Andrew H. Rush
Vice President
Merchant Banking

Donaldson, Lufkin & Jenrette

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Donaldson, Lufkin & Jenrette

ANDREW H. RUSH

Tom – Here is information ~~of~~ on DLJ Merchant Banking Group, in case you need it in talking to our "friends."

– Andy

DLJ cashes in on GTECH stake as the jackpot keeps growing

Total paper profits reach nearly $800 million

Donaldson, Lufkin & Jenrette and a variety of affiliates recently cashed in part of a merchant banking bet on lottery systems supplier GTECH Holdings Corp. that has so far paid off to the tune of a cool $800 million.

In a secondary offering on Dec. 10, DLJ sold seven million shares it acquired for 75 cents a share less than three years ago for $37 per share—which works out to a mind-boggling return of nearly 50 times the firm's original investment. DLJ lead-managed the deal, with Lehman Brothers and Morgan Stanley & Co. co-managing.

DLJ, parent company Equitable Cos. and several funds managed by DLJ acquired a 68% stake in GTECH less than three years ago—in February 1990—for $18 million. GTECH management bought most of the remaining stock, although junk bond and preferred stock investors also received modest stakes.

The DLJ take seemed remarkable enough last July, when the LBO group took GTECH public in an offering of 9.8 million shares (including the green shoe) at a share price of 17. DLJ and its affiliates sold only about 2.8 million shares in that offering, netting around $44 million. Since then, GTECH has continued to win new lottery contracts, and its share price has soared as high as 39 5/8.

In the secondary offering a week and a half ago, DLJ netted close to $250 million, but it still owns more than half of its original stake. The remaining 14.9 million shares, based on the stock's price near press time of about 35, have an indicated value of $522 million.

In the leveraged buyout world, where investors aim to earn 30% to 40% annually, earning multiples of an original investment is expected, of course. Earning five times your money in five years, for example, is equivalent to an annual return of "only" about 40%.

But a 50-times return on investment is probably in the top 1% of all deals, according to Larry Schloss, managing director in merchant banking at DLJ. "It's not unheard of, but it's pretty unheard of," he said.

What was different about this investment, however, was its relatively large size; astronomical percentage returns, naturally enough, tend to come on very small investments. "It's hard to get 50 times your money on a reasonable-size investment," Schloss said. It's notable, too, that the GTECH LBO, which closed just as the junk bond market collapsed in early 1990, was relatively conservatively structured, with about 15% equity, including preferred stock.

GTECH's annual cash flow was running at $47 million at the time of its LBO, but it has since tripled. And Wall Street is assigning gambling-related stocks fat multiples these days, since it's become enamored with legalized gambling as a "taxless" revenue source for hard-pressed governments. "Not only do you get growing earnings, but you get very predictable earnings," Schloss said. In the case of GTECH, "you've got increased business with a higher multiple," he concluded.

Tom Pratt

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vided between insured and uninsured paper, rated AAA and BBB+ respectively. Price talk is said to be approximately 100 basis points over comparable Treasuries for the AAA portion and 125 basis points over for the BBB+ tranche.

The company is said to have outstanding first mortgage notes due in 1997 that are ranked ahead of the current notes.

• **JP Morgan Securities** priced its $70 million deal for textile firm, **Guilford Mills, Inc.**, last week at 115 basis points over seven year Treasuries, right in line with initial price talk.

In addition, **Merrill Lynch** also priced its 144A private for **Transwestern Pipeline Co.** as 7.55s at par. The senior notes, due Jan. 15, 2000, were rumored to have been circled by at least 12 investors within ten minutes of their launch. The spread was 115 over the curve, the low end of initial pricing indications. **First Boston Corp.** was co-agent.

Michael Liebowitz

Kidder taps convert market in private deal for LA Gear

Company forced to boost coupon

The convertible market is so hot, it seems, that almost any issuer can sell a deal.

Last week, Kidder, Peabody & Co. successfully completed a $50 million offering of convertible debt in the 144A market for LA Gear, the troubled athletic shoe maker.

The 10-year subordinated debentures were originally expected to offer a coupon of only 6 3/4%, which may have been on the aggressive side, according to some of Kidder's rivals. The price talk reportedly was later revised upward to 7 1/4% to 7 1/2%, with the conversion premium targeted at 20-22%. Final terms on the deal included a coupon "in the 7s," according to one source, with a conversion premium within the price talk range.

The coupon was "a little higher than expected," the source said, "but everyone's very pleased with the transaction."

Under new management installed earlier this year, the company has yet to report much good news. In fact, just two weeks before pricing the converts, LA Gear announced that it would report a loss of as much as $31 million for its fourth fiscal quarter, which ended Nov. 30, and as much as $73 million for the full year. And the company's stock, which traded as high as 50 in early 1990, has recently been changing hands around 10.

Nevertheless, according to one analyst, "the company is actually in fine shape," and has a bright future. He said LA Gear has $85 million, or about three and a half dollars per share, in cash, and is executing "a classic turnaround," slashing inventory levels and expenses related to selling, general and administrative functions.

Tom Pratt

Capital Markets continues on p. 34

CONFIDENTIAL

DLJ MERCHANT BANKING PARTNERS, L.P.

Donaldson, Lufkin & Jenrette
Securities Corporation

DLJ MERCHANT BANKING PARTNERS L.P.

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Securities Corporation

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DLJ OVERVIEW

- Major U.S. securities firm with capital of $1 billion and total assets of $16 billion.
- Leader in equity sales, trading and research to worldwide institutions.
- Leading dealer in U.S. government and corporate debt securities.
- Broad based investment banking operation.
- Wholly-owned subsidiary of The Equitable Life Assurance Society of the United States.

DLJ MERCHANT BANKING PARTNERS, L.P.

- $1.1 billion of committed capital.
- DLJ acting as General Partner and Fiduciary.
- $300 million provided by DLJ and its employees.
- Types of Investments
  - Equity investments in growing leveraged companies with stable cash flow.
  - Private debt with equity attached (mezzanine securities).
  - Equity investments in quality companies undergoing capital restructurings.
- No hostile acquisitions.
- No break-up transactions.

DLJ MERCHANT BANKING TRACK RECORD

- Commenced operations in 1985.
- Consummated 29 transactions in well diversified industry groups.
- Invested over $260 million of DLJ's capital.
- Total transaction value of $14 billion.
- Lead investor in 2/3 of transactions.
- Typical transaction size of $100 - $500 million.
- Consistently excellent results with no portfolio bankruptcies.
- Outstanding returns of approximately 90% annually.

CHARACTERISTICS OF DLJ PORTFOLIO INVESTMENTS

- High quality companies.
- Strong management.
- Market share leaders.
- Attractive and growing niche markets with high barriers to entry.
- Sustainable competitive advantages.
- Stable cash flows.
- Selected Portfolio Companies

  Chicago and Northwestern Railroad
  GTECH
  The Seven-Up Company
  Musicland Stores
  Vons Supermarkets

THE DLJ BRIDGE FUND

. **The DLJ Bridge Fund is the only one of its kind.**

. **$1.25 billion in aggregate lending capacity.**

. **53 bridge commitments totaling almost $8.0 billion since 1985.**

. **Provides ability to make fully financed proposals and close transactions quickly.**

DLJ'S #1 HIGH YIELD GROUP

. **Premier group in High Yield Trading Research and Sales**

  - **#1 Bond Buyers Survey.**
  - **#1 Institutional Investor.**

. **#1 Underwriter of High Yield Debt in 1992**

  - **$11 billion raised in 1992.**
  - **Lead or co-manager on 27% of all new issues.**

. **Dominates research intensive Single-B rated category**

  - **Lead or co-managed 30% of all new Single-B rated issues.**

DLJ'S TOP-RATED RESEARCH

. **Top rated Equity research**

  - **Ranks #1, #2 or #3 in most industry surveys.**
  - **32 analysts cited for 43 <u>Institutional Investor</u> All-America rankings in 1992.**

. **#1 Fixed Income research department - <u>Institutional Investor</u>**

. **#1 High Yield research department - <u>Institutional Investor</u>**

DLJ'S MERGERS AND ACQUISITIONS GROUP

- Completed over 160 assignments since January 1989, totaling over $37 billion.

- Ranked #5 in number of completed transactions in 1991.

- Involved in a wide range of complex transactions including partial investments, partnerships, spin-offs and recapitalizations.

- Managed cross-border transactions involving European, Asian, Latin American, Mexican, and other foreign corporations.

DLJ'S CAPITAL RAISING CAPABILITIES

- DLJ maintains a leadership position in the institutional distribution of equity and debt securities, in both the domestic and international capital markets.
- During 1991, DLJ raised over $31 billion for its clients.
- During 1992, DLJ raised over $56 billion for its clients:
  - $6.5 billion — Initial public offerings of common stock.
  - $3.7 billion — Primary/secondary offerings of common stock.
  - $19.5 billion — Non-convertible public debt/preferred securities.
  - $2.7 billion — Convertible public debt/preferred securities.
  - $1.9 billion — Private placements of equity and debt securities.
  - $11.0 billion — High yield public debt offerings.
  - $11.0 billion — Mortgage and structured finance transactions.

DLJ'S RESTRUCTURING GROUP

- Executed over 60 restructuring assignments since 1989.
- Dedicated group of 20 professionals, including 7 senior officers.
- Represents companies, creditors and purchasers/equity investors.
- Recent assignments include:

  Gaylord Container
  Insilco Corporation
  JPS Textiles Group
  Wang Laboratories
  Western Union Corporation

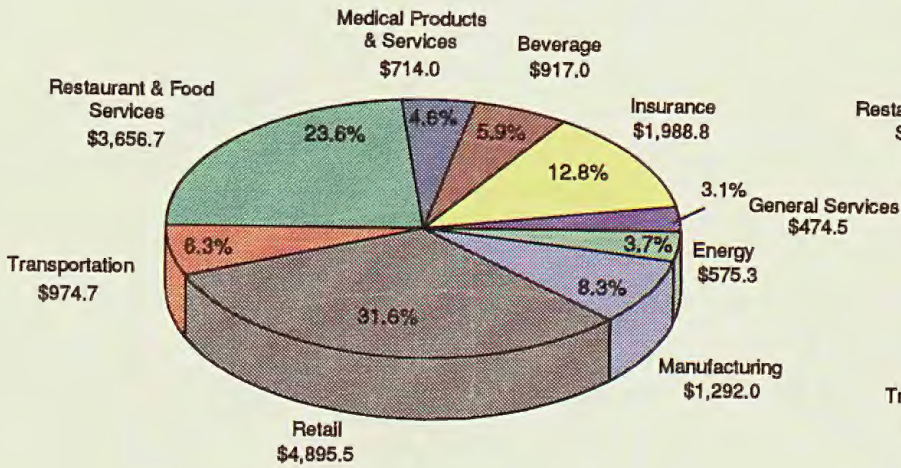
DONALDSON, LUFKIN & JENRETTE

EXHIBIT 1

THE DLJ MERCHANT BANKING PORTFOLIO

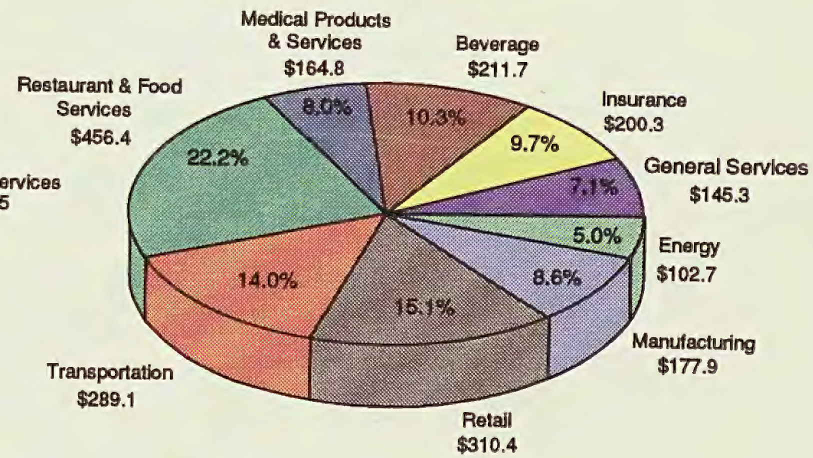
As of September 30, 1992

Revenues
(dollars in millions)



Total Revenues
$15.5 Billion

Operating Cash Flow(1)
(dollars in millions)



Total Operating Cash Flow
$2.1 Billion

(1) Earnings before depreciation, amortization, interest and taxes.

DONALDSON, LUFKIN & JENRETTE

EXHIBIT 2

DLJ MERCHANT BANKING PARTNERS, L.P. INVESTMENTS

Investments through December 31, 1992
(dollars in millions)

Investment Date	Company	Transaction Value	Security Purchased	Type of Security	Fund Investors Ownership(1)
10/01/92	Nimbus U.S.A. Inc.	$ 37	$13 million Common Stock	Equity	77.1%
10/09/92	BCP/Essex Holdings Inc.	545	$19.1 million 15% Series A Cumulative Redeemable Exchangeable Preferred Stock with Warrants	Mezzanine	12.0(2)
			$5.9 million Common Stock(3)	Equity	
11/06/92	Evergreen Media Corp.	265	$35 million 13 3/4% Junior Exchangeable Preferred Stock with Warrants	Mezzanine	19.0(4)
12/22/92	Hampshire Holdings. Corp.	120	$10 million 7% Senior Convertible Preferred Stock	Equity	33.7
			Average yield on portfolio of 10.1% (12.0% average Mezzanine yield)		

(1) Fully diluted common equity ownership.
(2) Includes purchased common equity.
(3) Purchased by DLJ International Partners, C.V.
(4) Plus up to an additional 6% of the fully diluted common equity if Evergreen Media Corporation does not redeem the preferred stock prior to September 30, 1987.

