

# CRAIN'S

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## Last holdout Lehman turns to downsizing

Investment bank  
gets most of layoffs;  
key bond business  
finally falters

BY STEPHEN GANDEL

Lehman Brothers Holdings Inc., the only major investment bank to have avoided layoffs so far this year, is finally swinging the ax.

The Manhattan-based securities firm is eliminating as many as 150 staffers in cuts that started earlier this month and continued through last week. Investment banking has been hit hardest. In that division, 100 employees—most of them based in Manhattan—are being sent packing. That's nearly 3% of the company's total investment banking staff.

Reductions are being made across the board, from junior analysts making \$150,000 a year up to managing directors earning well over \$1 million. Lehman is also dumping traders and workers in support positions, such as communications and human resources staffers.

The cuts are part of a broad cost-cutting initiative, the first of its kind at Lehman Brothers since the beginning of the recent downturn. In another move last week,

the company closed its 5-year-old Canadian operation, eliminating the remaining half-dozen staffers in Toronto.

Lehman Brothers paid its employees an average of \$262,000 last year. The layoffs will save the company \$39 million in the coming year.

The firm's retrenchment sends a clear signal that Wall Street's problem have spread to the financial industry's last remaining oasis of prosperity: bond underwriting, long a singular Lehman strength.

Through the first half of this year, corporations rushed to issue more bonds as interest rates ebbed. The flood of bond issues contrasted sharply with the drought-like conditions in other major business areas, such as stock underwriting and mergers advisory work.

This summer, though, Wall Street's last remaining steam of profits has narrowed. Corporate bond underwriting was off 49% in July and August compared with the same period last year, according to Thomson Financial.

Having benefited earlier in the year from its unusually strong reliance on bonds, Lehman is now being hit harder than most on the downswing. Two weeks ago, Standard & Poor's lowered its outlook

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## Wall Street holdout Lehman turns to layoffs

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on Lehman's bonds to "negative" from "stable." Salomon Smith Barney analyst Guy Moszkowski followed suit last week, downgrading his rating on Lehman to "neutral" from "buy."

"You had a great refinancing wave from corporations in 2001, and that's now done," says David Henler, an analyst at Manhattan-based bond research firm Credit-Sights Inc. "The turn in that business will be much more of a burden for Lehman than its rivals."

Despite the job cuts, analysts are projecting that profits at Lehman Brothers will fall this year.

The company's income is expected to drop 15% in fiscal 2002, which ends Nov. 30, to \$1.1 billion, according to estimate trackers Thomson First Call.

That's down from \$1.3 billion last year.

### **Others suffered earlier**

Of course, the rest of Wall Street has been suffering for far longer. Most of the major investment banks began jettisoning staffers last October, often cutting thousands of employees.

Merrill Lynch has been the most aggressive. It has slashed 15,000 off its workforce, or 21% of

its worldwide total, in the past year alone.

Credit Suisse First Boston has downscaled its staff by 4,500 workers during that period, or 15% of the total.

Earlier this month, Morgan Stanley announced another round of cutbacks, reportedly shedding 200 workers, or 7% of its underwriting and mergers advisory staff.

Goldman Sachs, meanwhile, is reportedly weighing further job reductions in its investment bank, a unit that is already 1,800 staffers lighter than it was a year ago.

In all, Wall Street firms cut a

total of 17,000 of their Manhattan-based workers during the 12 months ended in June.

Lehman Brothers declined to confirm its total number of layoffs.

### **Difficult environment**

"We are always reviewing our businesses," says a spokeswoman. "Obviously, the business environment remains difficult, and we will continue to monitor it going forward."

She says Lehman Brothers plans to be "at or around 13,000 staffers" by year's end. Lehman Brothers had 13,281 staffers at the end of September 2001. ■