimmy invited him to dinner, then went directly to Goldman, negotiated his release from his post-retirement noncompete, and hired him to help rebuild equity sales at Sandler O'Neill. Within a year, says Castrignano, "we had identified and hired 90% of the people. And



Co-founder Fred Price (left) and managing principal Jon Doyle, who is in line to succeed Dunne as the head of the firm

by December of '03, I knew that we had established a beachhead—relationships—with all of the institutional equity clients that we needed to.”

Bob Kleinert is a former Princeton basketball player who was running the debt and equity syndicate desk at Salomon Brothers when he retired in 1997. He had barely heard of Sandler O'Neill and had met Jimmy Dunne only once when he, too, got one of those urgent phone calls from a friend. “I’ll help you out until the end of the year and help you find some people to do whatever you want this place to be,” he told Jimmy. Ten years later he’s still here, running Sandler O'Neill’s greatly expanded syndicate operation.

What Kleinert found when he arrived was “kind of a simple business model,” he says. “They know what they’re good at, they do what they’re good at, and they try to be really, really good at it.” But he thought they could be doing much more. “New issuance,” he says delicately, “was not as focused as it could have been.” To his amazement the firm had never traded a medium-term note—“not be-

cause nobody knew how to do it. They had never thought about it.” But the world was changing. In a struggling economy, with interest rates falling, banks needed to raise more capital. Kleinert led the way, and in the past two years Sandler O'Neill has managed more public equity offerings for depository institutions—77 transactions, \$42 billion—than any other investment bank.

Newcomers like Castrignano and Kleinert brought “big-firm know-how at a time when our little firm was ready to grow,” says Price, “but we didn’t have the people to do it.” Now, he says, “we’re more significantly involved in different areas of fixed income than we were before. The banking side is way deeper than it was before. I’m not gonna say it’s better led, because it’s not; it’s just deeper. Equity research



As I say sometimes, we had one day of horrific luck. And then we had a lot of good fortune.”

is deeper. We are a significantly deeper firm than we were then because of the people who have joined us.”

That’s not easy for anyone at Sandler O’Neill to admit. “This is the bittersweet nature of it,” says Jon Doyle, who was in the Boston office on 9/11, preparing for a client lunch. “We were forced to rebuild. Which is hard. And friends are dying. But being forced to rebuild ourselves, we did become better. As I say sometimes, we had one day of horrific luck. And then we had a lot of good fortune.”

“Not anything you wish for,” says Jimmy’s friend Stan Druckenmiller, who used to manage money for George Soros, “but it happened; it broadened their exposure and their expertise to a wider field, and they were good enough at it that they sustained that pace and even brought it further. It’s a horrible thing, but that was part of the business outcome.”

There were other factors, of course. Sandler O’Neill pretty much ignored the tech boom in the ’90s, but likewise was left relatively unscathed by the bust. Having traditionally forgone leverage, the firm emerged from the crash better capitalized than most. And there was one more thing—the unexpected emergence of an inspiring new leader.



**AD YOU MET JIMMY** when he was at Notre Dame and asked him about his goals in life, he would have told you, “I want to be successful.” What he really wanted was to play centerfield for the Yankees, or become a heart surgeon (“I liked the way that sounded”), or go to a fancy law school, but none of those panned out. Instead he went to Wall Street, and when he got his first glimpse of a trading floor, he knew he had come to the right place.

The scene reminded him of tending bar, a job he’d been doing since he was a teenager, whenever he wasn’t caddy-ing at Southward Ho, a golf club on Long Island, or painting houses or finding other ways to make his big sister Eileen jealous. For while all five Dunne kids worked all the time (“Work in my family was huge,” says Eileen), Eileen

was making cheese balls for 50¢ an hour, payable by check, whereas Jimmy—the middle child and the only boy—came home every night with a thick wad of cash.

“There was a lot going on,” was Jimmy’s first impression of that trading floor. “And I could see that the guys who could think on their feet had an advantage.” Jimmy loved everything about Wall Street: the competition, the quick gratification, how “you gotta be decisive, you gotta be informed, you gotta be anticipatory,” and in the beginning, a little too much, he loved the fast life. His progress—from L.F. Rothschild to Lehman Brothers to PaineWebber (where he got fired)—was choppy. Drinking was an issue; “Quack,” his golfing buddy since high school, helped him quit. By the time he got to Bear, he was finally ready to get serious. He landed in the fixed-income department just when mortgage-backed securities were heating up. He was a driver and a striver, a big earner, to the point where after a couple of years he convinced himself that he might really have a shot one day at running the place.