DONALDSON, LUFKIN & JENRETTE

EXHIBIT 3

DLJ Merchant Banking Portfolio
Historical Investment Summary as of November 11, 1992
(dollars in millions)

Transaction Date	Company	Value of Transaction	DLJ Ownership	DLJ Investment Cost	DLJ Investment Estimated FMV	Holding Period	Estimated FMV/Cost	Total Annualized IRR
1985								
December	HMI Holdings, Inc. (The Vons Companies, Inc.)	$919	29.2%	$3.9	$30.1[1]	3.8 yrs.	7.8x	142.8%
1986								
June	Osceola Energy (Alamito Company)	923	19.3	2.3	11.6[1]	1.1	5.1	346.1
November	The Seven-Up Company	268	38.2	2.7	90.4[1]	5.9	33.2	775.9
November	Green Leaf Ventures, Inc. (Paragon Restaurants)	118	30.7	3.2	0.0	5.9	0.0	(100.0)
1987								
February	Joy Technologies, Inc.	711	2.5	1.0	8.9[1]	5.2	8.9	56.9
May	MPB Corporation	161	25.0	11.4	15.1[1]	3.0	1.3	62.2
September	PALCO Acquisition Company (Thermadyne Holdings Corp.)	356	25.0	7.8	35.2[1]	5.1	4.5	141.7
October	Coventry Corporation	34	5.3	1.3	8.8[2]	5.0	6.9	50.3
October	Sybron Acquisition Company	413	31.1	18.2	72.0[2]	4.9	4.0	38.3
1988								
June	Musicland Stores Corporation	357	21.0	10.5	54.6[2]	4.2	5.2	42.2
July	National Direct Marketing Corporation	12	13.1	0.3	5.6	4.2	20.2	105.8
September	Loehmann's Holdings, Inc.	181	5.6	1.7	2.7	4.1	1.6	3.4
November	Alliance Imaging, Inc.	94	39.2	3.9	5.1[2]	3.9	1.3	7.2
November	Material Applications Group, Inc.	134	47.5	1.9	2.1[1]	0.4	1.1	24.3
November	Dr Pepper Bottling Company of Texas	244	42.5	5.3	0.8	3.9	0.1	(42.5)
1989								
July	Chicago and North Western Holdings Corp.	1,663	18.9	25.4	76.9[2]	3.3	3.0	42.9
October	Coinmach Industries Co.	79	45.1	5.2	1.0	2.9	0.2	(70.5)
November	The Caldor Corporation	560	13.2	10.0	46.0[2]	2.9	4.6	71.8
December	County Seat Holdings, Inc.	195	15.9	22.3	31.6	2.8	1.4	15.9
December	TW Holdings, Inc.	2,991	15.3	67.4	51.1[2]	2.8	0.8	(9.9)
1990								
January	GTECH Corporation	290	69.6	17.6	712.1[2]	2.7	40.4	309.6
August	PennCorp Financial, Inc.	272	7.9	3.0	11.0[2]	2.1	3.7	86.3
October	McGaw, Inc.	209	25.9	12.5	31.3	1.9	2.5	61.3
1991								
February	The Home Insurance Company	839	1.7	2.5	2.5	1.6	+	+
April	JPS Textile Group, Inc.	521	17.0	2.5	2.5	1.4	+	+
August	Trident NGL, Inc.	668	4.9	9.8	9.8	1.1	+	+
December	Purity Supreme, Inc.	288	10.0	10.0	10.0	0.8	+	+
	TOTAL	$13,500		$263.6	$1,328.6			
	AVERAGE	$354[3]	23.0%	$ 9.8	$ 49.2		6.9x	94.0%

\+ Investments made in 1991 are not included in the Estimated FMV/Cost and Total Annualized IRR calculations.
(1) Reflects realized investments.
(2) Based on publicly traded stock price at November 11, 1992.
(3) Excludes Chicago and North Western Holdings Corp. and TW Holdings, Inc. Average value of transactions is $500 million including these two transactions.

DLJ Merchant Banking Portfolio
Annualized Returns on Realized Investment as of November 11, 1992

(dollars in millions)

Acquisition Date	Company	Value of Transaction	DLJ's Initial Ownership	Exit Strategy	DLJ Investment Cost	DLJ Investment Proceeds Received (1)	Holding Period	Estimated Fair Market Value/ Cost	Annualized Internal Rate of Return
1985									
December	HMI Holdings, Inc. (The Vons Companies, Inc.)	$919	29.2%	Reverse Merger	$3.9(2)	$30.1	3.8 yrs.	7.8x	142.8%
1986									
June	Osceola Energy (Alamito Company)	923	19.3	Sale	2.3	11.6	1.1	5.1	346.1
November	The Seven-Up Company	268	38.2	Sale/Recap	2.7	90.4(3)	5.9	33.2	775.9
1987									
February	Joy Technologies, Inc.	711	2.5	IPO	1.0	8.9(4)	5.2	8.9	56.9
May	MPB Corporation	161	25.0	Sale	11.4	15.1(5)	3.0	1.3	62.2
September	PALCO Acquisition Company (Thermadyne Holdings Corp.)	356	25.0	Merger/Recap	7.8	35.2(6)	4.8	4.5	141.7
October	Coventry Corporation	34	10.1	IPO	1.3	8.8(7)	5.0	7.1	50.3
October	Sybron Acqusition Company	413	31.1	IPO	18.2	72.0(8)	4.9	4.0	38.3
1988									
June	Musicland Stores Corporation	357	21.0	IPO	10.5	54.6(9)	4.2	5.2	42.2
November	Alliance Imaging, Inc.	94	39.2	IPO	3.9	5.1(10)	3.9	1.3	7.2
November	Material Applications Group, Inc.	134	47.5	Merger/Recap	1.9	2.1(11)	0.4	1.1	24.3
1989									
July	Chicago and North Western Holdings Corp.	1,663	18.9	IPO	25.4	76.9(12)	3.3	3.0	42.9
November	The Caldor Corporation	560	17.6	IPO	10.0	46.0(13)	2.9	4.6	71.8
1990									
January	GTECH Corporation	290	69.6	IPO	17.6	712.1(14)	2.7	40.4	309.6
August	PennCorp Financial, Inc.	272	7.9	IPO	3.0	11.0(15)	2.1	3.7	86.3
	TOTAL	$7,154			$120.9	$1,179.8		8.7x	146.6%

(1) Represents value received upon sale or estimated fair market value of securities currently held in portfolio.
(2) HMI Common and Preferred Stock with an original cost of $11 million at December 31, 1985 was reduced by $7.2 million through the redemption of Series C Redeemable Preferred Stock from the planned sale of HMI's TG&Y Stores subsidiary in January 1986.
(3) On May 19, 1988, The Seven-Up Company was sold to Dr Pepper Company for $306.9 million. At the time of the sale, DLJ received $60.1 million in cash, 11.7 million shares of common stock of Dr Pepper/Seven-Up Companies, 252,273 shares of senior exchangeable preferred stock and a $6.3 million senior subordinated discount note. DLJ valued these securities at approximately $26.0 million as of September 30, 1992.
(4) On November 14, 1991, Joy Technologies, Inc. completed an itnitial public offering of common stock. Throughout November, December and January, DLJ sold its shares at prices ranging from $14.25 to $17.625 per share also includs the payment of accrued dividends made in January, 1992.
(5) On the acquisition date, DLJ purchased 600,000 shares of exchangeable preferred stock and sold these shares for a $4.0 million profit six months later.
(6) On April 12, 1989, Material Applications Group Inc., PALCO and Clarke Holding Corporation were merged to form Thermadyne Holdings Corp. At the time of the merger, DLJ received $36.1 million in cash, 442,687 shares of senior preferred stock and 387,351 shares of junior preferred stock. In addition, DLJ purchased 7.9 million shares of common stock for $5.7 million. DLJ valued these securities at approximately $4.7 million as of November 11, 1992.
(7) On April 16, 1991, Coventry Corporation completed an initial public offering of common stock. Realized gains are calculated based on the November 11, 1992 closing price of $22.75 per share. Also includes $8,332,719 for the sale of connom stock in June and September, 1992. DLJ has sold approximately 94% of its shares.
(8) On May 7, 1992, Sybron Acquisition Inc. completed an initial public offering of common stock. Realized gains are calculated on the basis of the November 11, 1992 closing price of $19.00 per share. DLJ has not sold any shares. Also included are $5,079,975 received in a sale of Cumulative Senior Exchangeble Preferred in August, 1988 and $1,093,200 received in the sale of Junior Preferred in November 1989.
(9) On February 26, 1992, Musicland Stores Corporation completed an initial public offering of common stock. Realized gains are calculated on the basis of the November 11, 1992 closing price of $13.63 per share. DLJ has not sold any shares.
(10) On November 7, 1991, Alliance Imaging, Inc. completed an initial public offering of common stock. Realized gains are calculated on the basis of the November 11, 1992 closing price of $3.75 per share. DLJ has not sold any shares.
(11) The sale of Material Applications Group, Inc. to Thermadyne had been agreed to at the time of the acquisition of Material Applications Group, Inc. by DLJ and the HHM Group, and thus the investment has not been included in thes averages.
(12) On March 31, 1992, Chicago and North Western Holdings completed an initial public offering of common stock. Realized gains are calculated on the basis of the November 11, 1992 closing price of $20.63 per share. DLJ has not sold any shares.
(13) On April 24, 1991, The Caldor Corporation completed an initial public offering of common stock. Realized gains are calculated on the basis of the November 11, 1992 closing price of $25.50 per share. DLJ has not sold any shares.
(14) On July 22, 1992, GTECH Corporation completed an initial public offering of common stock. Realized gains are calculated on the basis of the November 11, 1992 closing price of $34.38 per share. Also includes $6,150,000 for the sale of common stock in March and April, 1991. DLJ has sold approximately 11% of its shares.
(15) On October 29, 1992, PennCorp Financial, Inc. completed an initial public offering of common stock. Realized gains are calculated on the basis of November 11, 1992 closing price of $14.63 per share. DLJ has not sold any shares.

Donaldson, Lufkin & Jenrette

EXHIBIT 4

THE EQUITABLE OUTPOST THAT'S GOING GREAT GUNS

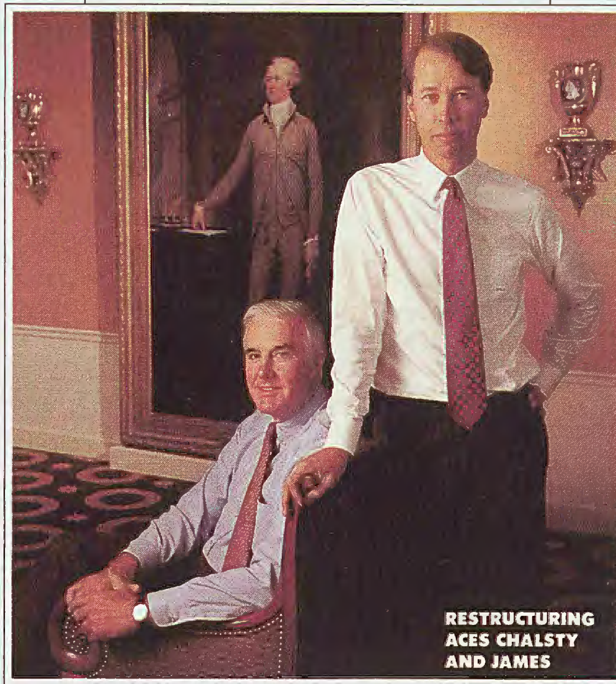
Donaldson, Lufkin & Jenrette is a pacesetter in reorganizations

Few major insurers are in worse shape than The Equitable Life Assurance Society of the U. S. Pummeled by junk-bond defaults and soured real estate deals, the 132-year-old company is hard at work restructuring itself. Meanwhile, Equitable's quite healthy subsidiary, Donaldson, Lufkin & Jenrette Securities Corp., is making a very good living helping ailing clients restructure. Indeed, the small, low-profile investment banking firm has become perhaps the leader in Wall Street's red-hot restructuring business. "We are clearly No. 1," says John S. Chalsty, the company's South African-born chief executive officer.

DLJ faces a host of potent rivals, some of whom also claim preeminence in restructuring. But few dispute that DLJ has become the firm to beat. "DLJ has done a super job of jumping into the business," says Sharon M. Meadows, head of the reorganization group at First Boston Corp. "They suddenly appeared on the screen from nowhere in 1990." The firm's best-known assignments include Southland, MorningStar Foods, and British advertising agency Saatchi & Saatchi PLC (table). DLJ says that during 1990, its staff of 40 had 55 assignments.

COMPLEX CASE. Meadows and others attribute DLJ's success to its hiring in 1990 of a dozen employees from Drexel Burnham Lambert Inc., many of whose clients have fallen on hard times. The most prominent ex-Drexelite is Kenneth D. Moelis, a former managing director at the firm. When Moelis and seven colleagues signed on, they brought three or four active assignments with them. That attracted other troubled Drexel clients, including Southland Corp., DLJ's largest restructuring to date.

The Southland case was the biggest "prepackaged" or expedited bankruptcy ever. It involved negotiations with thousands of holders of nine securities issues. When a Japanese company expressed interest in bidding for Southland, DLJ lined up financing for a competitive offer "to foster an auction mentality," says Moelis. That probably forced up the Japanese bid. The Japanese wound up paying $430 million for 70% of the ailing company.



RESTRUCTURING ACES CHALSTY AND JAMES

JOHN S. ABBOTT

A SAMPLER OF DLJ WORKOUTS

JPS TEXTILE **MARCH, 1991** Represented the company in one of the fastest prepackaged bankruptcies ever, with the plan approved in 42 days. When some equity investors backed out at the last minute, DLJ invested $2.5 million

MORNINGSTAR FOODS **MARCH, 1991** Advised the company in its difficult restructuring. Found new equity investors and restructured subordinated debt. Helped Morningstar repurchase 70% of the debt at 50¢ on the dollar

SAATCHI & SAATCHI **APRIL, 1991** Hired by the advertising giant to engineer one of the biggest British restructurings. Crafted a highly complex deal that was acceptable to a wide mix of parties, including many cross-border holders

SOUTHLAND **MARCH, 1991** Advised the convenience-store chain on the largest prepack to date, which popularized the notion of using prepacks with large companies. Negotiated with holders of nine separate issues of securities

DATA: BW

DLJ's most complex case was Saatchi & Saatchi PLC. The firm was struggling under a heavy debt load incurred during a 1980s acquisition binge. The spree was financed largely by convertible debt. Under the bonds' terms, Saatchi could have been obligated to redeem them in 1993 for $400 million. But that was far more money than Saatchi was likely to have.

