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BY ERICA COPULSKY

BANKER BOUNTY

Despite the credit-crunch crisis, compensation for Wall Street's top dealmakers remained relatively flat — as long as you value stock as dear as cash

"The curve is getting steeper at every firm. The mean is now below the median."

WITH WALL STREET choking on more than $100 billion in write-downs and high-profile blowups that have led to top-level changes in even the most staid executive suites, 2007 might go down as one of the most dismal years in recent memory. But that hasn't stopped the world's biggest investment banks from doling out outsized paychecks. Despite woes stemming from the credit crisis and the uncertain outlook for the global economy, Street firms set aside an estimated $115 billion for bonuses and other compensation-related expenses to reward their staffs. However, behind the banner headline numbers were some important trends that came into play as senior managers muddled through a very challenging year in the compensation wars. Here's the rundown.

"FLAT" IS THE NEW "UP"

Coming off record-breaking bonuses that have climbed steadily — and significantly — for the past five years, bankers were forced to face a harsh reality: Compensation has definitely plateaued. "If a banker's bonus is flat from last year's, he or she should be very content," says Russ Gerson, founder of the Gerson Group, a New York–based recruiting firm. "Bonuses are often determined by what the likely bid away is. Given the lack of hiring, I'm surprised bonus levels remain as high as they are."

On average, bonuses for junior- and mid-level investment bankers in the top half of their class will be flat to slightly up from the previous year. Meanwhile, senior-level bankers — directors and managing directors — on average are anywhere from flat to down as much as 20 percent, depending on the firm. Sure, that's less than many were counting on. But that doesn't mean bankers will need to stand on the welfare line; they will still be taking home a hefty paycheck. The average MD, for example, will make about $2 million to $2.5 million.

PAY FOR PERFORMANCE

More than in most years, the disparities between firms and among various divisions in 2007 made it unusually difficult to make general inferences on compensation figures across Wall Street. However, one thing is certain: At almost every level, pay will be based on performance, and the differences between

ESTIMATED 2007 COMPENSATION FOR INVESTMENT BANKERS

LEVEL	LOW	MEDIAN	HIGH
GROUP HEAD	$2.5 million	$3.5 million–$4.5 million	$6.5 million+
MANAGING DIRECTOR	< $1 million	$2 million–$2.5 million	$4 million+
DIRECTOR/SVP	$525,000–$550,000	$900,000–$1.1 million	$1.2 million–$1.4 million
VICE PRESIDENT 3 (CLASS OF '01)	$450,000–$500,000	$775,000–$825,000	$925,000–$975,000
VICE PRESIDENT (CLASS OF '02)	$400,000–$450,000	$650,000–$700,000	$800,000–$850,000
VICE PRESIDENT (CLASS OF '03)	$325,000–$400,000	$575,000–$625,000	$675,000–$700,000
ASSOCIATE (CLASS OF '04)	$300,000	$500,000	$575,000
ASSOCIATE (CLASS OF '05)	$250,000	$400,000	$450,000
ASSOCIATE (CLASS OF '06)	$210,000	$335,000	$375,000

THESE 2007 COMPENSATION FIGURES (SALARY PLUS BONUS) ARE COMPILED FROM DATA GATHERED FROM SEVERAL LEADING WALL STREET FIRMS AND DO NOT REFLECT SPECIFIC VARIATIONS IN PAY AMONG INDIVIDUALS, POSITIONS AND FIRMS. NOTE: THE "HIGH" REPRESENTS THE TOP 5 TO 10 PERCENT; THE "LOW" REPRESENTS THE BOTTOM 25 PERCENT.

OPENING SPREAD: PHOTOGRAPHS BY IAN SPANIER

the haves and the have-nots have never been wider. As one investment-banking head at a top bank put it, "The curve is getting steeper at every firm. The mean, in most cases, is below the median."

Top performers, for example, will see their pay packages increase by 15 to 20 percent or more, but that will come out of the pockets of the underperformers, who will be lucky to receive paltry bonuses, if any at all. A third-year vice president at the top of his class at, say, Goldman Sachs could make as much as $1 million — more than some MDs who had an off year — but his colleague at the bottom of his class could make $400,000 or less. "Pay by meritocracy is truly emerging," says Laura Lofaro, of recruiting firm Sterling Resources International. "We have a large percentage of people — [roughly] 15 percent — who were paid only their base salary. On the capital-markets and fixed-income sides, these people are grateful to have their jobs, considering 20 percent of their colleagues have been quietly let go."

TAKE CARE OF TOP DOGS AND JUNIORS

Fearful of losing talent to rivals, Wall Street firms made a concerted effort to take care of two important constituencies: junior-level staffers — the worker bees who toil away on the pitchbooks and spreadsheets needed to win business — and the rainmakers who reel in the deals. Even in tough times, there will always be a market for the junior bankers and senior revenue producers. "Since replacing these professionals is difficult and expensive, the challenge among firms is to pay them enough to keep them in their seats," notes Russ Gerson.

STOCK UP

Although the practice varied by level and firm, virtually every banker across Wall Street saw a greater portion of his bonus in stock rather than cash. For years, investment banks have issued these "golden handcuffs" as a retention tool to align the interests of the employees with those of their company and to deter poaching by competitors. But this year, paying in stock has also served another purpose: allowing firms to hold onto their precious cash in the face of shrinking revenue.

"Firms have doubled the stock component of compensation this year in order to afford to pay for people they want to keep," says Sterling's Lofaro. "Senior associates, who in the past got between 5 and 10 percent in stock, took home up to 20 percent this year, while senior VPs took home as much as 35 percent, up from 15 to 20 percent last year. Managing directors, who in the past received up to 50 percent of their pay in stock, took home about 70 to 75 percent — with many senior executives taking home as much as 100 percent in paper."