Come bonus time, spring of 1988, and Jimmy got the number he wanted but not the promotion to managing director he thought he deserved. He blew up at his boss, Ed Rappa (“Shithead. He and I were eyeball to eyeball”). Herman Sandler was in the room, witnessed the whole thing, and a couple of days later took Jimmy aside. “Let me be clear,” he said. “You have absolutely no chance to run Bear Stearns. Zero. You are not their type of guy. And neither am I.”

“That’s it,” Jimmy said, “I’m leaving.”

“We’re both leaving,” Sandler said. “But we’re not gonna go work for someone else. We’re gonna start our own firm.”

The day the story of their defection ran in the *Wall Street Journal*, Jimmy called his dad. James J. Dunne II was vice chairman of Cluett Peabody, the Arrow shirt company. He was a golfer, an Army vet, a traveling man, a solid Catholic, soft on his daughters and hard on his son. One day in the parking lot at Southward Ho, young Jimmy’s eyes went wide at the sight of a slick little two-seater Mercedes. “The guys that get in that car,” Jimmy’s

“

‘Well,’ he told Giuliani, ‘both of us have in some ways benefited from this incredibly sad day, and I got a problem with that.’”

dad told him, “either own their own business or they work on Wall Street. They’re not selling Arrow shirts.” So now Jimmy’s got his dad on the phone: Did he see the paper? “Is this about need or is this about greed?” his dad said. “You’re crazy. You made 400 grand last year. You’re out of your mind. This is the dumbest thing I ever heard anybody do.” Jimmy just hung up.

“When you go into business for yourself,” Jimmy says, “it is more. It is more pain, it is more joy. It is more excitement, it is more risk. It is more money, it is more anxiety. And you feel that. It was incredibly important for me to be a success.”

Sandler O’Neill was four years in its first home at 2 Wall Street before it ran out of room and was lucky to snag a bargain sublet nearby in the World Trade Center: 50,000 square feet, a big floor plate, spectacular views—though truthfully it was never considered prime real estate. “A little gloomy” is how Doyle, who joined shortly after the founding, describes the neighborhood. “Even when [Wall Street] was rolling, it was gloomy.” Not the easiest place to get to either, especially from Westchester and Connecticut and Long Island. Smokers hated being so high up; it meant hiding in the stairwells. On windy days the towers swayed, and the elevators clattered in the shafts. And the very week Sandler O’Neill moved in was the World Trade Center bombing, on Friday, Feb. 26, 1993, which killed six, injured thousands, and taught everybody who ran for the stairs, picking their way down floor by floor through growing piles of abandoned women’s shoes, that maybe a better strategy would have been to just stay put.

**T**

**HURSDAY, SEPT. 13, 2001**, near midnight. Jimmy is at the East Side apartment of Herman Sandler’s widow, Suki. He’s asking Suki for permission to keep the firm going under Sandler’s name. He doesn’t really have to ask permission, but that’s how he frames it. Suki replies, “You have to. Of course, you have to.” Jimmy goes to another room where

he can be alone and he cries.

“This unleashing of emotion was monumental for him,” says Marc Maltz, a grief counselor who worked with the firm after 9/11. “It exposed the superficial life he was living, the meaningless part of his life, and it put him back in touch with ‘I need meaning, and here it is. Am I gonna take this up? Or am I gonna leave it aside?’ And he decided to take it up.”

“That kind of transformation,” says Maltz, “only brings out parts of the self that were, for defensive reasons, not looked at. They had to be there. At that age you don’t instantly start developing these ways of viewing the world. They are unleashed by traumatic events.”

When Jimmy was a senior in high school, the oldest child still at home, his mother died of breast cancer. Jimmy stepped up, looked after his younger sisters. His dad was still traveling a lot. Jimmy remembers how “stark” and “cold” the kitchen was at dinnertime without his mother at the stove. He and his sisters tried, he says. He put out napkins and set the table. But it wasn’t enough, it never felt right. He still remembers that.