LEFT ALONE. DLJ and S. G. Warburg Group PLC, Saatchi's British adviser, managed to persuade the company's banks, bondholders, and shareholders to approve an offer where the bondholders exchanged their securities for common shares. Because Saatchi was under pressure to get the deal done, DLJ offered to make a $40 million bridge loan to Saatchi to facilitate the exchange. In an unusual twist, the advisers then got certain bondholders to underwrite a rights offering to existing shareholders that raised $100 million in new equity.

"It was extraordinarily complicated," says Simon J. Mellor, a Saatchi director. "The fact that DLJ, with our U. K. advisers, could produce something acceptable to all of the shareholders in itself speaks volumes." He credits DLJ's knowledge of the U. S. high-yield market. Half of the holders of the company's convertible bonds were American.

Many clients have been attracted by DLJ's track record in junk-bond deals. Unlike other firms, it has had few embarrassments, notably Morse Shoe Inc., a $230 million deal that ended in bankruptcy last year. DLJ is now representing the bondholders in a restructuring effort.

Although it doesn't exactly have deep pockets these days, Equitable finances much of DLJ's bridge-loan fund. Otherwise, it seems content to leave its subsidiary alone. Luckily for DLJ, few people even associate the two. "Their investment is passive," says Hamilton E. James, head of merchant banking for the firm and a prime mover in beefing up the restructuring operation. "Beyond that one-time investment, Equitable treats our merchant banking operation no differently from any other firm's."

DLJ still has a special relationship with Equitable's CEO, Richard H. Jenrette. Jenrette is the "J" in DLJ and its chairman. If he ever needs help fixing up Equitable, he knows whom to call.

By Suzanne Woolley in New York

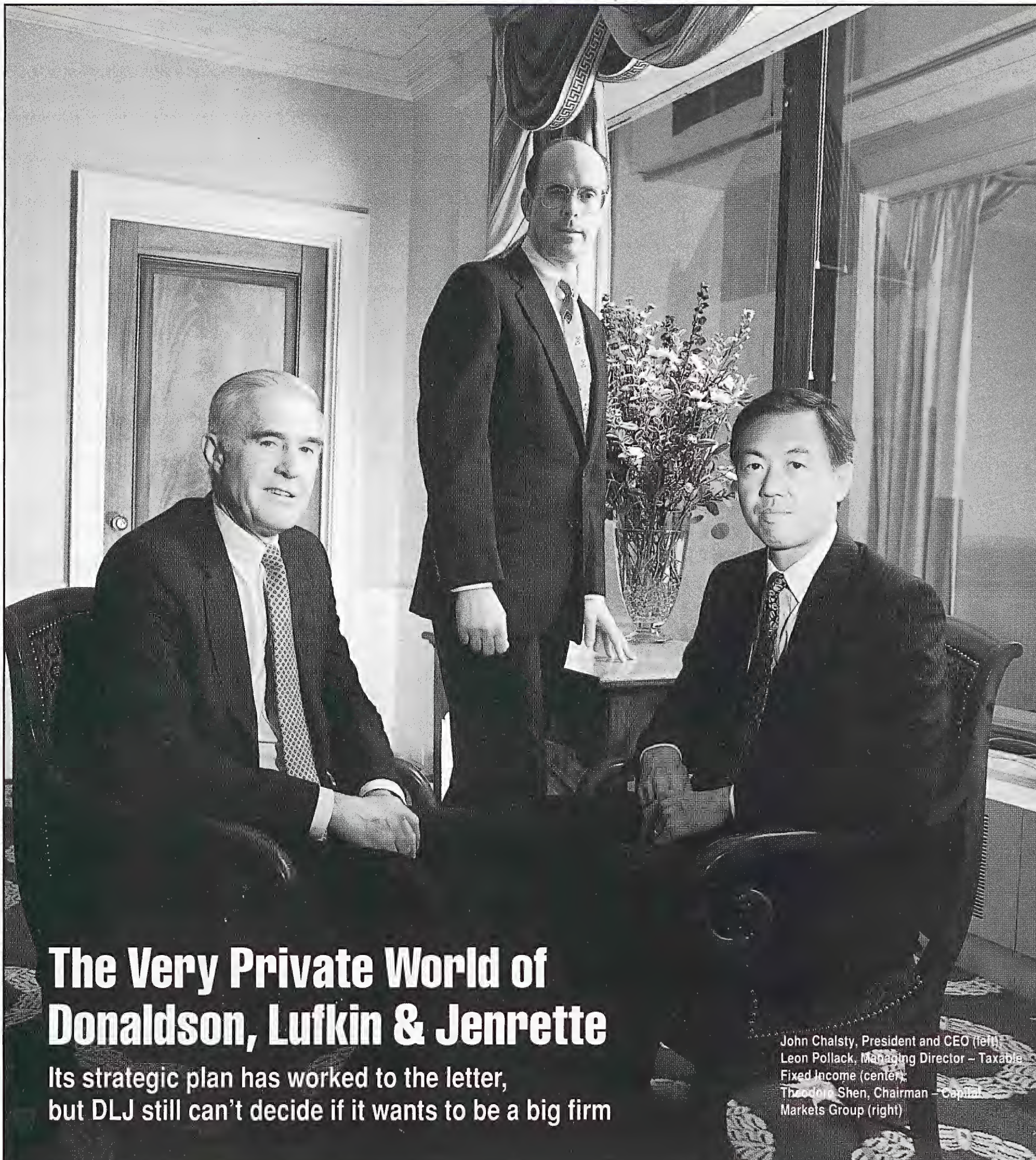
IDD
Investment Dealers' Digest September 21, 1992
The News Magazine of the Financial Community $9.00

GOLDMAN SACHS FINANCIALS UNCOVERED

LEHMAN'S ACRONYM INVESTMENT: SPERS

MERRILL WINS HUGE NEWS CORP. MANDATE

REP. RINALDO LIKELY NEXT SIA CHIEF



The Very Private World of Donaldson, Lufkin & Jenrette

Its strategic plan has worked to the letter, but DLJ still can't decide if it wants to be a big firm

John Chalsty, President and CEO (left); Leon Pollack, Managing Director – Taxable Fixed Income (center); Theodore Shen, Chairman – Capital Markets Group (right)

Its strategic plan has worked to the letter, but DLJ still can't decide whether it wants to be a big firm

The very private world of Donaldson, Lufkin & Jenrette

By Tom Pratt

JOHN CHALSTY is an Olympics buff. Fresh from Barcelona last month, he declared that, while he's all for that fuzzy stuff known as the Olympic spirit: "Winning is nice, too."

The former South African rugby player knows what he's talking about—on both sides of the equation. The securities firm Chalsty has headed for the past six years, Donaldson, Lufkin & Jenrette, is renowned on Wall Street for a collegial environment that's relatively free of political infighting; it has done its share of winning lately, too.

Not only has the firm sustained one of the Street's highest ROEs—which sources characterize as "a multiple" of the industry average of 28% (pretax) so far in this spectacular year—but on Chalsty's watch, for the first time, DLJ has successfully diversified away from its roots as an institutional equities boutique. It now has a balanced base of operations, broad enough so the firm realistically can aspire to become one of the most profitable in the business some day.

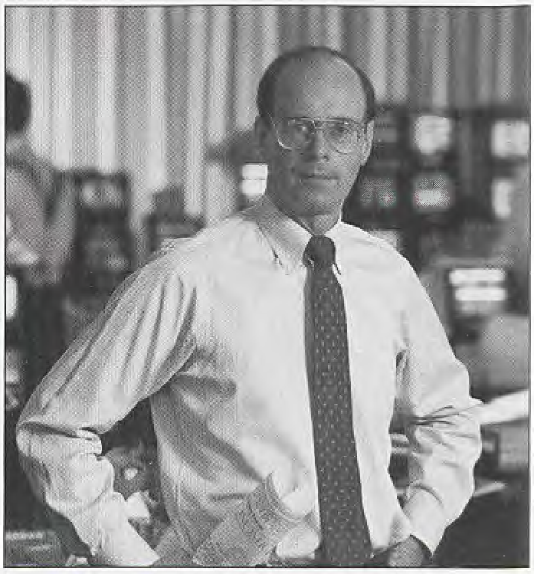
The tired, but apt, analogy that insiders keep coming back to is that of a three-legged stool. Whereas DLJ had only one leg—an overwhelming dependence on the equity business—in 1985, today it has both investment banking, principally merchant banking, and fixed-income profit centers as well.

Part of the diversification story is relatively well-known: how DLJ has inherited a big chunk of Drexel Burnham Lambert's market position in junk bonds. The untold story at DLJ, however, is the firm's successful development of big new profit centers in its three fixed-income businesses other than high-yield. The plan was the brainchild of both Chalsty and capital markets chairman Ted Shen. It has turned DLJ into that rare creature in strategic planning: a firm with a strategy that has worked almost to the letter.

Chalsty is mindful of the Street's old adage about not confusing brains with a bull market, noting that the real achievement was simply positioning the business to participate in the broad growth of the fixed-income markets over the last couple of years. Even if it amounts to little more than basic blocking and tackling, however, it is still something that many comparable firms failed to achieve over the same time span.

"It's a happy story for us," Chalsty says. "This is a firm that's enjoying its time in the sun."

Yet success brings with it new challenges, of course, and DLJ has its share. The fixed-income business needs both more capital and more support from a



Pollack: "You have to have some view of the landscape and where you want to go."

modest-sized investment banking group if it's to keep growing. Solutions to either problem aren't obvious, but the first—despite parent Equitable Cos.' strained finances—may be more easily addressed than the second.

Insiders say DLJ has arrived at a critical crossroads. Leon Pollack, managing director and head of taxable fixed-income—the main man in executing the build-up of the group over the last five years—poses a key question: "Are we a big little firm, or a little big firm?" The answer, he notes, has important implications for the firm's future infrastructure, such as its ultimate headcount in investment banking, or the size of its capital base.

Yet even in on-the-record interviews, top DLJ officials sound like they're not sure what that answer is. "We are a big firm," says Joe Roby, chairman of DLJ's banking group, "but not everybody at DLJ believes we're a big firm yet." The basic approach for now is a mildly disappointing gradualism—what an optimist would call prudent change, a pessimist timidity.

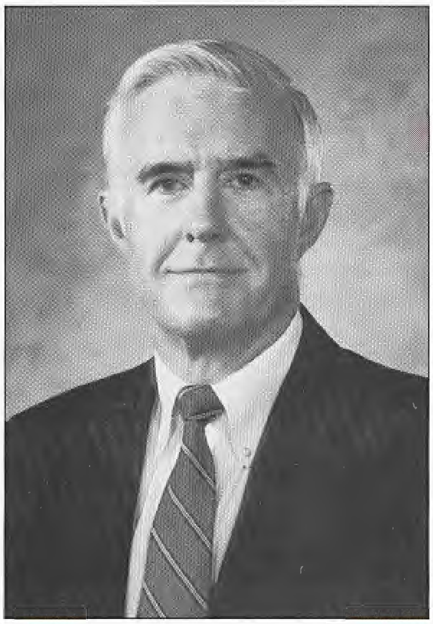
Whatever one chooses to call it, it is working for DLJ at the moment. And it isn't likely to change radically anytime soon.

A boutique past

Donaldson, Lufkin & Jenrette was founded as an institutional research boutique by three Harvard Business School classmates just two years after their graduation, in 1959. Eleven years later, the firm became the first in the securities industry to go public. In 1985, DLJ was acquired by Equitable. Shortly thereafter, Equitable split away the firm's money management subsidiary, Alliance Capital Management.

The loss of Alliance increased the pressure on DLJ to diversify away from equities. But it was not as though the firm had never ventured into investment banking or fixed-income before. In fact, efforts in both areas date well back into the '70s, but neither met with much success.

Although the merchant banking/high-yield part of DLJ's diversification story is relatively well-known, there are some important misconceptions surrounding it. For one thing, the business essentially was internally developed, not scavenged from the remains of Drexel. DLJ had a thriving high-yield underwriting business well before Drexel's fall.



Chalsty: praises virtues of "a smallish group of high quality professionals with ... [sufficient] capital"

The firm hired only around 20 of Drexel's 450 or so investment bankers; they account for only about 10% of DLJ's current total of 200.

Also, even with the advantage of Equitable's backing of a $1.25 billion bridge loan fund, DLJ still had to go out and execute well. And on this score the firm has truly excelled: the Equitable fund has never had a "hung" bridge, and the merchant banking group's annualized return on its equity stakes in deals has been an eye-popping 90%.

Finally, DLJ deserves considerable credit for staying committed to the high-yield business through the dark days of 1990, when many on the Street believed it would never recover, and laid off junk personnel. Thus, the firm was well-positioned when new issues came back last year. Its commitment paid off in the form of a dominant market position in underwriting junk bonds—factoring out split-rated issues—in the first half of this year.

In any case, the junk bond business, because of its research-intensive nature and the relatively modest size of the industry, was a much easier nut for DLJ to crack than the other fixed-income markets, like government bonds or investment-grade corporate debt.

Enter Leon Pollack

The DLJ culture is one in which "stars" are frowned upon. Yet even in-

Is DLJ a big little firm, or a little big firm? The answer has important implications for the firm's future infrastructure.

siders readily acknowledge that Leon Pollack deserves a disproportionate amount of the credit for engineering the growth of the taxable fixed-income division.

Pollack was hired by Ted Shen in 1987 from Mabon, Nugent & Co., where he'd spent 14 years and headed the government and mortgage desks. He was given a mandate to build up fixed-income, which had had a spotty track record, to say the least, in terms of profitability up to that point. Pollack jokes, for example, that "John Chalsty thought you were *supposed* to lose money in governments."

Pollack's basic strategies were two-fold: a hiring spree and an efficiency drive—which aren't necessarily contradictory. Pollack says he's hired about 300 professionals over the last five years, although the net growth in their number has been far less: about 115. Obviously, some of the departures were not voluntary, and the quality of the group has been improved significantly.

