Gramercy Capital Management Corp.

*THIS LITTLE PIGGY **RAN** THE MARKET!*

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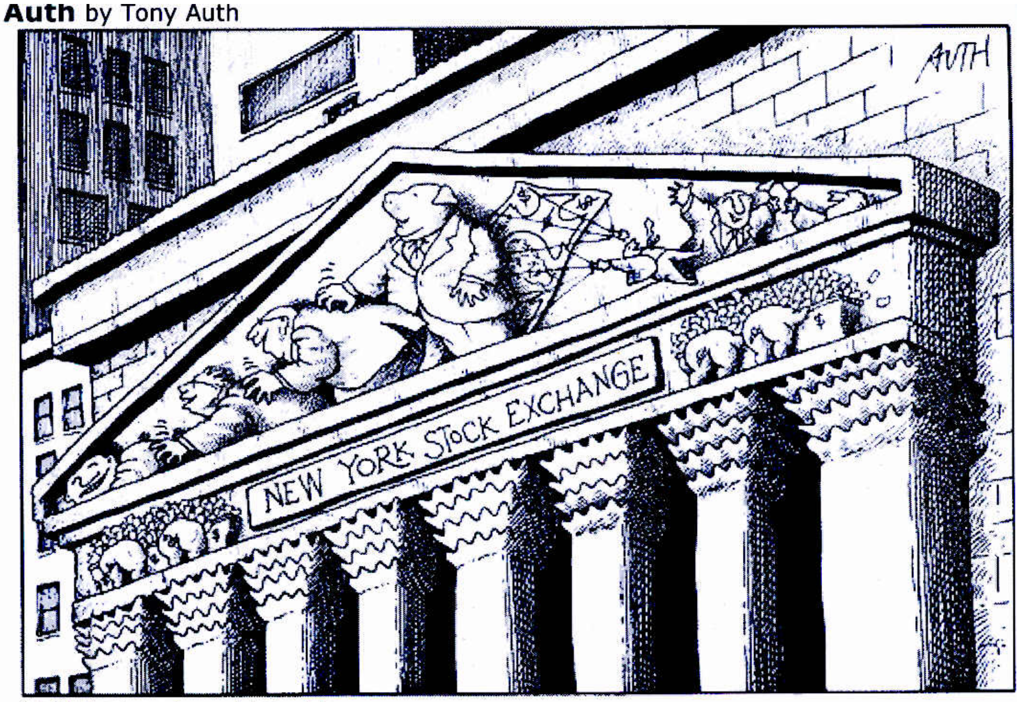
Ah! Wonders never cease in the world of investing. Last year it was Ebbers, Kozlowski, and Ken Lay who the Feds were after. This year it is the regulators themselves who have been revealed to be hauling down offensively huge salaries, paid by the very entities they were supposed to be regulating. Of course there is a clear distinction. Richard Grasso was not a crook. He was simply a piggy lunching in the "see and be seen" Pool Room at the Four Seasons when not "dining in" it at the New York Stock Exchange Luncheon Club.

I am sure his mother is proud that without a college education, Mr. Grasso, operating on sheer smarts and political acumen, was able to move from the mail room and $82 per week to be Chairman of the NYSE and haul down $82,000 per week, averaged out for the entire 35 years of his employment at the Big Daddy of American Capitalism. Talk about jealousy. To say I am green with envy would be the understatement of the new millennium. Since I've never reaped one of these giant paydays, I'd have to say I got hosed on the time and money I spent at NYU earning my MBA!

Tony Auth by Tony Auth



What Makes Huge Paychecks so Obscene?

Everybody cheers when some local folk hero wins $100 million in the Powerball lottery. There is a randomness to it that we can enjoy because if we had bought the winning ticket, we might be standing in the winner's circle. We think fondly of the light bulb changer at Rockefeller Center whose life was altered by winning a huge NY State Lottery jackpot. Somehow, corporate types who have drawn down these giant payoffs or golden parachutes in the last decade are viewed as offensive. They seem to have arrived at their anointed status in a manner that smacks of favoritism or having gone to the right university or having belonged to the right corporate club to which a powerful mentor sponsored them. Some arrive by being unscrupulous operators outside the law like the Enron, Tyco, WorldCom, and Qwest Communications types. Others just rode the options frenzy of the 1990's and "lucked out" at lesser levels of compensation that fell below the radar screen of exorbitant paydays so they haven't drawn our ire.