Years later, Eileen was in the hospital with her infant daughter, Erin, who was born with a missing valve in her heart. Erin was dying and there was no priest, only her dad and Jimmy. Eileen turned to Jimmy. “You’re going to be the godfather,” she said. “You can baptize her. Just baptize her, please.” Jimmy had been an altar boy. He knew the ritual. He baptized Erin just before she died.

“There’s two kinds of golfers,” says Druckenmiller. “Golfers who can play on weekends and golfers who play in tournaments. Jimmy is one of those rare people who play better in tournaments than he does on the weekend. If I could extrapolate, he was someone going along who I think was very comfortable in his life. When the pressure was on, a new Jimmy emerged. I remember him giving these talks at funeral after funeral, sometimes two in one day, and it just being extremely difficult for him to even finish the talk—he kept breaking up in the middle of it—and the stamina and the leadership he showed in that period. I

thought he was a great guy and a friend, but I never saw that in him. It was one of the more remarkable things I've ever witnessed."

Where other firms waffled, Sandler did the right thing from the start: Agreed to pay full salaries to victims' dependents through the end of the year, plus bonuses at or above the maximum level a deceased employee had ever earned, plus health insurance to the families for five years (later extended to 10). And then there was the foundation, set up by outside friends of the firm, fueled by the firm itself and its surviving partners, committed to paying 100% of tuition, regardless of merit or need, for all the children of the deceased.

From all this comes the new mission. A mission that Maltz, for one, is persuaded is the single biggest factor in the resurgence of the firm. For it creates something unique—a Wall Street firm where everyone gets to compete and win and make a lot of money and at the same time be sustained by the belief that what they are doing matters. "We believe that that's why it's more successful," says Maltz, who has published two papers in academic journals on what he has learned from Jimmy and the firm.



**S**ANDLER O'NEILL JUST SIGNED a 15-year lease on a new Midtown Manhattan office with nearly twice as much space. Last winter, to help fuel expansion, the partners sold a 40% stake to two private equity firms, Carlyle Group and

Kelso. The firm has never been stronger.

And Jimmy? He once thought he'd be long gone by now, on down the road, doing God knows what but definitely not this anymore. Yet here he still is, at Sandler O'Neill, running the place, and why is that? In the starkest possible terms, it's because Herman and Quack and all the others who died on 9/11 are gone. Jimmy's here because they're not.

What's more, Jimmy reluctantly acknowledges, he

has been on an upward trajectory since that day. He's "proud" of what he has accomplished, "calmer inside than I was 10 years ago," and "less insecure." He knows that he has "so much to be thankful for." All good, except for what he calls the "line of some sadness" unspooling steadily from Ground Zero down through the years, linking each moment in the present to the horror in the past. He doesn't always see the line, but when he does, his eyes mist, his throat tightens, and his voice sinks to a trembling whisper. "Sometimes it's out of nowhere," says Druckenmiller, who used to meet Jimmy after work on those first dark autumn nights and walk him home to his East Side apartment. "You always realize once it starts where his mind went."

**A COUPLE OF YEARS AFTER 9/11**, Jimmy was on a golf course with former New York City mayor Rudy Giuliani. "Rudy," Jimmy said, "there's something that really troubles me. And you're about the only other guy in the world that can have any understanding of it."

"What are you talking about?" Giuliani asked.

"Well, on Sept. 10, you couldn't have been elected dog catcher."


"Yeah."

"On Sept. 10, I was the happiest guy in the world. I had a great job, and everything was fine. I was thinking about what my other options were. Things were too good. But since Sept. 11, people view me now as the head of Sandler O'Neill and having done something, and to some degree my status has gone up."

"What are you trying to get to?" Giuliani asked.

"Well, both of us have in some ways benefited from this incredibly sad day, and I got a problem with that."

"Did you do the very, very best in every situation you were faced with?" Giuliani asked him. "I feel like I did too. What else can we do?"

What else, indeed. Probably Giuliani's attitude is exactly the right one to have. But Jimmy's not there yet. "I got no solace from his comment," he says. 

+ FEEDBACK [david\\_whitford@fortunemail.com](mailto:david_whitford@fortunemail.com)