The hiring included most of the key players who report to Pollack. His timing was fortunate, as he readily acknowledges, for he was able to take advantage of the disintegration of a number of prominent firms in late 1987 and 1988.

Thus, three of the top spots in mortgage-backed securities were filled in 1988 from the ranks of EF Hutton: Richard Whiting, who heads the MBS group; Bruce Richards, who runs the collateralized mortgage obligations (CMO) desk; and James Roiter, who heads the whole loan desk.

At around the same time, DLJ also hired a number of fixed-income pros who had worked for LF Rothschild. They included Daniel Scotto, now head of fixed-income research at DLJ; Gary Jones, national sales manager for the division; and Alan Schlesinger, who heads high-yield trading. Michael Moran was hired from SG Warburg to run the government bond business in late 1987.

In short, many top spots were filled quickly with people of an unusually high caliber, many of whom were available only because of the distressed conditions in the industry.

Otherwise, though, the fixed-income build-up had much less to do with luck than with hard work and common sense. As the accompanying table shows, the division became dramatically more efficient, simultaneously boosting the number of producing professionals—thus raising trading revenues—while paring costly support staff. Pollack says that the increased application of computer technology has played a big role in the headcount shift.

DLJ also has leveraged its long-standing reputation for excellent research. A leader in Institutional Investor's annual rankings of equity analysts for many years, the firm also got high marks in the magazine's first-ever rankings of fixed-income analysts last month. DLJ came in second place behind Lehman Brothers overall, with 14 "team positions," but notched the largest number of first-team analysts—seven. Pollack claims that his 30-professional fixed-income research group is "pound for pound, the best on Wall Street."

'The vision thing'

Pollack acknowledges that it all sounds very simple: "We do that a lot around here—we take what's complex and reduce it to its simplest components." But plenty of other people at second- or third-tier firms have attempted similar build-ups and failed—including some at DLJ. So why has Pollack been so successful?

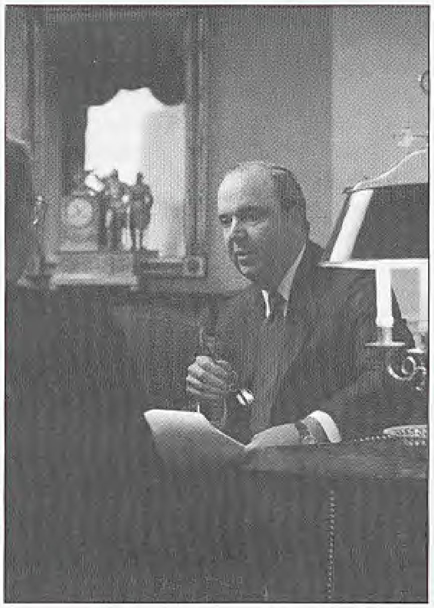
"It's the vision thing," Pollack says—tongue in cheek. "You have to have some view of the landscape and where you want to go." But he acknowledges, too, that you have to be able to execute, and so comes back to the quality of the people he hired or inherited in the late '80s. "It was a very fortuitous time for us," Pollack says. "We could hire very, very talented people. It's much tougher now." He adds that if the firm was forced to duplicate its build-up today, it might not even be possible.

Taxable Fixed Income Division
Volume vs. headcount (1988-1992)

	1988	1989	1990	1991	8 months Ending 8/92	% Increase (Decrease)
Trades	362,000	444,000	546,000	907,000	1,438,000*	+297%
Headcount	428	412	438	442	493	+15.0%
Professional	216	239	288	295	332	+54.0%
Support	212	173	150	147	161	-24.0%

* Annualized

Source: Donaldson, Lufkin & Jenrette



Roby: "We're a big firm, but not everybody at DLJ believes we're a big firm yet."

In some areas, a then-versus-now contrast between DLJ's market positions is startling. In governments, the firm perennially ranked last among primary dealers only a few years ago; according to Pollack, Federal Reserve officials once even asked, "Why are you guys doing this?"—a not-so-veiled threat to pull the plug on DLJ's primary dealer status.

Today, the firm claims to rank in the top quartile of government securities dealers, with only bulge-bracket Street firms and major commercial banks ahead of it.

In mortgage-backed securities, the firm still has a small market share—about 3%. But Chalsty stresses that the firm takes a "designer" approach to this business. DLJ creates high value-added CMO tranches to meet specific client needs, or puts together whole loan deals with so-called non-conforming residential mortgages. The firm also is a leader in commercial loan securitizations.

Top officials say DLJ's MBS market share would appear much higher than 3% if measured in the narrower sectors in which the firm is really trying to compete. Alternatively, if market share were measured according to firm revenues or profitability, things would look vastly different than rankings based on the gross volume of securities sold.

In investment-grade corporate bonds, DLJ's performance has started to register on the league tables in the last couple of years. The firm participates mainly as a co-manager, and on that basis (giving full credit to all co-managers) it ranked 10th in the first half.

The big surprise shows up in DLJ's bottom line, however: taxable fixed-income division has become the firm's top moneymaker in the 1990s; this will be the third straight year that's been true. But most surprising of all, perhaps, is the fact that within fixed-income, the high-profile junk bond business accounts for a relatively small part of the division's profits.

The well-kept secret is that mortgage-backed securities are the biggest profit producer in the group. In fact, until this year's junk bond underwriting bonanza, the high-yield group actually was the smallest of the four businesses within taxable fixed-income—behind not only MBS but also investment-grade debt and governments. Even this year, junk is still expected to fall short of the mortgage business.

Growth problems

The flip side of DLJ's success in diversifying, of course, is that it brings with it new challenges. The war has a much broader front today, so the number of potential battle plans has grown exponentially.

Leon Pollack, for example, points to one big problem that the fixed-income group faces—a potential shortage of capital. "It will become the lubricant of our future success," he says. "Historically, it's been a very good constraint. But if it becomes a constraint going forward, that's going to be a negative."

Chalsty hints that any capital problem wouldn't be very difficult to solve. Equitable admittedly is an unlikely source of new capital at the moment. But Chalsty notes that Equitable took Alliance public in 1988, so that's one obvious model. He suggests, too, that the possibility of an equity infusion from a third party has been considered.

But the challenges go well beyond the relatively straightforward issue of when and how to raise fresh capital—which, after all, is the kind of question that DLJ specializes in answering for its clients.

The bigger questions get at how rapidly specific businesses should grow, how people resources should be allocated to them, and so on. Outsiders say that in investment-grade debt, for example, the firm has already made the easy moves, and making further progress will be much more difficult.

DLJ does not have a derivatives effort to help it add value for issuers in this low-margin business. With only a modest banking focus on high-grade companies, it's not clear exactly how the firm will continue to grow in this area.

Then there are the challenges completely separate from the fixed-income business. DLJ officials are rightfully proud of the firm's performance in equity underwriting in the first half; factoring out closed-end funds, it ranked sixth for lead-managing both initial public offerings and all common stock offerings, according to IDD Information Services. But banking head Joe Roby acknowledges that the strong showing may not be sustainable: "We don't have the bulk to sustain that day in and day out."

DLJ doesn't get much respect from rival investment bankers, either. "They're positioned to be America's co-manager," one said. "Issuers think they can buy the research by putting them in as co-managers. If they try to move beyond that, it won't work very well."

League-table wars

DLJ officials put out mixed signals on the subject of league table rankings, though perhaps not as mixed as at most firms. The officials say that if push comes to shove, DLJ will always put profitability ahead of rankings. Based on the firm's track record, it seems reasonable to assume that this old argument is not just lip service in DLJ's case.

"I don't think [rankings] are a burning obsession," says Richard Jenrette, chairman of the board and one of the firm's co-founders. "We want to continue to grow and have a nice return on equity—the focus should be on doing a quality business very profitably."

But the truth, of course, is that a securities firm pursuing profitable growth will find itself moving up in the league tables. "Deeply embedded in our culture is a kind of specialty mindset," says Ted Shen. "We still have quite a ways to run in picking our spots. But it

'[DLJ is] positioned to be America's co-manager [in equity underwriting]. Issuers think they can buy the research by putting them in as co-managers.'

—A rival investment banker

would be hard not to continue to improve and to grow without your market share rising."

John Chalsty states it a bit more bluntly, however: "We do expect to be among the top half-dozen or so in the capital raising area."

Joe Roby is equally blunt, but freely admits that "one ingredient we don't have in place is a large enough investment banking group. Our coverage is not as broad as we'd like." He notes that with only about 200 bankers, DLJ is not even close to the 400, 500 or 600 fielded by the firm's largest competitors.

So, with profits pouring in this year, is there a program to accelerate growth in the investment banking ranks beyond the trendline 10% to 15% pace? "I think you could argue that there should be, but at the moment there isn't," Roby says.

It's clear that the question of maximizing current returns, as opposed to undertaking a costly build-up aimed at giving DLJ a full-line, bulge-bracket kind of presence across the board, is one that has been debated at the top levels of the firm. "But we suppress it," says Shen. "We tend not to engage it; I don't think we need to answer it right now."

There's considerable logic, of course, in avoiding hand-to-hand combat with the likes of Merrill Lynch in the investment-grade debt market. Any major attempt to expand there would be a money-loser for years.

The firm's long-time focus has been the middle market, starting with a core in the single-B range of the credit spectrum. With its growth of the last few years, the firm has made headway in the double- and even triple-B sectors. At the same time, many big, old-line industrial companies have been downgraded, boosting the number of potential clients in the borderline investment-grade area significantly. "The world is coming our way," says Roby.

DLJ's rankings report card

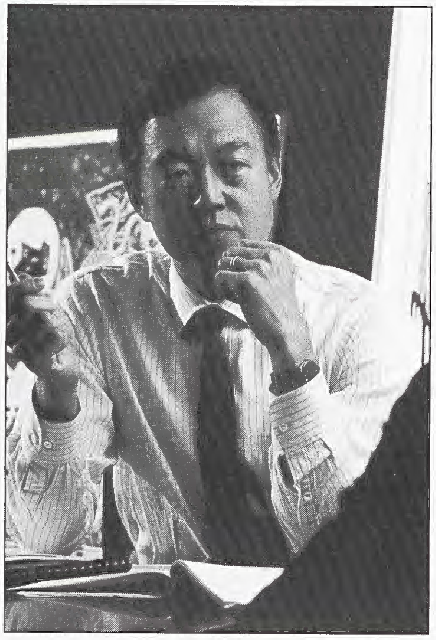
Issue type	RANK 1987	1988	1989	1990	1991	1992*
Investment Grade Debt	–	–	18	10	16	12
Junk Debt	8	8	8	–	5	5
Convertible Debt	16	9	5	11	–	3
Mtge-Backed Securities	21	13	11	9	10	10
Asset-Backed Securities	–	–	–	14	10	11
Common Stock	17	15	15	24	10	10
IPOs	16	14	21	18	13	9
All Domestic Financing	**19**	**14**	**11**	**10**	**10**	**10**

* 1992 data includes deals through August 31.

Note: All rankings are based on giving full credit to lead managers. Closed-end funds are included in the common stock and IPO rankings. Junk debt includes split-rated deals.

Source: IDD Information Services

He says a big new-business effort aimed at Fortune 100 companies is simply not in the cards. For now, the firm's main thrust in the investment-grade debt market, for example, will consist of trying to leverage its research and trading clout in a few specific industry sectors. Utilities and banks are tops on the list.



Shen: formed with Chalsty a fixed-income strategy that has worked to the letter

A satisfied ceo

President and ceo Chalsty, despite his goals for the firm in the capital-raising arena, sounds almost complacent about DLJ's position in the wake of its major diversification thrust: "We have the absolute size that we need now; I think we have sufficient people and sufficient capital."

In fact, Chalsty can get rather passionate about the virtues of "a smallish group of high-quality professionals with a sufficient but not excessive amount of capital."

He's justifiably proud that the firm was able to keep most of its people busy at slow points over the last few years—most notably in the redeployment of many bankers to the firm's highly successful effort in restructurings. "We haven't been that big that we've had whole platoons of narrowly focused people," he says pointedly.

Such talk, together with comments about the importance of DLJ's culture, make it pretty clear that Chalsty has mixed feelings about the subject of further dramatic growth. And that, in turn, leads one to question exactly what the conditions might be under which DLJ again would grow aggressively.

Sources inside and outside the firm agree that now—with top bankers sitting fat and happy at the peak of a record underwriting cycle—would hardly be a good time to try to lure talent away from competitors.

"I'd be surprised to see them take on any real big expansion—that's not '90s behavior," says John Keefe, an independent industry analyst.

Yet the firm made moves in the late '80s that were anything but timid; its hiring spree at the time went well beyond fixed-income, and involved "two to three hundred people at senior producing levels over a couple of years," as Chalsty puts it. Indeed, he claims, the firm is not risk-averse, but "risk-aware."

Five years ago, however, he and his colleagues perceived DLJ as dangerously dependent on the equities business—there was a real sense of urgency. So the firm stepped up to the plate at a time when many of its competitors were laying people off. But it was a scary environment, and it's only obvious in retrospect that the right decision was to hire aggressively then.

The slow, steady approach has considerable merit in an industry that's seen more than its share of wild-growth/crash-and-burn stories. It also may make sense for a firm that has already pushed its luck a bit once—and gotten away with it. IDD

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Salomon asks rivals how they spell ethics

Bottom line: Use common sense

WALL STREET
By Susan Antilla

NEW YORK — Ethics are in high fashion at the nation's brokerage houses, and even the tainted are hustling to spiff up their policies on employee conduct and morals.

Salomon Inc. has been working the phones in recent weeks, gathering copies of ethics policies from any competitors willing to share them. The scandal-ridden brokerage is taking a fresh look at how it communicates ethics to the troops and hopes to get a few ideas by studying codes of conduct published by other firms.

Joan Schneider of Salomon's personnel department emphasizes that the brokerage isn't without ethics policies. During training sessions for new employees, upstarts spend a half-day talking with an ethics panel of managing directors. And Salomon is midway through a performance-appraisal exercise in which 150 managing directors will be judged on such things as integrity. That's by mandate of Chief Operating Officer Deryck C. Maughan. But some competitors joke privately that it's no secret that Salomon hadn't much thought about the subject of ethics until now. Not outside the personnel office, anyway.

