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Merrill Lynch Cuts Compensation in Half
By Stephen Bernard

NEW YORK — Investment bank Merrill Lynch & Co. said Wednesday it cut worker compensation nearly in half in the third quarter - and that means some of Wall Street's famously big bonuses could suffer this year.

Merrill Lynch spent \$1.99 billion on compensation and employee benefits during the July-September period, down from \$3.94 billion spent during the same quarter a year ago and \$4.76 billion during the second quarter of 2007.

The investment bank had about 64,200 employees at the end of the third quarter, 8,900 more than it had on the same day a year ago.

"Clearly this is a cut in variable pay, which is mostly likely bonuses," said Brent Longnecker, chief executive of Longnecker & Associates, a Houston-based executive compensation consultancy. Some companies pay out bonuses on a quarterly basis, while others accrue money throughout the year to pay year-end performance bonuses, Longnecker said.

Because bonuses are typically tied to performance, Merrill Lynch was likely able to slash its third-quarter compensation costs in half because it did not meet any of the thresholds to pay out bonuses, Longnecker said.

For those still at Merrill Lynch in the fourth quarter, bonus money could be available. Merrill Lynch already said compensation costs are likely to rise in the fourth quarter, an indication it will be accruing year-end bonus money.

"Merrill Lynch remains focused on paying its best performing employees competitively," the company said in a statement. "In the same vein, it may be necessary to accrue compensation expense at a higher level in the fourth quarter to ensure it can appropriately reward employees whose performance will drive future growth."

Even if some thresholds for bonuses are met, across the financial services industry, expect year-end 2007 bonuses to decline from record levels seen in 2006 because of the weakening credit markets and declining earnings.

In 2006, bonuses on Wall Street reached a record \$23.9 billion. Merrill Lynch's chief executive, Stanley O'Neal, received \$18.5 million in cash on top of his \$700,000 salary in 2006.

"For the overall majority, bonuses are contracted" in any type of down-cycle in markets, and some go as far as cutting bonuses all together, said Bob Olman, managing partner at Roslyn, New York-based Alpha Search Advisory Partners.

The expected decline in bonuses could also put a sting in the New York economy. Record bonuses in recent years from Wall Street firms have enabled employees to afford lavish new homes and high-end consumer goods.

"When Wall Street does well, New York City and New York state do well," former New York State Comptroller Alan Hevesi once said. "Wall Street bonuses are spent in the city and in surrounding suburbs on entertainment, real estate, automobiles, and other consumer goods, all of which generates jobs and tax revenues."

Last year's bonuses were expected to generate \$1.6 billion in tax revenues for New York state and another \$500 million for New York City.

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