

## FINANCIALS

# Bank of America to Buy Merrill Lynch for \$50 Billion

Charlie Gasparino, On-Air Editor

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**Bank of America** said it agreed to buy **Merrill Lynch** in an all-stock deal worth \$50 billion, snagging the world's largest retail brokerage after one of the worst-ever weekends on Wall Street.



BoFA is buying about \$44 billion of Merrill's common shares, as well as \$6 billion of options, convertibles, and restricted stock units.

Bank of America said it expects to achieve \$7 billion in pretax expense savings, fully realized by 2012, and expects the deal to be accretive to earnings by 2010. The transaction is expected to close in the first quarter of next year.

The price, which comes to about \$29 per share, represents a 70 percent premium to Merrill's share price on Friday, although Merrill's shares were trading at \$50 in May and over \$90 at the beginning of January 2007. The deal has been approved by directors of both companies. Three Merrill directors will join the Bank of America board.

Merrill plans to make an internal announcement to employees sometime between 8 and 9 a.m. New York Monday.

about a sharp decline in share price on Monday, according to people inside the firm.

Merrill is expecting huge job losses with the merger. The brokerage division will stay intact, but there will be large-scale reductions in workforce. CEO John Thain is also expected to leave.

"It's over," said one senior Merrill official.

The deal comes as Lehman Brothers Holdings [prepares to file for bankruptcy after failing to find a buyer](#).

A Merrill Lynch spokeswoman and a Bank of America spokesman could not immediately be reached for comment. **(View Charlie's round table discussion of the BoFa purchase of Merrill on the left)**

Merrill, stuck with some of the same toxic debt -- much of it mortgage-related -- which torpedoed Lehman's balance sheet, has been hit hard by the credit crisis and has written down more than \$40 billion over the last year.

Last month, Thain arranged to sell over \$30 billion in repackaged debt securities to Dallas -based private equity firm Lone Star Funds.

"I'm surprised that Merrill Lynch would want to sell at this point," said Bill Fitzpatrick, an analyst at Optique Capital in Milwaukee.

"They seem to be taking steps to improve their business. They have sold off a lot of their toxic assets. Merrill seems to be progressing to me."

In spite of these exposures, the bank is seen by some as undervalued, in part because of its massive brokerage business, which analysts have said is worth more than \$25 billion.

The brokerage is the largest in the world by assets under management and number of brokers.

Merrill also has about a 45 percent stake in the profitable asset manager **BlackRock**, worth more than \$10 billion.

"It could be a powerful fit," said Rick Meckler, chief investment officer at LibertyView Capital Management in New York.

But he added: "Merrill Lynch has significant exposures and Bank of America would need enough balance sheet to handle that."

Meckler also noted that the due diligence Bank of America would need to do on Merrill's books would be a serious undertaking, given

billion, investors are ascribing a negative value to the investment bank, implying huge potential embedded losses.

On the other hand, it would not be the first time Bank of America has done a quick acquisition.

In 2005, the bank bought credit card company MBNA after less than a week of due diligence, with Lewis saying the company was comfortable with the acquisition because it knew the people and business well.

Bank of America under Lewis has in fact become renowned for large acquisitions and it has spent over \$100 billion since 2004 buying other companies.

Most recently it acquired troubled mortgage lender Countrywide Financial Corp and -- although many were skeptical about this purchase -- veteran analyst Dick Bove said last week the takeover could prove to be a master stroke by Lewis, since the government takeover of mortgage agencies Fannie Mae and Freddie Mac could fuel business for other lenders.

— *Reuters contributed to this report.*

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