USA TODAY decided to take a look at what sort of pamphlets and statements the major Wall Street firms were sending to Salomon, and the process was as educational as the material they delivered.

Some brokerages provided policies as fast as they could. Dean Witter, DLJ Securities, Merrill Lynch, Morgan Stanley, Prudential, Shearson Lehman and even besieged Japanese firms Nikko and Nomura Securities showed no hesitation about sending copies of their guidelines.

Bear Stearns, Goldman Sachs, Kidder Peabody, Oppenheimer, Smith Barney and PaineWebber either didn't produce codes of conduct or didn't call back after getting messages requesting the document. Goldman, revered for its upstanding business practices, offered no cooperation. First Boston would only allow a spokeswoman to read two sentences from a compliance manual. Dillon Read said only one person was authorized to speak to news reporters but she was unreachable in California.

Brokerage firms most willing to let the public know about their official policies attack the ethics issues in a number of ways. Shearson starts out with a 13-page code of conduct for employees, then follows up with letters about quality and ethics. To drive home the point, management sends brokers the desktop "Principles of Professionalism" document. Anyone who still doesn't get with the program can't miss the message in Shearson branch offices, where managers are obliged to hang giant posters of the "Principles" document. Have any questions? Shearson has a full-time quality officer who can set you straight about what's right and what's wrong.

Nikko, one of the Japanese firms embroiled in scandal right now, has a code of ethics that reads more clearly than some of its U.S. counterparts'. It goes so far as to define sexual harassment for anyone who can't figure it out on his own. And when Nikko's code talks about nepotism (forbidden), it defines who a relative is, too. Yes, your mother-in-law and first cousin are off limits for employment.

Some well-meant codes look silly after the firm has gotten into trouble. Nomura Securities International "has always maintained a good reputation!" the firm gushes on the top of its handbook.

And some brokerages didn't think things through when they wrote their codes: Major brokerages that deal mostly with individual investors make a fuss over forbidding the acceptance of gifts and "lavish travel," although most of their brokers get fabulous free trips for selling large numbers of mutual funds run by more generous outside firms.

In the end, most codes make the point that employees should use common sense on such things as the taking or giving of gifts. Or, as a journalist friend once put it, if they're offering something you don't want, you can take it. If they're offering something you want, you can't have it. Not much fun for an employee hot to squeeze out every last perk. But then, the big fun of the unethical 1980s is all history, anyway.

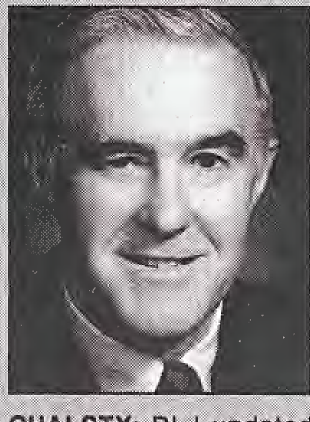
DLJ's ethics code a good model

To read some firms' ethics policies, you would think doing business with morals in mind is an unnatural act. The worst codes of conduct are full of indecipherable language. But not all.

Although several firms, Shearson and Merrill Lynch among them, have very good statements about what's right and wrong, one stands out — DLJ Securities covers all the bases.

For starters, the DLJ "Code of Business Ethics" clearly was not written by lawyers.

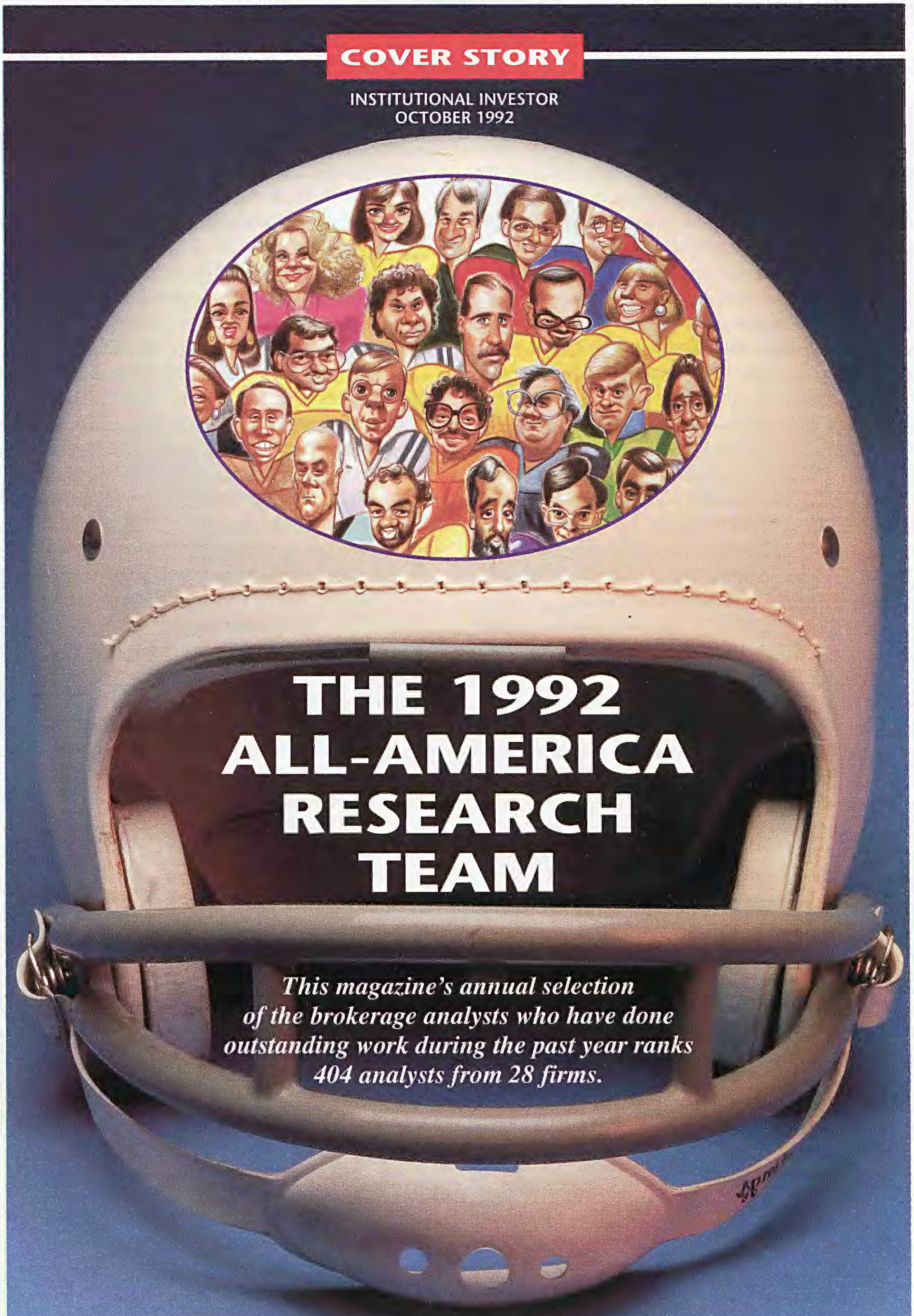
Don't give lavish gifts to clients or prospective clients, the booklet says. Use your head. When in doubt, don't give something worth any amount that would be publicly embarrassing. Follow U.S. trade and antitrust laws, too, says DLJ. Don't know what they are? DLJ lists and explains the Sherman Act, the Clayton Act, the Robinson-Patman Act and the Federal Trade Commission Act in one clear sentence each.



CHALSTY: DLJ updated code when he became CEO.

It would be hard to thumb through the 15-page booklet and not know what management was talking about.

DLJ first published its code of ethics in 1981, then updated it when CEO John S. Chalsty came on board in 1986. In addition to the booklet that's given to all employees, there's a policy on inside information and investment-banking relationships. Every year, employees sign a statement saying they understand and ascribe to inside information and confidentiality codes. In case an employee misplaces all those ethics reminders, DLJ owner Equitable Life Assurance sends its own statement on ethics each year.



DONALDSON, LUFKIN & JENRETTE

Excerpted from the October 1992 issue of Institutional Investor

ALL-AMERICA RESEARCH TEAM 1992

Securities analysts have gone through difficult times recently. But this year, the 21st in which *Institutional Investor* has published its All-America Research Team of the brokerage-firm analysts who have done the best work during the preceding twelve months, it seems that analysts are returning to the driver's seat. Six quarters of solid profits have encouraged Wall Street firms to replenish research departments that had shriveled during postcrash downsizing.

In the first four months of 1992, according to executive recruiters G.Z. Stephens Inc., hiring for Wall Street analysts was up considerably compared with the same period last year. And G.Z. Stephens principal Howard Gabler anticipates further activity. "Firms feel more comfortable about the future," he explains. "The belief is fairly strong that we're not going to go through a major downturn in profits."

Compensation at most firms is on the rise, too. This year the bonus pool for analysts at Smith Barney, Harris Upham & Co., for example, increased 30 percent from 1991. Salomon Brothers announced that it would guarantee the pay pool for its stock research group after losing some of its best-known analysts because of sharply lower year-end bonuses. Salomon and other firms were reportedly offering big basic compensation packages to lure more top analysts into the fold.

Such developments, not surprisingly, couldn't make Wall Street analysts—or their institutional clients—much happier. In recent years analysts have been frazzled by having to follow more companies and at the same time handle investment banking business. In addition, they've been hounded with criticism from clients that the level and quality of their research had suffered. Yet these factors have increased analysts' power. The past year saw a spate of defections, with several analysts proclaiming—sometimes quite loudly—that they were unhappy with their compensation, their lifestyle or their firms.

Indeed, this year's crop of first-teamers includes four recent job-hoppers – perhaps the most noteworthy being Thomas Hanley, who has been No.1 in money center banks since 1984 (he also ranks third this year in regional banks). After 24 years at Salomon Brothers, he moved to First Boston Corp. Eric Hemel, the front-runner in government-sponsored enterprises and a third-teamer in savings and loans, exited First Boston to settle at Morgan Stanley & Co. Steven Milunovich, the winner in information technology/mainframes (he ties for third in information technology/midrange systems), went from Salomon Brothers to Morgan Stanley, while premier packaging analyst Cornelius (Perk) Thornton relocated to Goldman, Sachs & Co. from First Boston.

Among the second-teamers who jumped ship in the past year was Barbara Allen (building), who quit Kidder, Peabody & Co. — after complaining that she was not properly compensated for her corporate finance work — for Oppenheimer & Co. The others: Daniel Barry (retailing) went to Merrill Lynch from Kidder Peabody; Timothy Burns (packaging) shifted from Kemper Securities Group to First Boston; Edward Comeau (retailing/food and drug

OVERALL RESEARCH STRENGTH

To determine which brokerage firms have the greatest overall research clout, we combined the results of the All Fixed-Income Research Team (*Institutional Investor*, August 1992) with those of this poll. Here are the top ten finishers.

Rank	Firm	Total Team Positions	Total Equity Positions	Total Fixed-Income Positions
1	**Lehman Brothers**	67	48	19
2	**Donaldson, Lufkin & Jenrette**	57	43	14
3	**Merrill Lynch**	56	47	9
4	**Goldman Sachs**	55	44	11
5	**First Boston**	46	33	13
6	**Morgan Stanley**	45	38	7
7	**Smith Barney**	41	37	4
8	**PaineWebber**	33	32	1
9	**Prudential Securities**	32	29	3
10	**Salomon Brothers**	26	19	7

chains) switched from Oppenheimer to Lehman Brothers; and William Randol (oil/international) moved from First Boston to Salomon.

Gary Vineberg, who ties for third in retailing/food and drug chains, returned to Kidder Peabody after spending two and a half years at Dean Witter Reynolds. Other third-team movers: Marc I. Cohen, tobacco (Sanford C. Bernstein & Co. to Goldman Sachs); David Dwyer, building (Donaldson, Lufkin & Jenrette Securities Corp. for Kidder Peabody); Michele Preston, information technology/personal computers and peripherals (Cowen & Co. to Merrill Lynch); and Andrew Shore, both cosmetics and household products (Prudential Securities to PaineWebber). Yet another noteworthy departure: Bernard Picchi, who has appeared in domestic oil every year since 1983 (he is now a runner-up), joined Kidder Peabody from Salomon Brothers.

WEIGHTING THE RESULTS

In this table we show what happens when a rating of 4 is assigned to a first-teamer, 3 to a second-teamer, 2 to a third-teamer and 1 to a runner-up. Donaldson, Lufkin & Jenrette and Lehman Brothers change places to emerge first and fourth, respectively.

Rank (in leadership table)	Rank (by weighted formula)	Firm	Weighted Total
4	1	**Donaldson, Lufkin & Jenrette**	113
3	2	**Goldman Sachs**	109
2	3	**Merrill Lynch**	107
1	4	**Lehman Brothers**	93
6	5	**Smith Barney**	77
7	6	**First Boston**	70
5		**Morgan Stanley**	70
8	8	**PaineWebber**	64
9	9	**Prudential Securities**	63
10	10	**Kidder Peabody**	37
11	11	**Salomon Brothers**	36
12		**Wertheim Schroder**	36
13	13	**Sanford C. Bernstein**	22
15	14	**Cowen**	20
14	15	**Bear Stearns**	16
15	16	**Dean Witter Reynolds**	15
18		**Oppenheimer**	15
17	18	**C.J. Lawrence**	12
19	19	**Montgomery Securities**	10
20	20	**Alex. Brown & Sons**	4
21		**County NatWest Securities**	4
23		**International Strategy & Investment**	4

Burn-out?

While many analysts changed firms to grow their fortunes, a few quit Wall Street altogether. Two first-teamers resigned to take time off from the securities business: Laurie Goldberger, formerly of Lehman Brothers, who dominated advertising agencies last year; and Deborah Thielsch, the four-time winner in engineering and construction, who was with First Boston. Peter Anker, who has been on the All-America Research Team in the nonferrous-metals and steel categories a total of 28 times, retired from First Boston, where he had been research director. Another First Boston retiree: Peter Butler, who has shown up in chemicals seventeen times since 1972. And Jeffrey Feiner, an eighteen-year veteran of the retailing squad, abruptly quit Merrill Lynch last December.