In order to appease bankers, who surely dislike the lack of hard cash, some firms took pains to soften the blow by getting creative with equity distributions. In addition to accelerating vesting on a portion of employees' past stock allocations, Merrill Lynch, for example, is issuing newly created options that vest in two years (rather than the traditional four) and are leveraged 3-to-1 versus stock. It's a concession to senior bankers, and an overall acknowledgement by top management that they want to protect the franchise, recruiters say, adding that many firms will have their own variation on these types of securities. ◘

BUYOUT BOUNTY

BY DANIELLE FUGAZY

Despite a dismal second half in 2007, private-equity professionals enjoy a banner bonus year

AFTER DRIVING SIGNIFICANT M&A activity for the last five years, private equity hit a major speed bump in 2007. Despite record dealmaking in the first half of the year, the summer's credit crisis and the subsequent tightening of the financing markets has left the industry in a perilous position — all but shut down, at least for the near term.

The new playing field changes the rules of the game. Lenders, who forced private-equity firms to renegotiate deals (and, in some instances, scrap them altogether), are still skittish about providing financing for new deals, and potential sellers are loath to engage in talks with the firms given the risk of potential failure to close. Despite all the changes that have wreaked havoc on the industry, one thing remains the same: Private-equity stalwarts are still pulling down major money.

> Golden handcuffs are a retention tool — and allow firms to hold onto precious cash.

WHAT MARKET PROBLEM?

Marketplace despair is not as bad as some might think. In fact, a private-equity professional's compensation last year was hardly affected by the

2007 CASH COMPENSATION AT PRIVATE-EQUITY FUNDS			
TITLE	AVERAGE TOTAL CASH COMPENSATION (ACROSS ALL FUND SIZES)	AVERAGE TOTAL CASH COMPENSATION AT MEGA-FUNDS ($5 BILLION+)	CASH COMPENSATION OF TOP 25TH PERCENTILE AT MEGA-FUNDS
ASSOCIATE	$201,000	$290,000	$310,000
SENIOR ASSOCIATE	$309,000	$419,000	$448,000
VICE PRESIDENT	$428,000	$660,000	$761,000
PRINCIPAL	$571,000	$848,000	$1.13 million
PARTNER	$1.57 million	$2.69 million	$3.43 million

SOURCE: 2008 PRIVATE EQUITY COMPENSATION REPORT
AVERAGE TOTAL CASH COMPENSATION EQUALS AVERAGE BASE SALARY PLUS AVERAGE CASH BONUS

"Money will always be there for top-caliber people. Firms don't want to see talent leave."

vagaries of the market, according to Glocap Search, an executive-recruiting firm. For proof, just look at the numbers. On average, partners across all fund sizes are expected to bring in about $1.6 million in cash compensation (excluding carry distributions), about 5 percent more than the previous year.

Even at the mega-fund level (firms with more than $5 billion in assets), where the lending crisis has had the most impact, private-equity pros are still expected to pull down $2.7 million, an 8 percent increase in total comp from 2006. As one would expect, partners who earned in the top twenty-fifth percentile at mega-funds are bringing in the biggest windfall, garnering $3.4 million for 2007 compensation.

"We had a great year; we invested 20 percent of our fund," says one managing partner at a top New York–based generalist private-equity firm. "There are issues with the credit markets, but private equity is a longer-term business — you need to look at the success of a fund for more than five years. One year isn't going to ruin the industry."

FROM TOP TO BOTTOM, PLENTY TO GO AROUND

While top brass continued to earn big, newer industry players did well, too. The average associate pulled down more than $200,000 in compensation, a 12 percent increase over 2006. At the mega-fund level, an associate who earned in the top twenty-fifth percentile brought in $310,000, 18 percent more than the previous year.

"Money will always be available for top-caliber talent," says Brian Korb, head of the private-equity practice at Glocap. "The last thing [firms] want to see is top talent going to hedge funds."

In fact, compensation has increased at every level, from associates to partners. The average senior associate across all funds saw one of the lowest increases in compensation — 7 percent — but still jumped to $309,000 from $289,000. At the mega-funds, that jump was 9 percent, to $419,000.

It will, of course, take more than a couple of slow investment years to ruin a good private-equity player's compensation. That's because pay is not affected by market conditions but rather driven by management fees limited partners pay private-equity firms. The fees are agreed upon, for better or worse, before a firm makes investments. Typically, it allocates anywhere from 80 percent to 95 percent of the management fee for compensation. When firms raise record-breaking funds upward of $10 billion, there's as much as $160 million to $190 million to be divvied up among partners and other employees.

A LITTLE LESS PRIVATE

One big development from last year will undeniably influence compensation among major buyout firms for years to come: the introduction of a new currency, publicly traded stock. The initial public offering of the Blackstone Group, which helped cash out the firm's founding partners and make senior partners extremely wealthy, has not affected private-equity compensation numbers as a whole this year. But that could change soon, as the likes of Apollo Management, Kohlberg Kravis Roberts, the Carlyle Group and TPG, among others, turn to the public markets to tap into a steady stream of cash.

Peter Rose, a spokesman for Blackstone, refused to comment on how being public affected 2007 compensation, but did acknowledge that it "certainly gives Blackstone another way to compensate workers." It also serves as a powerful retention tool. And as more private-equity firms turn to the public market, stock bonuses and awards will be an increasingly prevalent component of a private-equity professional's pay package.

"It is logical for the firm to be giving employees stock," says Glocap's Korb. "This ensures that everyone's interests are aligned and creates a culture of ownership." D