



BONUS BONANZA - WALL STREET FIRMS SHELL OUT A RECORD \$21.5B

By PAUL THARP

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Wall Street's booming investment banks are handing out \$21.5 billion in bonuses - the most ever awarded.

The bonus loot is a big boost to the city's economy - giving City Hall an estimated \$1.5 billion in taxes, and Albany another \$500 million.

The all-time high in bonuses results from record profits at investment banks such as Lehman Brothers and Goldman Sachs Group, said New York State Comptroller Alan Hevesi.

Hevesi said Wall Street revenue surged 44.5 percent in the first nine months of 2005 to the highest level since Wall Street's 2000 peak.

The firms' profits have been propelled by fees from advising on merger deals and from trading stocks and bonds with their own capital instead of merely advising clients on what to buy and sell.

Although bonuses jumped 15.5 percent to the record \$21.5 billion, the image of Wall Streeters buying Ferrari's and swilling \$2,500 bottles of wine is a myth, compensation experts said.

Those riches won't be spent anytime soon, and perhaps not at all for some.

This year's typical \$15 million bonuses for workaholic traders and rainmakers are mostly only paper perks, experts said.

Barely 20 cents on the dollar actually will wind up in the hands of Wall Streeters this quarter to support their celebrated lifestyles.

The bulk of bonuses stays within the Wall Street firms' coffers for years, to be cashed out at the end of a career - if you don't upset bosses or break contract clauses that trigger forfeitures of your nest eggs.

"The bonuses may look big, but they rarely pay off in full as one would expect," said Alan Sklover, a compensation attorney who represents CEOs and high-income clients.

"Firms lock up people with money - they say, 'Stay with us and ride with us, and behave yourself, and your equity could be tremendous someday, or it could be worthless. Stay and find out,' " said Sklover.

"You do everything you can for the rest of your life to please the boss and keep your money. Even then, someone with a grudge can punish you by poisoning you with the bosses.

"This is a very sophisticated way of controlling people," he said.

One Wall Street recruiter said bonuses are the biggest part of earnings for Wall Street's top performers, but it comes not as big checks but in stock packages that allow tax breaks for both sides.

"I can't think of any major Wall Street institution that doesn't use compensation structures involving a mix of stock and/or deferred compensation," said Russ Gerson, CEO of Gerson Group.

The equity is also usually locked up in lengthy contracts, and can't be cashed out except in proven emergencies, Sklover said.

"In a 100-page contract, on page 98 there'll be a clause that cancels out a clause on page 2 - even lawyers struggle with them," said Sklover.

"So many of the Street's best and brightest feel they've lost their freedom, so they've been leaving in droves to hedge funds and venture funds. They're more agile and usually pay 100 percent or 50 percent cash in their annual bonuses," said Sklover.

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EXTRA DOUGH

The record \$21.5B in Wall Street bonuses is a boon to the city economy, adding about \$1.5B in tax revenue.

Securities Industry Bonuses

2000 - \$19.5B

2001 - \$12.8B

2002 - \$10.1B

2003 - \$16.2B

2004 - \$18.6B*

2005 - \$21.5B*

* estimates

Source: Office of the State Deputy Comptroller

Traders on the floor of the New York Mercantile Exchange.