Perhaps seeking a more stable lifestyle — or an opportunity to manage money — several well-known Wall Streeters marched off to the buy side. Stacy Ruchlamer, four-time captain of the specialty-retailing squad while with Lehman Brothers, left in March to start Retail Analysis, a money management firm. Last year's victor in household products, Jay Freedman, left Kidder Peabody for Lincoln Capital Management. (Also a Lincoln Capital recruit: Nancy Spady, formerly of Lehman, who was a 1991 runner-up in both savings and loans and government-sponsored enterprises.) Robert Bishop, the 1991 second-teamer in packaging, departed Salomon Brothers for Tiger Management Corp. (he had left Salomon a year before for the buy side, but returned after two weeks). And Kathleen Lally, a former County NatWest Securities Corp. USA runner-up in utilities, signed up with Steinhardt Partners for the second time (she had joined Steinhardt in late March, but stayed only a weekend).

Ann Knight, who as a PaineWebber staffer reigned supreme in autos and auto parts from 1986 to 1991, joined McFarland Dewey & Co., a New York City investment banking boutique. William (Buff) Brown III, a 1991 runner-up in international oil, left Kidder Peabody to start E.T. Petroleum, an oil trading and consulting firm. And even though he remains a Morgan Stanley analyst, Kurt Feuerman has given up coverage of food, where he was No. 3 last year, to head up Morgan's emerging-growth-equities effort.

By contrast, a number of analysts have shown their endurance. Jerry Gitt of Merrill Lynch marks his eighteenth straight year at the helm of savings and loans. For sixteen consecutive years Joseph Ellis of Goldman Sachs has been triumphant in retailing, while Robert Farrell of Merrill Lynch has led market timing for sixteen of the past seventeen years. DLJ's Dennis Leibowitz (broad-

COMPLETION PERCENTAGES

Here is how the leading brokerage firms fare in percentage terms when the number of a firm's places on the team is divided by its total number of analysts.

Rank	Firm	Total Team Positions*	Total Equity Analysts*	Percent-age
1	**DLJ**	43	32	134.4%†
2	**Goldman Sachs**	43	43	100.0†
3	**Prudential Securities**	29	30	96.7
4	**Wertheim Schroder**	18	19	94.7
5	**PaineWebber**	32	34	94.1
6	**Morgan Stanley**	38	42	90.5
7	**First Boston**	33	39	84.6
8	**Lehman Brothers**	48	60	80.0
9	**Smith Barney**	36	46	78.2
10	**Sanford C. Bernstein**	12	17	70.6
11	**Merrill Lynch**	47	69	68.1
12	**Cowen**	10	15	66.7
13	**Salomon Brothers**	19	36	52.8
14	**Kidder Peabody**	21	41	51.2
15	**C.J. Lawrence**	9	21	42.9
16	**Dean Witter Reynolds**	10	28	35.7
17	**Montgomery Securities**	6	18	33.3
18	**Bear Stearns**	11	35	31.4
19	**Oppenheimer**	8	33	24.2
20	**County NatWest**	3	17	17.6
21	**Alex. Brown & Sons**	4	36	11.1

** Numbers exclude analysts in convertibles and equity derivatives categories.*
† Firm has a number of multiple winners.

casting) and Joel Price (coal) are each fifteen-time winners. William Young, also at DLJ, has dominated chemicals since 1979. Both Emanuel Goldman of PaineWebber (beverages) and Edward Hyman Jr. of International Strategy & Investment Group (economics) are thirteen-time victors. And Jerry Labowitz of Merrill Lynch (electronics/connectors) is the sole twelve-year winner.

It should be noted, moreover, that Gitt, Ellis, Young, Goldman and Hyman were big winners in their respective realms. Gitt's claim to fame this past year: finding healthy thrifts to add to his universe. Ellis is respected for, among other things, being a fundamentalist in an industry where monthly sales figures can wreak havoc on the stocks. Goldman is commended for his bold and bullish stand on Coca-Cola Co. And although Young failed to anticipate chemicals' poor showing and Hyman was too sanguine on the economy, clients continue to rely on the wealth of information they provide — not to mention their constant availability.

Other analysts who outdistanced the competition by a wide margin: David Altman of Goldman Sachs (electrical equipment); Daniel Benton, Goldman Sachs (information technology/personal computers and peripherals); James Carroll, PaineWebber (oil services and equipment); Stephen Girsky, Paine Webber (tire and rubber); Thomas Hanley, First Boston (banks/money center); Dennis Leibowitz, DLJ (cellular); Steven Milunovich, Morgan Stanley (information technology/mainframes); and Katharine Plourde, DLJ (chemicals/specialty).

On the other hand, several races were quite close. Nonferrous-metals analyst John Tumazos regrets missing the run-up in coppers. Yet the DLJ staffer reclaims the top position — barely surpassing Prudential's J. Clarence Morrison, who did get in on copper's surge — on the strength of his long-term approach and broad coverage. Yet Tumazos is not so lucky in steel, where he loses by the narrowest of margins to Salomon Brothers' Michelle Galanter Applebaum. Even while on maternity leave, Applebaum continued to crank out reports and stay in close touch with clients and managements. Machinery was another heartbreaker, with First Boston's John McGinty almost forfeiting the laurels to Wertheim Schroder & Co.'s Mitchell Quain. McGinty's advantage: his diligence.

International oil saw a virtual dead heat between Bryan Jacoboski of PaineWebber and William Randol of Salomon Brothers. Although Randol made a couple of timely anticonsensus calls during the past year, Jacoboski, who has a knack for making the complex simple, prevails. In the pollution-control category, despite a strong challenge by Kidder Peabody's Marc Sulam, Merill Lynch's William Genco manages to hold on to the reins. Apparently Genco's talent for keeping close with managements without losing his objectivity helps give him the upper hand.

Several analysts traveled great distances to become No. 1. Most dramatic is the appearance of PaineWebber's Girsky on the first team in both autos and auto parts and tire and rubber. (He also makes the top ten in stock picking, earnings estimates, overall service and written reports.) Although he has never been on the team in any category before, Girsky followed in the footsteps of longtime auto front-runner (and mentor) Ann Knight. But he made waves in his own right by, for one thing, touting General Motors Corp. the day *after* the company announced the idling of

21 plants. It was a bold call, to be sure, but GM doubled by summer. In tire and rubber, where Girsky triumphs by a wide margin, he is applauded for putting a buy on Goodyear Tire & Rubber Co. when most of Wall Street was forecasting bankruptcy. Just one month later Goodyear began its spectacular rise.

The brand-new victor in electrical/consumer is Robert Cornell of Lehman Brothers, who has never surfaced in that sector before (though he was No. 1 in electrical equipment from 1974 to 1983 and ties for third in that group this year). Cornell not only has been accurate on Whirlpool Corp., say fans, but he also offers excellent service, sources and writing. Susan Decker of DLJ skips from third to first in advertising agencies, aided by her enthusiasm on the advertising environment as well as her buys on Interpublic Group of Cos. and Omnicom Group. And in yet another squeaker, Laura Conigliaro of Prudential vaults from No. 3 to No. 1 in information technology/midrange systems — dethroning five-time victor John Levinson of Goldman Sachs. Regarded as an all-around analyst for her outstanding service, earnings estimates, reports and stock picking, Conigliaro gains an edge over Levinson, who is acclaimed for his string of good calls but is not considered particularly strong on service or numbers work.

Other analysts making their debut on the first team: Thomas Driscoll, Salomon Brothers (oil/exploration); Mark Hunt and team, Smith Barney (convertibles); Paul Karos, First Boston (airlines); Charles LoCastro, DLJ (chemicals/fertilizers); Jeanne Gallagher Terrile, Merrill Lynch (engineering and construction); Joan Zief, Merrill Lynch (life insurance); and Mark Zurack and team, Goldman Sachs (equity derivatives).

Many analysts also have the distinction of ranking first, second or third in more than one category. Prominent among them is John Tumazos of DLJ, who not only finishes first in both gold mining and nonferrous metals, but also comes in second in steel. Five other analysts are double first-teamers: Goldman Sachs' Joseph Ellis (retailing, retailing/specialty); PaineWebber's Stephen Girsky (autos and auto parts, tire and rubber); DLJ's Dennis Leibowitz (broadcasting, cellular); DLJ's Joel Price (coal, railroads); and Wertheim Schroder's John Rohs (gaming and lodging, restaurants). And in addition to Tumazos, there are two triple threats: Lehman Brothers' Elaine Garzarelli, who emerges first in quantitative analysis and second in market timing and ties for third in portfolio strategy; and DLJ's Alice Beebe Longley, who ties for No. 3 in cosmetics, household products and textiles and apparel. Thirty-five other analysts captured first, second or third in two categories.

This year's team does not include fixed-income analysts, who were ranked in a separate survey for the first time in August. And despite the flurry of activity in the past twelve months, the positions of the top ten firms are essentially unchanged. For the third year in a row, Lehman

From the Index of the All-American Research Team

Donaldson, Lufkin & Jenrette Securities Corp.

James Alexandre
autos & auto parts, 3 (tie)
tire & rubber, 3 (tie)
Gary Balter
retailing, R/U
Matthew Berler
paper & forest products, R/U
Kent Blair
pharmaceuticals, R/U
medical supplies & technology, R/U
Thomas Brown
banks/regional, 1
Eric Buck
telecommunications equipment, 3 (tie)
Susan Decker
advertising agencies, 1
publishing, 2
Frank DeSantis
banks/money center, 3 (tie)
Robert Gay
quantitative research, 2
Ty Govatos
photography & electronic imaging, 2
Joel Gross
telecommunications services, 3 (tie)
Mark Hassenberg
electrical/consumer, 3 (tie)
electronics/connectors, 2
John Hindelong
health care services, 2
Curt Launer
natural gas, 1
William Leach
beverages, R/U
food, 3
Dennis Leibowitz
broadcasting, 1
cellular, 1
Charles LoCastro
chemicals/fertilizers, 1
Alice Beebe Longley
cosmetics, 3 (tie)
household products, 3 (tie)
textiles & apparel, 3 (tie)
Mark Manson
gaming & lodging, 3
leisure time, 3 (tie)
David Moore
multi-industry, 1
Drew Peck
electronics, R/U
Katharine Plourde
chemicals/specialty, 1
Joel Price
coal, 1
railroads, 1
Thomas Rooney
information technology/ midrange systems, R/U
Paul Schlesinger
trucking, 3 (tie)
David Seifer
insurance/life, 3
insurance/nonlife, 1
Scott Smith
information technology/ software & computer services, 2
John Tumazos
gold mining, 1
nonferrous metals, 1
steel, 2
Susan Freeman Weiner
machinery, R/U
William Young
chemicals, 1

Brothers has the most total places, 48, on the team. (For easier comparisons, this year's Leaders table alters 1991 results to eliminate fixed-income analysts.) Lehman is followed, once again, by Merrill Lynch and Goldman Sachs. And although DLJ, which tied for third last year, drops one notch to No. 4, it is the front-runner when the results are weighted and when the number of positions it has captured on the team is calculated as a percentage of its total number of analysts. When fixed-income analysts are factored in (see the Overall Research Strength table), Lehman prevails, and DLJ rises to the second position.

Picking the team

How does *Institutional Investor* pick the All-America Research Team? First we send a questionnaire covering about 80 industry groups and investment specialties to the director of research or head of investments of about 800 money management organizations — all those on our latest ranking of the 300 largest institutions in the U.S., as well as other managers regarded as key clients of brokerage firms, from banks to funds to investment counseling firms. In addition, we tap the opinions of non-U.S. institutions that invest heavily in U.S. stocks, names obtained from the II 300 and other sources. Questionnaires are also sent directly to analysts at many top institutions and to a sampling of portfolio managers.

Our reporters spend several months interviewing survey respondents to learn more about the analysts they've chosen. The rankings are not considered final until the results of this reporting are in. At this point we also determine which categories to include in the feature. This year a category in chemicals/fertilizers has been introduced to reflect that group's market capitalization of more than $5 billion as well as its coverage as a separate specialty by many brokerage firms. Teams in the sizable convertibles and equity derivatives fields make their debuts, each fielding only a first-teamer (those categories appear together at the end of the feature). The lodging and restaurants category has been divided into gaming and lodging, and insurance into insurance/life and insurance/non-life to better reflect the way Wall Street tracks those industries. There are also several name changes. Drugs is now pharmaceuticals; hospital supply is tagged medical supplies and technology. In the information technology subset, microcomputers and peripherals has become personal computers and peripherals; minicomputers and office equipment has been renamed midrange systems.

Here then is our 21st annual list of the best brokerage-firm analysts, along with synopses of what makes these individuals stand out from the crowd. It was compiled by *Institutional Investor* staff under the direction of Staff Editor Laurie Meisler, who also edited the feature, and Senior Editor Barbara Bent.