Interlocking Boards

One of the more interesting phenomena of serving on a corporate board is that once you are on one, you enter the hallowed data bases of the executive search firms and become top material to serve on others. In recent years, a handful of women have served on multiple boards. Once it is known that they will sit quietly and not rock the boat by exercising the proper due diligence expected of an outside director, they are far more attractive to sit on other boards. That doesn't mean that they or the men on the boards who rubber stamp management decisions are fulfilling the fiduciary responsibility they hold to the shareholders. But it does mean that they enjoy the power and prestige and sometimes the perks of sitting on those boards.

Twice in the last week I have spent time with gentlemen I have known for more than thirty years. I met each one while working as a securities analyst on Wall Street. Both have had highly successful careers, are now in their 70's and remain sought after for board service. Each lamented to me how they became pariahs when they sat on compensation committees of public companies and expressed concern about very large pay packages being constructed for corporate executives. They believed that there should not be a "disconnect" between the pay for workers who are generating the sales and manufacturing the goods and the compensation levels of those who lead them. In some cases the justification came from Compensation Specialists whose firms were retained to structure pay packages. They are hired by the very people whose salaries they are going to justify to the board. Similarly, if I am on your board and you are on mine, then I'll vote for a fat pay package for you if you'll vote for one for me.

Back to Mr. Grasso

Nobody seems to think that Mr. Grasso is a crook but Mr. Grasso seems to have suffered from some very poor judgment. Last year there was a big flap about the fact that he sat on the board of Computer Associates. Almost two years ago, we warned in this column about owning CA because its top officers (and founders of the company) had paid themselves about a half a billion dollars in stock grants. The company also recently settled with the SEC over problems with very aggressive accounting techniques that overstated earnings that came to light about the same time. Grasso was supposedly regulating this company in his position as head of the NYSE. That didn't seem to stop him from taking a position on its board. The recent flap circulated around his very excessive pay package perhaps inspired by those at CA. Who knows what was wrong with the people on the NYSE Compensation Committee but they all seem to have suffered from "Rubber Stamp-it is!" In recent days they all seemed to have amnesia about yet another $48 million of deferred compensation that Grasso has now waived.

Laughing All the Way to the Bank

Mr. Grasso's departure seems to have been precipitated by the SEC's requests for information about how the NYSE's own internal corporate governance was being conducted. When Bill Donaldson, now Chairman of the Securities and Exchange Commission, preceded Grasso as head of the NYSE, he earned only a million or two per year for his efforts. Grasso, it should be noted, helped push Donaldson out the door before he was ready to leave. Nobody likes to leave office by being shown the exit (in Grasso's case, the side door) but it's a lot easier to take when you leave with a $140 million paycheck in your pocket. If you are old enough to remember Jack Benny, he always used to joke about going down to the basement to roll around in his money. Mr. Grasso will need a very large basement or plan to roll around in $100 bills if he plans on a home-sized safe.

That said, the NYSE has many issues on its plate that Mr. Grasso never seems to have addressed head-on. Not the least among them is the antiquated process of human beings interacting face to face on the floor of the exchange to execute stock trades. In most new emerging markets around the world, stock trading is done electronically. Alternative techniques are a major threat to the NYSE, still a privately held, not for profit, amalgam of "seat holders." Seats these days trade for around $2 million. The NYSE represents the Citadel of Capitalism. What happens to it holds serious ramifications for the City of New York, its home for 200 years. Mr. Grasso will be laughing every time he checks his bank balance in the middle of the night. The New York Stock Exchange will now begin a period of serious reflection and contemplation about its future. Hopefully, it will emerge better and stronger but that's less clear than the good times that await Mr. Grasso.

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