THE LEADERS

Rank 1991	Rank 1992	Firm	Total Positions 1992	Total Positions 1991*	First Team 1992	First Team 1991*	Second Team 1992	Second Team 1991*	Third Team 1992	Third Team 1991*	Runners-up 1992	Runners-up 1991*
1	**1**	**Lehman Brothers**	**48**	46	**4**	7	**7**	5	**19**	12	**18**	22
2	**2**	**Merrill Lynch**	**47**	46	**8**	8	**9**	10	**18**	14	**12**	14
3	**3**	**Goldman Sachs**	**44**	41	**12**	10	**8**	7	**13**	12	**11**	12
3	**4**	**Donaldson, Lufkin & Jenrette**	**43**	37	**14**	11	**7**	9	**14**	9	**8**	8
5	**5**	**Morgan Stanley**	**38**	36	**3**	1	**3**	2	**17**	10	**15**	23
6	**6**	**Smith Barney**	**37**	35	**6**	5	**5**	6	**12**	9	**14**	15
7	**7**	**First Boston**	**33**	32	**5**	7	**7**	5	**8**	11	**13**	9
8	**8**	**PaineWebber**	**32**	31	**5**	4	**4**	3	**9**	8	**14**	16
8	**9**	**Prudential Securities**	**29**	31	**6**	5	**3**	4	**10**	10	**10**	12
10	**10**	**Kidder Peabody**	**21**	25	**0**	1	**2**	4	**12**	9	**7**	11
11	**11**	**Salomon Brothers**	**19**	24	**3**	4	**2**	4	**4**	2	**10**	14
12	**12**	**Wertheim Schroder**	**18**	15	**2**	1	**3**	1	**6**	4	**7**	9
16	**13**	**Sanford C. Bernstein**	**12**	9	**1**	0	**3**	5	**1**	0	**7**	4
15	**14**	**Bear Stearns**	**11**	10	**1**	1	**0**	0	**2**	1	**8**	8
14	**15**	**Cowen**	**10**	12	**2**	2	**2**	2	**0**	2	**6**	6
13		**Dean Witter Reynolds**	**10**	14	**0**	0	**1**	1	**3**	3	**6**	10
17	**17**	**C.J. Lawrence**	**9**	8	**0**	0	**1**	0	**1**	1	**7**	7
18	**18**	**Oppenheimer**	**8**	6	**0**	0	**3**	0	**1**	3	**4**	3
19	**19**	**Montgomery Securities**	**6**	5	**0**	0	**1**	0	**2**	2	**3**	3
20	**20**	**Alex. Brown & Sons**	**4**	2	**0**	0	**0**	0	**0**	0	**4**	2

**To facilitate comparisons, fixed-income analysts were subtracted from 1991 results.*

THE 1992 ALL-AMERICA FIXED-INCOME RESEARCH TEAM

This magazine's selection of fixed-income analysts who have done outstanding work ranks 108 analysts from 22 firms.

The 1980s brought an explosion in fixed-income markets. Public debt more than tripled to $600 billion from 1980 to 1990, according to Standard & Poor's Corp. ratings group, while bank debt expanded from $169 trillion to $321 trillion in the same time frame. Meanwhile, the mortgage-backed-securities market grew more than any other asset class last year, exceeding $120 billion, while issuance of asset-backed securities – which didn't even exist a decade ago – surpassed $50 million. The high-yield bond market continues to swell, prompting investors to search harder for sage advice.

This surge in securities – not to mention the increasing complexity of products and volatility of credit ratings – has been accompanied, not surprisingly, by greater demand among institutions for research on fixed-income vehicles. While many Wall Street brokerage firms have shrunk their equity research efforts in recent years, fixed-income departments have flourished. Most major firms now have sizeable departments, often managed separately from their equity groups.

Recognizing the increasing importance of this area and the resources Wall Street firms devote to it, *Institutional Investor* this year inaugurates the All-America Fixed-Income Research Team – a roster of the outstanding analysts in 24 fixed-income sectors and investment specialities.

Several names should be familiar to readers of this magazine. Edward Hyman Jr. of International Strategy & Investment Group, who emerges as No. 1 in economics, has for a dozen years led the economics group of the equity-oriented All-America Research Team, which we publish every October. Daniel Scotto of Donaldson, Lufkin & Jenrette Securities Corp. has been a first-teamer since fixed-income categories were added to the All-America Research Team in 1989 – this time he emerges

Excerpted from the August 1992 issue of Institutional Investor

triumphant in high-grade corporates/electric utilities. Among the other analysts singled out in previous surveys are Gregory Parseghian of First Boston Corp., who was victorious in 1991 in both mortgage-backed securities and fixed-income strategy and this year is first in the former and second in the latter – as well as a runner-up in high-grade corporates/asset-backed securities; and Catherine Montgomery of DLJ, who dominated the high-yield squad in both 1990 and 1991 and now is singled out for her achievements in high-yield/chemicals, energy and metals.

Although institutional clients point out that Wall Street fixed-income analysts have become more like equity analysts in recent years – in tending to examine companies in great depth and produce lengthy reports – the majority of fixed-income team members do not have equity backgrounds. Yet at least three victors do have experience tracking equities. For example, Donaldson, Lufkin and Jenrette's Maeda Klein, the front-runner in high-yield/basic industries, formerly tracked equities at Banque Nationale de Paris and L.F. Rothschild & Co. Roger Gordon followed health care stocks at both Buckingham Research Group and Dean Whitter Reynolds before picking up high-yield research at DLJ in 1987; he triumphs this year in high-yield/health care. Lehman Brothers' Mark Grotevant, who is victorious in high-yield/media and communications, analyzed media stocks at Prudential-Bache Securities before becoming a fixed-income specialist.

Big winners

ISI's Hyman takes first place in his category by a sizeable margin. Six other analysts also finished well ahead of their competition: Noel Delaney, Smith Barney, Harris Upham & Co. (high-grade corporates/finance companies); Tracy Hudson, First Boston (high-grade corporates/asset-backed securities); Gary Krellenstein, Lehman Brothers (municipals/utilities); Catherine Montgomery, DLJ (high-yield corporates/chemicals, energy and metals); Glenn Reynolds, Lehman (high-grade corporates/industrials); and Paul Tice, Lehman (high-grade corporates/sovereigns and supranationals).

Two categories fielded only first-teamers: municipals/health care – Glenn Wagner of Morgan Stanley & Co. was the only standout – and municipals/housing, whose team consists of Lehman's Susan Dushock. Meanwhile, tax-supported bonds, also in the muni section, has a two-member squad.

With nineteen positions on the team, Lehman Brothers finishes first in the race among brokerage firms – as it has for the past two years on the All-America Research Team. However, DLJ, which emerges second, has the greatest number of first-teamers. By contrast, Merrill Lynch, which has long finished at or near the top of the All-America Research Team survey, ranks only fifth in fixed-income.

We asked institutional investors to pick not only the top analysts but also the firms that they believe do the best job in covering specific areas. Lehman Brothers was a standout in high-grade corporates/banks and in electric utilities – even though the winners in both categories work at DLJ. Lehman also dominates industrials. First Boston prevailed in two sectors – asset-backed and mortgage-backed securities.

To pick the team, *Institutional Investor* sent questionnaires covering more than 25 fixed-income sectors to fixed-income specialists at more than 500 leading money management organizations. Then our reporters spent several months interviewing survey respondents to learn more about their selections; the rankings were not considered final until the results of this reporting were in. The identities of the survey respondents and the institutions they work for are kept confidential to ensure their cooperation and to protect those who speak off the record.

Here then is our ranking of the top fixed-income analysts in the U.S., along with the analyses of what makes these individuals stand out. It was compiled under the direction of Staff Editor Laurie Meisler, who also edited this feature, and Senior Editor Barbara Bent.

Excerpted from the . . .

1992 All-America Fixed-Income Research Team

Donaldson, Lufkin & Jenrette

Alexander (Sandy) Bing
industrials, 3 (tie)

Marion Boucher
telephones, 1

William Fish
tax-supported bonds, 1
municipal utilities, 3

Lisa Gaffney
consumer products, runner-up

Roger Gordon
healthcare, 1

Maeda Klein
basic industries, 1

Ann Maysek
finance companies, 2

Catherine Montgomery
chemicals, energy & metals, 1

Ann Robinson
banks, 1

Steven Ruggiero
gaming, 3 (tie)
retailing/supermarkets, 3

Daniel Scotto
electric utilities, 1

Rajiv Sobti
mortgage-backed securities, 3

High-Grade Corporates

BANKS

Clients aware of **Ann Robinson**'s pre-DLJ stints at the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corp. and Manufacturers Hanover Corp. figure she knows a thing or two about banks. Indeed, the bank-regulator-turned-lender-turned-analyst, the leader of this team, is considered a whiz at deciphering banks' financial statements, interpreting regulations, sizing up managements and ascertaining credit quality. Robinson, who earned her MBA from George Washington University, is particularly appreciated for her anticonsensus buy on Continental Bank Corp. and her signal to switch from Chase Manhattan Corp. and Citicorp to Chemical Banking Corp. She also made listeners big money on such overseas banks as Finland's Kansallis-Osake-Pankki. And backers value Robinson's reminders of how to assess banks: by a region's economy, by loan concentration and growth rates and by her favorite ratio, nonperforming assets divided by the sum of equity plus reserves. Second-teamer **Marc Hellman**, who joined Lehman Brothers in 1990 from rating agency Keefe Thomson BankWatch, is said to be the first bank analyst to put out a publication that provides weekly spread and pricing information and determines whether debt issues are overvalued or undervalued relative to their ratings. Indeed, the reports produced by Hellman and his team are deemed "the best on the Street" by several readers. He is commended, too, for signaling early buys on numerous upgrade candidates in 1991 and his suggestion earlier this year to shift to lower-quality banks. The third team consists of Goldman, Sachs & Co.'s **Stanley August**, Morgan Stanley's **Thomas Flynn** and Merrill Lynch's **Jay Weintraub**. Though he keeps a low profile, Weintraub is known for his extensive research on individual banks and his suitably negative views on Chase and Citicorp. Flynn, meanwhile, is said to be adept at evaluating both bank managements and the direction bank credits are headed, though some clients fret that he is following too broad a universe. August is applauded for his handle on relative values and his timely calls on Shawmut National Corp., Chemical, First Interstate Bancorp. and New Jersey–based First Fidelity Bancorp.

FIRST TEAM
Ann Robinson
Donaldson, Lufkin & Jenrette

ELECTRIC UTILITIES

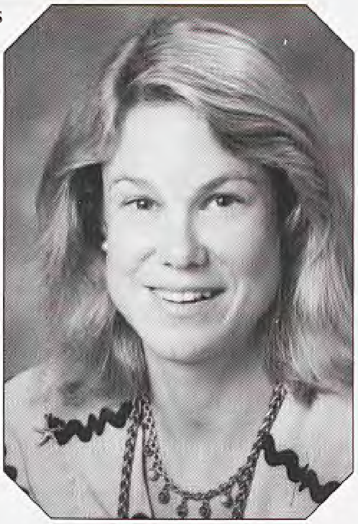
"Is **Daniel Scotto** ever wrong?" asks a constituent. Judging by the recent accomplishments of the DLJ first-teamer, such as his avoidance of El Paso Electric Co., a recently bankrupt utility in the controversial Texas Public Utilities Commission's territory, the answer seems to be no. Scotto's ability to spot distressed issues that are improving in price and close to ratings upgrades is also heralded, even if his recent selections of Long Island Lighting Co., Philadelphia Electric Co. and Arizona Public Service Co. weren't exactly unique. Scotto — a St. Francis College and Pace University graduate who was once chief of regulated industries for Standard & Poor's — was the first to warn of a pro-consumer bias in Texas when a pro-business commissioner was forced to resign, and he is appreciated for envisioning the structural changes that utilities will have to make in the wake of deregulation legislation. Fans say they are heeding his suggestion that they would do well, given tight utility spreads, to look to other sectors. Second to Scotto is **James Asselstine** of Lehman Brothers, who is highly regarded for his grasp of utilities with nuclear operations and for his knowledge of "the ins and outs of the political process," to quote a backer. Asselstine's keen support of Long Island Lighting Co. and his buy calls on such improving situations as Duquesne Light Co., Detroit Edison Co., Georgia Power Co. and Public Service Co. of Colorado are hailed. Mentioned, too, are his accessibility, his frequent reports and his willingness to track down answers. Third-teamer **Eunice Reich-Berman**, who heads J.P. Morgan's fixed-income research department, is said to be adept at translating the arcane into the understandable and at writing concise but insightful reports.

FIRST TEAM
Daniel Scotto
Donaldson, Lufkin & Jenrette

HIGH-GRADE CORPORATES

TELEPHONES

Although telephone yields are as tight as a drum, analysts still must make relative-value judgments. They also must keep up with the ever-changing regulatory front and with the confusing array of new businesses that the regional holding companies and their operating companies are being allowed to enter. In the opinion of followers, no one is better at all of this than top finisher **Marion Boucher** of DLJ. "She's got the most complete overview of the industry, she has an opinion on every name and she's always up to date," lauds one booster. Boucher, 37, double-majored in economics and biopsychology at Manhattanville College before heading to DLJ to track electric utilities. (She left DLJ to become a generalist at First Boston and then a telephone analyst at L.F. Rothschild before returning in 1989.) Her sell on Nynex Corp., whose bonds were later hammered and downgraded, is remembered fondly, as are her buys on Pacific Bell Telephone and Southwestern Bell Telephone, both standouts. Lehman Brothers' **Thomas Aust**, a former telecommunications counsel and analyst for the New York Public Service Commission, is No. 2. Aust, say backers, was early to alert clients to coming changes in operating companies' regulations and risk profiles. Though Pacific Bell and Southwestern Bell have been correct bets and his Sprint Corp. buy is starting to pay off, optimism on Nynex and its subsidiary New York Telephone Co. hasn't earned Aust any praise. What does score points, however, is his coverage of often overlooked Telecommunications, a cable operator that has begun moving into the phone sector. Taking third-team honors is **Robert Waldman** of Salomon Brothers, who is hailed for his feel for ratings' directions and for being able to identify minute differences in relative credit quality.



FIRST TEAM
Marion Boucher
Donaldson, Lufkin & Jenrette

HIGH-YIELD CORPORATES

CHEMICALS, ENERGY & METALS

Speak to supporters of **Catherine Montgomery** and it's easy to see why she eclipses the competition in this sector. The DLJ energy analyst is, they contend, "absolutely the best." Montgomery made a name for herself this year with Transco Energy Co., which she began covering in March. Though Standard & Poor's had put Transco on CreditWatch for possible downgrading, Montgomery predicted that the bonds would fare well. It was a bumpy ride — the same day her bullish report came out, Transco's year-end 10-K revealed a serious liquidity crisis, causing its bonds to plunge — but the company soon rallied. Followers also mention the Columbia Business School graduate's quickness to absorb new information. Case in point: She shifted from negative to neutral on Mesa L.P. after its May analysts meeting, and within a month the price of one of Mesa's coupons skyrocketed. Number 2 is Goldman Sachs chemicals, energy and metals analyst **Glori Holzman**, who is hailed for her 1991 recommendations of Columbia Gas System, Presidio Oil Co. and Quantum Chemical Corp., as well as for her 1992 picks of Mesa and Magma Copper Co. Especially esteemed was her asset-valuation work on Quantum, which showed the imputed worth of its bonds; their price subsequently rose from the high 80s to the high 90s. And her bet on the fifteen-point range that Mesa would trade in this year was accurate. Holzman gets high marks, too, for her quarterly publications and her fast turnaround time on clients' questions. **Ashok Vasvani** of Grantchester Securities, who monitors energy and chemicals and ties for the third team, offers long-range industry insights, has frequent phone and in-person dialogues with clients and has had his fair share of winners, including Quantum, Mesa and PST Holdings. Also at No. 3, Merrill Lynch's metals and energy expert **Les Levi** offers excellent coverage on a wide range of companies, including Magma, Weirton Steel Corp. and Forest Oil Corp. — the latter, according to admirers, his best call of 1991.

FIRST TEAM
Catherine Montgomery
Donaldson, Lufkin & Jenrette

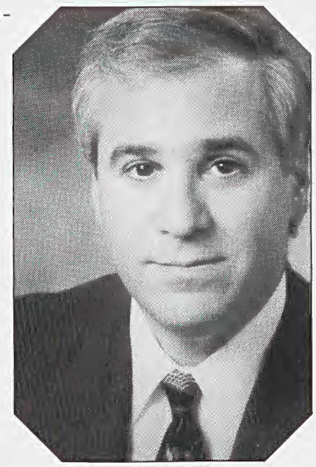
HIGH-YIELD CORPORATES

BASIC INDUSTRIES

When news of the downtown Chicago flood hit in mid-April, DLJ's **Maeda Klein** immediately got on the phone to Itel Corp., which a year earlier had sold off the subsidiary that had been doing work in the tunnel system. Upon learning that Itel would probably not be liable for damages, Klein quickly informed clients. "You can't get more proactive than that," says an admirer. "She's always anticipating what we need to know." Fans attribute Klein's hands-on approach to her training as an equity analyst at Banque Nationale de Paris and L.F. Rothschild. Moreover, the 38-year-old first-teamer, who in 1987 took on the basic-industries beat, is used to hard work: She spent six years in night school to get her MBA from New York University. Boosters say that Klein's diligence enables her to make compelling arguments and outstanding recommendations. B-rated Masco Industries, for instance, has moved swiftly toward investment-grade status since she picked it up in February, while Eagle Industries bonds, which she endorsed last September at 97, were at 105 in July. Yet Klein knows when to let go: Currently she finds little value in Sealed Air Corp., which has been one of the best performers in her universe for a long time. Second-place finisher **James Bolin** of Goldman Sachs concentrates on a handful of underfollowed credits. "Jim is an independent thinker, not a group-think type," says an ally who heeded Bolin's advice to buy York International Corp. "He lays the facts on the table and tells you his opinion with no hype," a second supporter says. Submits Bolin (who's also Goldman's new head of corporate credit research), "I make a recommendation only if I believe the company will perform better than the entire high-yield market." Among the original — and successful — picks he has made are Hyster-Yale Materials Handling, American Standard, Sealed Power Technologies and Horace Mann Life Insurance Co. Clients of First Boston's **Jeffrey Harlib**, who winds up third, say he shines in tracking a broad range of industrial credits and in translating macroeconomic factors into financial projections, and that he is "unusually conversant" in the air-conditioning and building-supply markets.

FIRST TEAM
Maeda Klein
Donaldson, Lufkin & Jenrette

HEALTH CARE



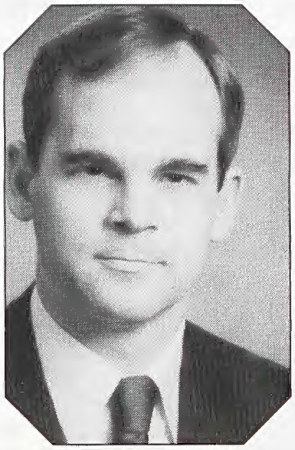
FIRST TEAM
Roger Gordon
Donaldson, Lufkin & Jenrette

With new issues of high-yield health care bonds totaling $1.5 billion in this year's first half — compared with a few hundred million in all of 1991 — investors have been paying greater attention to **Roger Gordon**, whose firm, DLJ, has been involved in most of these deals. Enhancing first-teamer Gordon's appeal is that the new credits are proving to be solid investment opportunities. HealthTrust, a spin-off of Hospital Corp. of America, and HCA itself have both rewarded holders. While the jury is still out on Columbia Hospital Corp., a new underwriting Gordon has been touting, Charter Medical Corp., a credit he has been negative on, is about to file for bankruptcy. Analyzing these credits seems to come naturally to the 41-year-old Gordon, who spent nine years in various health care companies' finance departments after receiving an MBA from Northwestern University. (He also tracked health care stocks for Buckingham Research Group and Dean Witter Reynolds before picking up high-yield at DLJ in 1987.) So it's not surprising that Gordon is hailed for his financial projections, his ability to relate the high-yeild, high-grade and equity markets to one another and his frank opinions on hospital managements. Taking second-team honors is First Boston's **Meredith Adler**, who also places second in retailing/department stores. She spent a good part of last summer providing information on the First Boston-led IPO of American Medical International. Clients credit her work with helping its price climb from par to 112. Adler's ringing endorsement of Epic Health Care Group in 1990 has also had a handsome payoff. And she is applauded for spending ample time objectively explaining OrNda Health Corp.'s new issue — and for her familiarity with the intricacies of health care's complex accounting system, her dealings with managements and her ability to identify companies' strengths and weaknesses. Third-teamer **Margery Obrentz** of Kidder Peabody is praised for a recent report comparing the operating statistics of several hospital systems, as well as for her recommendations of AMI, HealthTrust and HCA and her insights into current health care trends.

MUNICIPALS

TAX-SUPPORTED BONDS

A much-admired attribute of **William Fish**, DLJ's municipal expert and head of muni research: his stability. "He's been around forever," says a devotee of the 47-year-old Fish, a Bowdoin College graduate who was in the military, the MBA program at the State University of New York at Albany and the muni department at Bankers Trust Co. "He takes the long and broad view, and he always reminds people that, after all, these are 30-year bonds we're talking about." Fish's consistency and conservatism are apparent in his investment opinions. "Bill doesn't take radical stands," explains another backer. "He always has the most practical point of view." For example, Fish, who places third in utilities, warned last October that state credits in New York and California would deteriorate and be downgraded – and they have. And he astutely suggested that investors switch from the bonds backed by those states to revenue bonds, which are less affected by a recession. As for written work, Fish churns out, with the aid of colleague Thomas Addison, a well-received and unique monthly that tracks four key economic indicators by state and region. On the second team: **Richard Ciccarone** of Kemper Securities. The Chicago-based general-obligation specialist, who also heads his firm's tax-exempt research group, frequently makes specific purchase or sell recommendations. During the past year, for instance, he championed the District of Columbia's bonds as a way to take advantage of the prices in the lower end of the GO market. Ciccarone also understands how GOs interrelate with the whole municipal market, say fans, and he keeps tabs on the five muni-bond insurers.



FIRST TEAM
William Fish
Donaldson, Lufkin & Jenrette

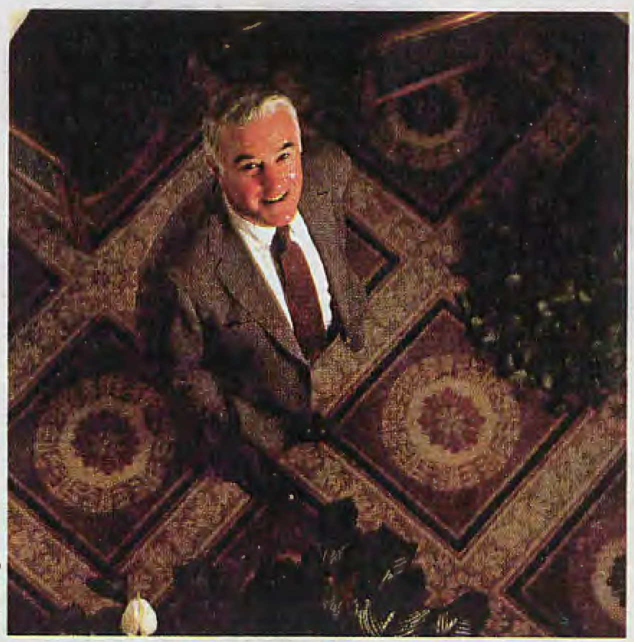
The Leaders

Rank	Firm	Total Team Positions	First Team	Second Team	Third Team	Runners-up
1	**Lehman Brothers**	19	6	5	4	4
2	**Donaldson, Lufkin & Jenrette**	14	7	1	5	1
3	**First Boston**	13	2	4	4	3
4	**Goldman Sachs**	11	3	2	1	5
5	**Merrill Lynch**	9	0	2	5	2
6	**Bear Stearns**	7	0	1	3	3
	Morgan Stanley	7	2	1	2	2
	Salomon Brothers	7	0	2	2	3
9	**J.P. Morgan**	6	0	0	4	2
10	**Kidder Peabody**	4	1	0	1	2
	Smith Barney, Harris Upham	4	1	1	1	1

Meanwhile, back at DLJ . . .

Okay, so maybe it *is* rude to smile while others suffer, but the people at Donaldson, Lufkin & Jenrette are having so much fun they just can't help it. In 1989, when most of Wall Street was wallowing in misery, DLJ had a record year and expects another good year in 1990.

The firm has clearly profited from its competitors' problems. A perfect example is DLJ's merchant banking operation, which has benefited greatly from the demise of Drexel Burnham Lambert. "We've inherited people, transactions and position," says president and CEO John Chalsty. Adds Leon Pollack, a managing director in charge of DLJ's taxable fixed-income group, "Many of our competitors have been distracted, while we have been able to focus."



Jeff Dodge

DLJ's Chalsty: "We've been a disciplined firm. We've concentrated on those areas where a limited number of people with adequate capital can make money"

DLJ and its Alliance Capital Management subsidiary were acquired by the Equitable Life Assurance Society in 1985 for $440 million. In addition to bringing Richard Jenrette's talents to Equitable (story), the deal has proved a financial boon for the insurer. Equitable has fared much better than other outside purchasers of Wall Street firms — including Prudential Insurance Co., another big mutual insurer, which has invested heavily in its Prudential-Bache Securities subsidiary without much success.

Although DLJ does not report earnings, the numbers it does release are eye-openers. Revenues have nearly doubled, from $505 million in 1985 to $950 million last year. Over the same period, net income has grown at an annual compounded rate of 22 percent. DLJ also says its return on equity in 1989 was three times the industry average.

Probably the biggest factor in the 31-year-old firm's success has been a thoughtful, patiently pursued diversification strategy. From its original base in equity research and trading, DLJ has expanded into the merchant and investment banking and taxable fixed-income sectors. While there were miscues in real estate and commodities back in the 1970s, DLJ has managed to avoid any debacles on the order of, say, First Boston Corp.'s merchant banking misadventures. "We've been a disciplined firm," says Chalsty. "We've concentrated on those areas where a limited number of people with adequate capital can make money."

The brightest star of late has been the merchant banking group. DLJ has made equity investments in 24 leveraged buyouts since 1985, and it has operated a successful $1 billion bridge fund since 1987 with no serious refinancing difficulties. Investment banking chief Joe Roby says that merchant banking revenues from 1987 through 1989 exceeded $600 million. This includes all related fees from M&A services, high-yield underwriting and bridge lending.

Of the twenty public junk bond issues DLJ has underwritten, none has gone into default. With most issues trading above or close to their offering price, investors have so far enjoyed a positive rate of return on all but one. Last year DLJ brought only five high-yield issues to market, considerably fewer than Drexel's 44 or Morgan Stanley's and Merrill Lynch's fifteen apiece. But even as the junk market was unraveling last fall, DLJ managed to place $475 million in subordinated debt for CNW Corp. and nearly $1 billion for TW Services. Augustus Oliver of the now-disbanded Coniston Partners, a major investor in TW Services, says DLJ "really came to the fore when financing was very scarce. Looking back on it, I'm glad we had them rather than any other firm."

This year DLJ has underwritten three high-yield deals in the private-placement market totaling nearly $750 million, and it continues to be an active secondary-market trader. "They've generated a certain amount of respect in the market, and more people are willing to look at their deals," says Oliver. In a recent survey of money managers by Greenwich Associates, DLJ ranked first in high-yield research, new-issue pricing and large-account trading.

Why has DLJ been so successful where so many other investment banks have stumbled? One reason is that two thirds of its new junk issues have been in deals in which it owns 15 percent or more of the equity. "We get into an 'I'm going to own this' kind of mode," says Garrett Moran, head of high-yield trading and sales. The firm is also known for its thorough research on each deal, which is followed by a centralized review that includes Chalsty, Roby, Moran and merchant banking chief Hamilton James. Moreover, merchant banking and the high-yield group share profits and losses evenly. At other firms, says Moran, "the exhaust goes out through sales and trading and the profits go to banking. That's not true here."

Other areas of the firm are doing well too. The entire taxable fixed-income group, under Pollack, has grown substantially in recent years — particularly in collateralized mortgage obligations, high-grade corporates and in U.S. government securities. Revenues from these three areas alone exceeded their 1989 totals by June of this year, and Chalsty says the group may be DLJ's biggest revenue generator in 1990.

The firm's traditional business — equity research, sales and trading — also continues to perform smartly. Robert Dewey Jr., DLJ's managing director for institutional equities, says that in the first six months of 1990, revenues were up 25 percent in the firm's domestic business and up 7 percent in international. The Greenwich survey ranked DLJ fourth out of 500 U.S. firms in institutional sales and trading, and second in the U.K.

What all of DLJ's businesses have in common is an emphasis on returns rather than size. "Our goal is not to be the biggest, but to be profitable — and *consistently* profitable," says James. In an industry known for grandiose ambitions, Dick Jenrette's old firm is showing that one of the most precious assets of all can be a healthy, moderate-size corporate ego.

DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION