FALL/WINTER 2006

the Alumni Magazine of NYU Stern

STERNbusiness

RETURN OF THE NATIVE SON

After a long career as a software entrepreneur, Abraham George returns to India as a poverty-fighting social entrepreneur

Baumol on Capitalism ■ Altman on Junk Bonds ■ Why CEOs Get Paid So Much ■ Nielsen Has Its Eye on You ■ Ferragamo, Friedman, and Freakonomics ■ A Family of Fine Wines ■ Record Label on the Verge

a letter from the dean

Whether you manage investments in London, run a division of a manufacturing company in China, or teach economics in an office building near Washington Square Park in New York City, it's hard not to feel that you're part of the global economy. The world may not yet be entirely flat, in the words of *New York Times* columnist and author Thomas Friedman, who visited campus in the spring (p. 2). But it is certainly a lot less hilly than it used to be. Information, experiences, best practices, and relationships today transcend national borders and time zones. This mindset informs the way we study the world, the way we teach, and the way we envision NYU Stern's mission.

This issue of STERN*business* focuses on aspects of interconnectedness – on how NYU Stern benefits from being a part of the global community, and how NYU Stern alumni take what they learned at Stern with them as they set out to make their way in the world, and to improve it. This issue's cover story, on Abraham George, is both inspiring and humbling (p. 14). Last January, I had the opportunity to visit with Dr. George in India and to see some of the fruits of his philanthropic efforts first-hand. In December, with Dr. George's assistance, we're planning a conference on sustainable development with our Berkley Center for Entrepreneurship, which hosts so many of our initiatives on social entrepreneurship. The notion that business – and businesspeople – can be a force for social change isn't merely a talking point or a matter of public relations. Through the work of our professors, students, and alumni, it is something we see every day. In April, the Berkley Center brought together experts and practitioners at its third annual Conference of Social Entrepreneurs (p. 4). And it's exhilarating to note that members of the Stern family who have just embarked on their careers, such as Noah Dinkin (p. 10), have already adopted this mindset.

Even as we examine the way the world is changing, and embrace those changes, it's useful to sit back and recognize the constants in our life. We're pleased to recognize in this issue the incredibly long and fruitful career of Ernest Kurnow (p. 48), who has gently and expertly introduced generations of students to the world of statistics, and to feature the work of Ed Altman (p. 28), who this year marks his 40th year as a valued member of Stern's faculty.

Looking through the magazine, I found myself impressed with the variety and range of activities, people, and events on campus. I invite you to come and see for yourself.

Thomas F. Cooley

Thomas F. Cooley
Dean

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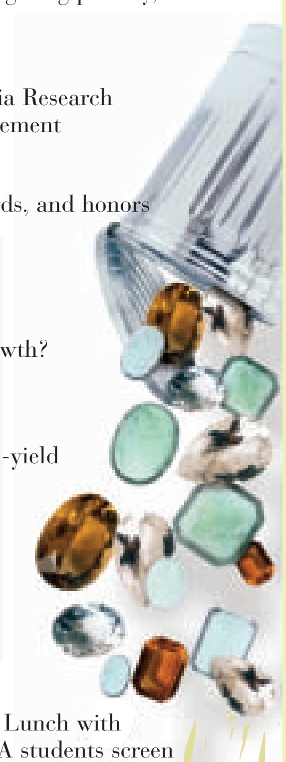

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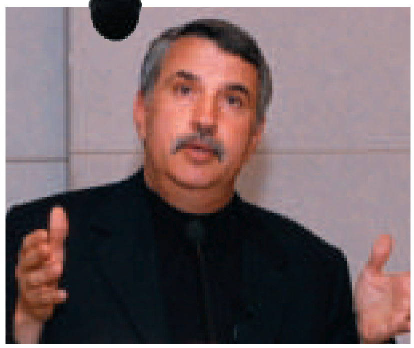


LUBIN LECTURE SERIES FEATURES AUTHOR THOMAS FRIEDMAN

Three-time Pulitzer Prize-winning *New York Times* columnist and author Thomas Friedman addressed undergraduate and MBA students and alumni at NYU Stern in the spring. His provocative lecture, based on his book, *The World is Flat*, was part of the Lubin Lecture Series, which provides a public forum to discuss economic, financial, and management principles and theories.

"The global economic playing field has been leveled and Americans aren't ready," Friedman told the audience, before launching into a description of the three phases of globalization that precipitated this flattening of the world. Globalization 1.0 (1492 to 1800) was driven by nation-states seeking resources and imperial conquest, and shrank the world from large to medium. Globalization 2.0 (1800 to 2000) was led by companies, and shrank the world from medium to small. The current phase, Globalization 3.0, began in 2000, and is being driven by empowered individuals across the globe.

Friedman discussed the implications of each of "the 10 events that flattened the world," beginning with November 9, 1989, the day the Berlin Wall came down and allowed people to think of the world as a single space. The launch of Microsoft's Windows 3.0 operating system occurred around the same time and gave everyone the ability to create his or her own digital content. When Netscape went public on August 9, 1995, it signaled the beginning of the dot.com boom and helped fuel a $1 trillion investment in fiber optics within five years. This over-investment drove down the cost of transmitting content and opened up countries with well-educated workers, such as India, China, and Russia, to "the work flow revolution." The "work flow revolution" plus interoperable software equals collaboration, Friedman explained. And that adds up to a flat world.

Thomas Friedman autographs his national best-seller, *The World is Flat*.

The six other flatteners weren't historic events, but rather new ways for individuals and companies to collaborate on work and share knowledge that capitalize on and extend the "work flow revolution." The first two, outsourcing and off-shoring (or moving a factory off-shore) are familiar and will become even more common, he predicted. The third flattener is "uploading" or "open sourcing" – i.e., using open-source software so that engineers can collaborate online and work for free. The fourth is supply-chaining, which Wal-Mart has mastered with unparalleled control on a global scale. The fifth, in-sourcing, is a specialty of UPS, which handles computer repairs for Toshiba and myriad other behind-the-scene tasks for many other companies. Google and other search engines are examples of the sixth flattener, or "informing," which allows anyone to mine data and collaborate.

All of these ways to share and recast work will be accelerated anywhere and to any electronic device by wireless technology, voice over internet technology, and file sharing – the tenth flattener that Friedman dubbed the "steroids." He further predicted that the convergence of technology, so much a part of the first years of the 21st century, will be surpassed by a technology revolution of a magnitude that will rival the introduction of the printing press.

Illustrating the speed of change and the benefits of technology, *The World is Flat* was available in a new, updated 2.0 version after the lecture. But it was still signed by the author the old-fashioned way, by putting pen to paper.

A CONVERSATION WITH NOBEL LAUREATE EDWARD PRESCOTT

This spring, Edward Prescott, the 2004 Nobel Laureate in Economic Sciences and 2005-2006 NYU Stern Shinsei Bank Visiting Professor in Economics at Stern's Japan-US Center, held an open dialogue with NYU Stern Dean Thomas Cooley and Stern students about the global economy. The wide-ranging conversation between a former teacher and student – Prescott was Cooley's thesis advisor at the University of Pennsylvania – covered Japan's "lost decade," European productivity, and US debt.

Nobel Laureate Edward Prescott (left) with Dean Thomas Cooley.

In discussing what caused Japan's "lost decade" of the 1990s, Prescott described a fall in productivity and a lack of investment. Between 1983 and 1992, Japan experienced tremendous growth and an increase in productivity, he noted. But during the 1990s, productivity halted, in part, due to the government's subsidizing of inefficient banks that became insolvent because of falling real estate prices.

Prescott, who won the 2004 Nobel Prize for his contributions to dynamic macroeconomics, also detailed how high European tax rates on labor are affecting output in that region's economy. Although European productivity per hour worked equals that of the US, Europeans work an average of 19 hours per week (when adjusted for holidays and sick time), while Americans work 30 percent more hours. Why the difference? The typical European tax rate on labor, including consumption taxes, is 60 percent, while the US tax rate is 40 percent. This 20 percent difference in tax rates has fostered what Prescott calls "a contagious case of laziness," with Europe "throwing away" 20 percent of its output.

The distinguished economist – Prescott is the W. P. Carey Professor of Economics at Arizona State University W. P. Carey School of Business and senior monetary advisor to the Minneapolis Federal Reserve Bank – is not worried about the "doom and gloom" scenarios related to the large US trade and current account deficits, as long as the US continues to make more money on its investments abroad. "The accounting just doesn't make sense," he said. Prescott suspects that the current account deficit, which recently has been around 5 percent of GDP, would be closer to 2.5 percent if the international activities of multinational corporations were accounted for correctly.

LIFELONG LEARNING COVERS FORENSIC ACCOUNTING, REAL ESTATE

In the spring semester, the Lifelong Learning Workshop Series afforded NYU Stern alumni the opportunity to learn about the expanded role of forensic accounting, and the opportunities presented by real estate investments. Each half-day workshop began with a faculty lecture, followed by a panel discussion or presentation with industry experts and a Q&A with the audience.

The series, developed in conjunction with the Programming Task Force of the NYU Stern Alumni Council, creates substantive programming to engage alumni in the academic life of the School. The initiative was spearheaded by Council members John Williams (MBA '95) and Tom Fogarty (MBA '01).

In June, Seymour (Sy) Jones (MBA '54), clinical professor of accounting at NYU Stern, led the workshop entitled "Forensic Accounting: The Anatomy of an Investigation," which included a presentation by Ted Martens, partner and New York region leader of dispute analysis and investigations at PricewaterhouseCoopers, and a networking luncheon.

Jones noted that the recent spate of accounting fraud episodes has changed the role of both forensic and auditing accountants. Historically, forensic accountants' roles were to work within the legal system, providing expert testimony in dispute resolutions and litigation. Today, forensic accountants have become fraud investigators tasked with detecting, interpreting, and preventing financial statement fraud.

Outlining the methods forensic accountants use to examine potential fraud, Martens said forensic accountants begin by reconstructing relevant financial transactions using available data, then trace the path of targeted funds, provide evidence for investigation, and provide leads for follow-up investigative steps. They do so by interviews and reviewing all relevant documents. To prevent fraud, Martens recommended that companies implement a process of internal audit control, develop policies to encourage and protect whistleblowers, and be prepared for the worst by devising a robust fraud response plan.

In May, Harry Chernoff, clinical associate professor of information, operations, and management sciences at NYU Stern, led the workshop on "The American Dream: Building Wealth through Real Estate Investments." The panelists were Debrah Lee Charatan, president of Debrah Lee Charatan Realty and founder of Bach Realty, the first woman-owned real estate brokerage firm in New York City; Max Kamhi, co-founder of Orbis Properties LLC; and Marlon Matza, senior vice president of Georgetown Partners Inc. and managing general partner of Gould Investors L.P.

Real estate, Chernoff noted, can be an effective investment as it provides an opportunity for passive income. But Chernoff urged investors to buy assets, not liabilities. "Assets are something that puts cash into your pocket and liabilities are something that takes cash out of your pocket," he said, relating some ideas from Robert Kiyosaki's *Rich Dad, Poor Dad.* Chernoff also suggested keeping emotion out of investment decisions, and recommended that people not live in an investment property unless they are prepared to expend a lot of work hours during their evenings and weekends. The panelists explored the ins and outs of today's real estate market and answered audience questions on a range of topics relating to real estate investment.

SOCIAL ENTREPRENEURS GATHER AT NYU STERN

NYU Stern's Berkley Center for Entrepreneurial Studies hosted its third annual Conference of Social Entrepreneurs in April. Sponsored by NYU Stern's Stewart Satter Social Entrepreneurship Fund, the Ewing Marion Kauffman Foundation, and the Citigroup Foundation, the conference attracted nearly 300 students, alumni, social innovators, and scholars to discuss best practices, trends, and innovations in the way people around the world are using entrepreneurial and business skills to create innovative approaches to social problems.

The morning keynote speaker, Dr. William Magee, founder of Operation Smile, described the work of his nonprofit volunteer medical services organization that provides reconstructive surgery to economically disadvantaged children and young adults. In a powerful and moving address, Magee showed before-and-after pictures and told stories of the 100,000 lives his organization has touched since its founding in 1982. Magee said that Operation Smile's successful corporate partnerships are the cornerstone of its financial sustainability.

At a cocktail reception that kicked off the conference, Stern alumnus Scott Berrie (MBA '99) received the inaugural Stewart Satter Social Entrepreneur of the Year Award. Berrie, president and co-founder of Scojo Vision and Scojo Foundation, and his partner, Dr. Jordan Kassalow, created the Scojo Foundation to increase the number of people with access to affordable reading glasses, while creating jobs and facilitating access to comprehensive eye care. The foundation trains local entrepreneurs, many of whom are women, in India, El Salvador, Guatemala, and Bangladesh, to give basic eye exams and sell low-cost reading glasses in their communities. Scojo Vision, the foundation's sister for-profit company that designs high-end eyewear, donates 5 percent of its profits to the foundation.

Professor William Baumol (left), academic director of the Berkley Center, with J. Gregory Dees of Duke University. Dees spoke about social enterprise and innovation at the Conference of Social Entrepreneurs.

The Satter Award was launched in 2004 through the generous support of Stern alumnus Stewart Satter (MBA '82). In a recent conversation with first-year MBA students, Satter, a member of the Stern Board of Overseers and CEO of Consumer Testing Laboratories, spoke of his business career – he built a family consumer testing business into a 1,000-employee firm – and of his passion for social entrepreneurship. Satter created the Stewart Satter Program in Social Entrepreneurship to support educational initiatives and foster social venture creation within the Stern community. The Satter Fund, an innovative arm of the program, is modeled on a real-world foundation or venture philanthropy fund.

NYU Stern Dean Thomas Cooley discussed how the School has embraced the potential for business to help foster social change and has integrated social entrepreneurship into the MBA program. "Students are recognizing our efforts in social entrepreneurship, and because of this, they are drawn to Stern," he said.

Other speakers at the conference included J. Gregory Dees, faculty director of the Center for the Advancement of Social Entrepreneurship at Duke University, who spoke about the increasing convergence between the two social entrepreneur schools of practice – social enterprise and social innovation; and David Bornstein, author of *How to Change the World*, who discussed the future of social entrepreneurship and emerging trends. Participants in the research roundtable, What We Don't Know about Social Entrepreneurship, moderated by Jeffrey Robinson, NYU Stern assistant professor of management, acknowledged that research in social entrepreneurship is in its infancy.

Stern alumnus Scott Berrie received the Stewart Satter Social Entrepreneur of the Year Award. From left to right: Stewart Satter; Sarah Chiles, director, Entrepreneurship Program at the Berkley Center; Scott Berrie; and Dean Thomas Cooley.

SALOMON CENTER EVENTS FOCUS ON RISK

More than 340 credit-risk practitioners and academics gathered to share ideas and insights on advances in credit risk research at the Third Annual Credit Risk Conference, hosted by Moody's Corporation and NYU Stern's Salomon Center last spring.

Highlights from the conference included keynote speakers Timothy F. Geithner, president of the Federal Reserve Bank of New York, and Myron S. Scholes, Nobel Laureate and chairman of Oak Hill Platinum Partners. Geithner spoke about credit derivatives and the economy in a session moderated by Thomas Cooley, dean of NYU Stern School of Business. Scholes discussed issues in the evolution of credit markets and credit derivatives with moderator Roger M. Stein (MPhil '98, PhD '00), managing director at Moody's Investors Service.

"This conference is a tremendous platform for top industry participants and academics in credit risk to come together and exchange views on recent industry innovations in credit markets and unveil research and analytic advances that are still in development," said Stein.

Edward Altman, Max L. Heine Professor of Finance at NYU Stern and a long-time observer of the high-yield debt market, noted that credit risk research and resources have undergone a revolution. "Yet our markets remain vulnerable to major shocks, partly due to the uncertainty of banking regulation," he said. "Researchers and practitioners are still searching for better ways to manage credit risk."

President of the Federal Reserve Bank of New York Timothy Geithner (left) gave the keynote address at the Credit Risk Conference. Roger Stein, managing director at Moody's Investor Service, a conference co-host, moderated.

The Salomon Center, which focuses on research in the field of financial economics, has also recently started an initiative focused on an important risk management tool: derivatives. In June 2005, the NASDAQ Stock Market Educational Foundation awarded the Salomon Center a three-year, $300,000 grant to support the NASDAQ Derivatives Research Project, which promotes interaction between academics and practitioners. A guiding principle of the NASDAQ Derivatives Research Project is that the top academics and practitioners in the area of derivatives and risk management conduct research at a comparable level of rigor, and that they have much to gain from sharing ideas.

Earlier this year, the Project inaugurated a new symposium series; the first three symposia focused on credit risk derivatives, trading volatility, and trading correlation.

"FATHER OF THE INTERNET" SPEAKS AT NET INSTITUTE CONFERENCE

There is no shortage of forward-looking visionaries in the technology world. But when it comes to the Internet, very few can claim to have been present at the creation. Vint Cerf can. His early work with Robert Kahn on the design of TCP/IP protocols, which became the foundation of the Web, has led many to dub Cerf a "Father of the Internet."

Cerf, who is now employed by one of the Internet's most profitable children – he serves as vice president and chief Internet evangelist at Google – spoke of the new medium's past and future at the annual NET Institute Conference, which was held recently at NYU Stern.

The Conference, a joint initiative between the NET Institute and Stern's Center for Digital Economy Research (CeDER), featured presenters from several universities on topics ranging from pre-announcements, patents, and search in markets with network effects, to electronic retail markets.

Cerf discussed the breakdown of global Internet usage and its impact now that Asia has the most Internet users. He believes that Asia's Internet dominance could lead to a cultural and language shift on the Web. In addition to Asia, Cerf noted that Scandinavian countries are well represented on the Internet, especially during the winter when the region has little daylight. Based on its population, Africa is underrepresented, although Cerf said that Internet cafés are becoming more popular in less developed areas since they offer a more affordable opportunity for Internet access.

Cerf, who is a director at the NET Institute, also talked about the cyber-squatting and typo-squatting trends. Cybersquatting – registering and claiming rights over an Internet domain and then offering the domain at an inflated price to the person or company who owns a trademark contained within the name – is now illegal. But typo-squatting – purchasing domain names of websites that are similar to popular websites – is not illegal and often leads the user to what is called parking lots – websites with click-through advertisements whose revenue is split among the advertisers and the parking lot sites.

As ubiquitous as the Internet is today, Cerf believes there is plenty of room for further growth. With the growing popularity of the Internet on mobile devices and other appliances, Cerf believes that the Web will be even more pervasive in the future. He described how mobile devices can perform on the fly (purchasing soda from a vending machine) just by adding software. He also discussed the ability to create Internet-enabled items, such as refrigerators, picture frames, and socks that can suggest recipes, upload photos, and page their mates, respectively.

AUTHOR LECTURES EXPLORE THE HIDDEN SIDE, DARK GENIUS, AND MORAL CONSEQUENCES OF ECONOMICS

NYU Stern's Spring Author Lecture Series brought to campus authors whose works deal with rogue economics, a rogue businessman, and the connection between un-roguish behavior and economic growth.

From left to right: Dean Thomas Cooley; Steven Levitt; John Herzog, chairman of the Museum of American Finance and member of the NYU Stern Board of Overseers; and Jeanne Marano, executive director of Alumni Affairs.

Steven Levitt, professor of economics at the University of Chicago and author of the best-selling *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything*, kicked off the series. Speaking to a standing-room-only crowd of Stern alumni and students, Levitt provided insight into the inspiration behind his book, while sharing further "freaky" research tidbits on topics such as the death penalty and honesty. In *Freakonomics*, Levitt analyzes everything from the organizational structure of drug-dealing gangs to baby-naming patterns. Underlying all these research subjects is a belief that complex phenomena can be understood with the right perspective.

Answering an audience member's question on a passage in the book detailing his disapproval of the death penalty, Levitt explained that the death penalty is more political than practical. "Let's put ourselves in the shoes of a potential murderer," said Levitt, who in 2004 won the American Economic Association's John Bates Clark Medal, which is given to the economist under the age of 40 who has made the greatest contribution to the discipline. "Will I not commit murder if there's a one in 300 shot of dying 20 years from now, versus spending life in prison?"

Edward Renehan

In March, biographer Edward J. Renehan, Jr., tried to soften the historical image of his subject: 19th century financier Jay Gould. Renehan, author of *The Dark Genius of Wall Street: The Misunderstood Life of Jay Gould, King of the Robber Barons*, highlighted Gould's NYU connections. Gould and his family were significant donors, and his son was a graduate of the University. In fact, a Bronx library, once part of NYU's University Heights Bronx campus, was named after him. And when Gould died in 1892 at the age of 56, the then Chancellor of NYU, Henry Mitchell MacCracken, gave the eulogy.

Renehan described how Gould rose from a farm boy in the Catskills to a capitalist who controlled railroads and telegraphs. Despite his success, he developed a bad reputation as a predator who looted companies. But Renehan argued that Gould's misdeeds have been exaggerated, noting that Gould was no worse (or better) than the other industrialists of that time, or even the "sharks" of today's corporate world. And because of the industrialization that Gould, and other "robber barons" like J.P. Morgan and John D. Rockefeller ushered in, the nation "saw for the first time, the full economic participation of previously disenfranchised constituencies."

Benjamin Friedman

The virtues of full economic participation lie at the heart of the work of Benjamin Friedman, the William Joseph Maier Professor of Political Economy at Harvard University. In May, Friedman appeared at NYU Stern to discuss his book, *The Moral Consequences of Economic Growth*, with an audience of Stern alumni and MBA students.

Friedman believes it's no accident that countries liberalize politically after growing strong economies. "When the broad bulk of society is getting ahead economically and there is an increase in people's material living standards, the society is inclined toward more open opportunity, greater tolerance along racial and religious lines, greater generosity to those who are left behind, and stronger democratic political institutions," he said.

Friedman – who believes that if China can maintain its strong economic growth, the government will eventually democratize – warned that the democratic values of countries even as wealthy as the United States are at risk when incomes stagnate for extended periods, as they largely have in the US since 2000. Ultimately, he declared, if America is to strengthen democratic institutions around the world to diminish terrorism and social unrest, the country must aggressively promote global economic growth.

POLLACK CENTER HOSTS FOURTH ANNUAL DIRECTORS' INSTITUTE

Top left: Directors' Institute panelist Kenneth Langone (left) with lunch keynote speaker Lawrence Bossidy. Top right, from left to right: Moderator Martin Lipton, dinner keynote speaker Laurence Fink, and panelist William Berkley. Bottom: Director of the Pollack Center for Law & Business William Allen.

The NYU Pollack Center for Law & Business, a joint initiative between NYU Stern School of Business and NYU School of Law, in May brought together a host of current and aspiring directors, experts, and practitioners at its fourth annual Directors' Institute. "The Center's hope for the Institute is that, in partnering with academics, practitioners, and regulators from the fields of business and law to have open dialogue about corporate reforms, we can strengthen the corporate governance practices of boards of directors," said William T. Allen, director of the NYU Pollack Center for Law & Business and Nusbaum Professor of Law and Business.

In the opening dinner keynote address, Laurence D. Fink, CEO and chairman of asset management giant BlackRock, Inc., and an NYU Trustee, underscored the need for sound global economic policies: "We shouldn't set policy simply based on what's going on here [in the US], but respect what is happening globally. Global policies will determine whether the future holds sunny skies or violent storms." Pointing to the large current account deficit, and the record level of foreign investment in US securities, Fink predicted that the US might face stormy weather because policies have been short-sighted and not sufficiently introspective. Fink urged Americans to reverse the trend in household savings, set policies that allow for incentives in long-term savings, and constructively address the issue of old-age dependency.

Honeywell International Inc.'s retired Chairman Lawrence A. Bossidy spoke about the impact of the Sarbanes-Oxley Act on investors and businesses in the luncheon keynote address. While arguing that the Act did little to curb intentional fraud, he criticized the legislation's most costly provision – Section 404. "I remain unconvinced that all the work and cost of these new regulations have brought their intended consequences or improved things for companies and their investors," he stated. Bossidy said the cost of compliance with Section 404 has been enormous and 30 times more than the Securities and Exchange Commission initially expected, and has been especially burdensome for smaller companies.

Martin Lipton, senior partner at Wachtell, Lipton, Rosen & Katz and chairman of NYU Board of Trustees, chaired a panel on the relationship between the board and the CEO, and introduced a recurring theme: Should the role of the CEO and chairman be divided? Panelists agreed that, in most, but not all, cases, the roles should not be separated. Another important issue was posed by William R. Berkley (BS '66), chairman and CEO of W.R. Berkley Corporation, chairman of NYU Stern Board of Overseers, and an NYU Trustee. Berkley suggested that a frequent change in auditors is desirable for companies. In another panel, Kenneth G. Langone (MBA '60), chairman and CEO of Invemed Associates LLC, co-founder of Home Depot, chairman of the NYU Medical School Board of Trustees, and member of the NYU Stern Board of Overseers, hit on another common theme: Who should decide CEO compensation? Panelists recommended that compensation should be determined by the whole board, not by the compensation committee alone.

IMF CHIEF ECONOMIST SPEAKS AT NYU STERN'S KRASNOFF LECTURE

Raghuram Rajan, economic counselor and director of research at the International Monetary Fund (IMF), shared his thoughts on the changing face of the Fund at NYU Stern's Krasnoff Lecture. Speaking before a crowd of students, alumni, and faculty, Rajan discussed how the spirit of international economic cooperation has changed since the IMF was formed in 1944.

The Fund has experienced great success since its inception, with world trade growing from 10 percent of world GDP in 1960 to almost triple that figure in 2005. But even as the world has become more connected through trade and finance, Rajan believes that the spirit of international cooperation has perceptibly diminished.

As industrial countries recovered from World War II, they moved to floating exchange rates and stopped borrowing from the Fund. The IMF then became divided between the industrial country creditors and potential debtors, who had to subject their policies to multilateral advice in order to maintain Fund support. Recently, some emerging markets have built their foreign exchange reserves to such an extent that they are unlikely to need Fund resources in the foreseeable future.

Rajan believes that this faltering spirit of internationalism, a spirit abundant in the era when the Fund was created, poses a significant danger today. "Industrial countries have gotten used to domestic policy independence," he said. "They need to realize that if they want the advanced emerging markets to alter their policies to further the common interest, they themselves have to accept some multilateral constraints on their policies."

In parting, Rajan offered his thoughts on the international economic impact of the US trade deficit: "When the deficit shrinks, the surpluses of US trading partners like China will shrink. The question every country has to ask itself is, 'Am I prepared for the day the US consumer finally decides to hang up the shopping bag and save?'"

The Krasnoff Lecture is part of the Abraham and Julienne Krasnoff Program in Global Business Studies at Stern's Global Business Institute. Established in 1995, the Program provides a public forum for high-level discussion of global business topics, and supports a faculty chair and student scholarships.

All in the Family

by **Stephanie Sampiere**

Many businessmen stress the importance of family, and speak of treating employees, customers, and counterparts as if they are family. Bill Deutsch (BS '58) means it. As chairman and chief executive officer of W.J. Deutsch and Sons, Ltd., Deutsch has built a distinguished, family-owned wine sales and marketing import business that works exclusively with family wine producers and distributors.

"In dealing with families, they know us, and we know them. The communication is simple," Deutsch said. "A handshake is a handshake, and what we see is what we get." What Deutsch "got," 25 years after shifting career gears, is one of the nation's top wine importing companies. Following his successful introduction to the United States with such (now) well-known brands as Yellow Tail, Georges Duboeuf, Pommery, and Kunde Estate Winery, *Wine Enthusiast Magazine* in 2003 named W.J. Deutsch its "Importer of the Year."

Bill Deutsch (right) with his son Peter and a selection of wines that they import.

Like a fine wine, Bill Deutsch aged into the wine business. After graduating from NYU Stern, he spent a few years in the corporate world at an accounting firm before moving to the wine industry. He worked at three different wine companies – starting in the Finger Lakes region of New York State, then importing California wines – before realizing there was a niche for a family importer selling to family distributors.

In 1981, Deutsch launched W.J. Deutsch & Sons, Ltd. from his house in Westchester with one employee – himself – a telex machine, telephone, and the use of the copier at his local Citibank branch. Twenty-five years later, the company's 150 employees occupy an entire floor of an office building in White Plains, New York. The telex machine has been retired, and Deutsch says, "I am so proud to tell people, we now have eight copy machines."

Today the W.J. Deutsch wine portfolio includes offerings from 10 countries, including Australia, Chile, France, Hungary, Italy, Portugal, Spain, and the United States. While all the wineries Deutsch represents are family-owned, each is different. "Some may have 500 cases, some 5,000 or 500,000 cases, and in the case of Yellow Tail, more than 5 million cases," Deutsch said.

W.J. Deutsch is leading the charge to make wine more accessible, especially for the younger crowd. "We are finding that the new generation, people from 21 to 35, is shying away from beer," Deutsch said. "They are very health conscious and are beginning to drink more wine in moderation. It's becoming a way of life here in America. These younger people like to try different wines and experiment with different tastes."

And part of making wine more accessible is making it more affordable. "We believe in selling wines at attractive prices that people can readily afford on a daily basis," he said. "We have always believed that one has to be fair to the consumer. It's just a bottle of wine; it's not a piece of art. Wine should be affordable and enjoyed by all."

The Yellow Tail Tale

To that end, W.J. Deutsch was behind one of the most acclaimed wine introductions of the past five years – Yellow Tail. Known for attracting casual and chic wine drinkers alike, Yellow Tail is produced in southeastern Australia by the Casella family, which originally hails from Italy. In 2001, W.J. Deutsch introduced Yellow Tail Shiraz and Chardonnay on the east coast of the United States, and the response was overwhelming. Yellow Tail quickly became the number one imported wine in the country. "We found a lot of people were attracted to the package and the name," said Deutsch. "They found the taste satisfying, the wine over-delivered for the price, and they told their friends."

Deutsch continues to invest Yellow Tail revenue back into the company, focusing on sales efforts and advertising as well as developing new varieties of wine such as Australian Pinot Grigio and Riesling. He believes that this Pinot Grigio could reach the volume of the high-selling Italian brands and has teamed with the Casellas to acquire additional vineyard land in southeast Australia. Though Yellow Tail has experienced rapid success, the wine has remained the same. "The Casellas are able to make the same kind of wine, even though the volume is greater," he said.

The excitement surrounding Yellow Tail is reminiscent of W.J. Deutsch's launch of the Georges Duboeuf brand, now the number one French wine import. Unveiled in the early 1980s, the wine has been celebrated as much for its bottle as what goes in it. "It was one of the first wines that I had seen with flowers on the labels," Deutsch said. "Consumers loved the packaging and they loved the wine."

Each year consumers anticipate the late November debut of the Georges Duboeuf Beaujolais Nouveau so much that W.J. Deutsch plans special events to commemorate the wine's release. Over the past two decades, Deutsch has sent motorcycles to deliver bottles all over New York City, hired armored cars to make deliveries, and dispatched long distance runners jogging through the streets from the United Nations.

The two most memorable Beaujolais Nouveau releases surround a former New York City icon. "In the mid-1990s, we delivered the Nouveau to Windows on the World at the World Trade Center, and they took up the cases on the scaffolding to the roof of the building," Deutsch said. "Our good friends at Windows on the World, together with Mr. Dubouef, enjoyed the wine on the roof at Windows on the World." After September 11, Deutsch invited New York City firemen who loved wine to the Marriott Marquis. Firemen from the Beaujolais region in France sent their fire helmets to present to the New York City firemen – to show their solidarity. "It was a very special and emotional day," said Deutsch.

"In dealing with families, they know us and we know them. The communication is simple. A handshake is a handshake, and what we see is what we get."

Champagne Dreams

Champagne is another French import that W.J. Deutsch is bringing into the mainstream. Most Americans see champagne as a drink only for festive occasions. But W.J. Deutsch and Pommery's Pop, a small blue bottle of champagne which comes with a straw, are setting out to change that perception. "We see Pop as something that people can drink in lieu of a cocktail. It is meant for young people to enjoy champagne in a different way, and it has caught on quickly," said Deutsch.

Deutsch is proud of his ability to give back, whether it is to his "family members" at W.J. Deutsch or to his alma mater. To celebrate the company's 25th anniversary, Deutsch introduced a new scholarship to benefit the children of his employees. At Stern, he has created a scholarship for undergraduate students who exhibit academic excellence, financial need, and an interest in entrepreneurship. "A lot of what I learned at NYU was an integral part of helping us grow our company," he said. "I want to give something back to the School because it helped me."

As W.J. Deutsch celebrates its 25th anniversary, Bill Deutsch is making sure his business stays in the family. His son Peter is in his 40s and has taken on the role of president, becoming Bill's right-hand man. "He has new, fresh ideas. There's a younger generation that we the older generation have to listen to. It has become a two-person ownership – forging forward and planning for the future."

What does Deutsch see for his company when it reaches its 50th anniversary? "Every couple of weeks, my son tells me, he takes his son into a wine shop and they talk about the wines on the shelf. Very slowly, he is exposing *his* son to what we do." Peter Deutsch's son is only 11, so it looks like W.J. Deutsch & Sons could remain all in the family for the foreseeable future. ■

On the Verge

For a new hip-hop record label, the bottom line isn't the bottom line

by **Jenny Owen**

The Verge Records team celebrates their win at Stern's Business Plan Competition. From left to right: Noah Dinkin; Emmanuel Zunz; Buttafly, a Verge Records' recording artist; and Deborah Kurshan and Sabrina Huff, consultants and advisors for Verge Records. Right (page 11): Buttafly performs at the Stern Competition.

The idea of a socially-responsible hip-hop music label may be considered ironic. After all, as critics from across the political and ideological spectrum note, the music and culture surrounding American hip-hop frequently appears to be steeped in sexism, capitalist excess, drugs, and violence. But many critics – and fans – don't realize that the very roots of hip-hop were aimed at critiquing social ills such as racism, classism, and urban decay. And today, a new record label co-founded by an NYU Stern graduate, is returning to the social protest roots of hip-hop music, while adding an international flair and a civic-minded approach.

Verge Records is a socially-responsible record label based in Brooklyn that showcases hip-hop music from economically distressed neighborhoods around the world. The label's music niche can be described as "world music with international hip-hop influences," says co-founder Noah Dinkin (BS '06). "In the United States, hip-hop is more about 'bling-bling,' girls, and cars. Outside the US, it's much more focused on the message, whether it's political or social." International hip-hop then is, in many ways, hip-hop music at its roots.

And at Verge, the business strategy is aligned with the message of the music. "We find artists from distressed communities, whether they're developing or established artists," said Dinkin. "When we release the music, we donate part (5 to 10 percent) of the pre-tax proceeds back to those communities to fund music-arts programs, which in turn, develops the music infrastructure in those communities." The strategy helps the label find new artists and tie the brand to the communities, thus creating greater opportunities.

Social responsibility for Verge means supporting artists' distressed communities by creating economic opportunities, and by providing financial and marketing support to nonprofit organizations working to improve social and economic conditions. It also means dealing with the artists in a fair manner and raising awareness among consumers. Verge plans to use educational messaging on all label releases, as well as at charity concerts, on its website, and in its marketing. "The dictionary definition of 'verge' is the extreme margin or edge. And we say that not only represents the kind of music Verge releases, but the kind of communities Verge supports," Dinkin said.

Starting the record label hasn't been easy. Dinkin, 22, has worked in the music industry since his freshman year of high school, when he interned with a cluster of radio stations near his hometown in Westport, Connecticut. He came to Stern intent on furthering his music career by gaining a strong foundation in business, an asset in an industry where few possess those skills.

While attending NYU Stern's Undergraduate College full-time, Dinkin worked between 40 and 50 hours a week at two jobs – one as a partner at UFO, a record label he co-founded; the other as a manager at Invasion Group, an artist management company. Amid the hectic schedule, he found time to build Verge Records.

The impetus for Verge came from Dinkin's partner and co-founder, Emmanuel Zunz, 33, who studied in Brazil while he was a student at the University of Wisconsin and became familiar with international hip-hop. "I was shocked by the level of poverty there. It just wasn't something I was exposed to, having grown up in France and the US," Zunz said. A classical guitarist, Zunz pursued a career in music and then, after receiving a master's degree in international economics from Johns Hopkins University, worked for Monitor Group on social

enterprise projects.

In 2005, Zunz teamed with Dinkin and another partner in Brazil to bring this music to the US. "Both world music and hip-hop music are exploding genres right now, but no one in the US is really focusing on the combination of the two," said Dinkin. "And we think that's a definite market opportunity."

The young entrepreneur joked that he never studied while working toward his business degree at Stern. "My extracurricular GPA was a 4.0," he jokes. But the truth is that Dinkin took his education very seriously, taking advantage of some of the best opportunities the School offers. In 2006, Dinkin and Zunz entered into Stern's annual Maximum Exposure Business Plan Competition, which is sponsored by the School's Berkley Center for Entrepreneurial Studies, and won. To date, Dinkin is the only undergraduate student to have won the Competition.

"We were impressed by Verge Records' approach to incorporating social consciousness into a media-related business model. The label shows a clear commitment to making a positive impact as they seek to build a presence within the recording industry," said Business Plan Competition Social Track judge Matthew Klein, executive director of the Blue Ridge Foundation New York, which supports start-up nonprofit organizations in New York City that address issues of poverty.

Zunz considers the Competition essential to enabling Verge's launch. "It provided us with a lot of support," he said. Dinkin likewise credits the Competition – and his broader experience at Stern – with helping sharpen his business acumen. "Stern taught me a lot of the skills that enabled me to understand the accounting side, business side, and marketing side of how a company works," he said. Such basics are extremely important when putting together a business plan, positioning the company in front of investors, gauging the market opportunity, and managing resources and cash flow. "It's a combination of those hard business skills and being able to listen to a lot of world-class guest speakers that Stern brought to campus and hear about some of the challenges they went through."

Dinkin fondly remembers the New Product Development course taught by Peter Golder, associate professor of marketing and Edith and George Heyman Faculty Fellow. "I'm not at all surprised that Noah is becoming a successful entrepreneur," Golder said. "When he was a student in my class, he was always figuring out how to convert ideas into actions. So I'm sure his approach will continue to make him successful with his record label or wherever else he decides to apply his talents."

Verge has entered into a second business plan competition – the 2006 *FORTUNE Small Business* Student Showdown – and was selected a semi-finalist. The label will go head-to-head with other business plan competition winning teams from the nation's top business schools.

In addition to the *FORTUNE* competition, the label is currently working with four artists – two from the United States and two from Brazil. It hopes to eventually expand into South Africa, and possibly Cuba, where hip-hop music has a strong following. Verge's first full-length album is slated for release in spring 2007, to be followed by another five releases that year. (Dinkin, who graduated in May, still holds down his two other jobs.) To provide Verge cash flow in the interim, the label hopes to ink 30 digital distribution contracts, which will provide the rights to distribute content through digital avenues such as iTunes, by the end of 2006.

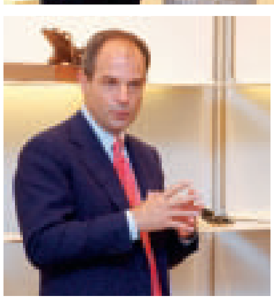
Advanced technologies in digital music distribution have provided a cost-effective mechanism for selling niche music profitably. Verge plans to release music digitally first, cherry-pick the albums and artists that are doing well, then release them through traditional brick-and-mortar retailers. "This will help us leverage our risk," Dinkin explained.

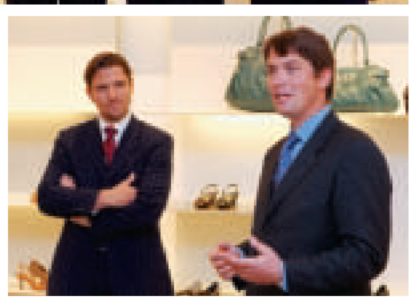
What does the future hold for Verge Records? In addition to music, Dinkin and his partners aspire to open a clothing line with both Verge and non-Verge branded apparel, building Verge into a music-based lifestyle company. They also wouldn't mind teaming up on a release with the socially-minded coffee powerhouse Starbucks. Then who knows – maybe Verge will discover its next artist from the coffee bean towns of Brazil. ■

Ferragamo Family Affair

In June the Ferragamo family hosted a Stern event for a select group of alumni at their flagship store on Fifth Avenue. Members of the Stern Executive Board organized the event, which offered an inside look at the Ferragamo business. The evening grew out of Stern Executive Board members' vision to build a "Stern marketplace," which encourages the engagement of alumni through educational, professional, and networking opportunities.

During the course of the evening, Massimo, James, and Salvatore Ferragamo spoke about the Ferragamo family history and brand and provided an overview of the luxury retail sector. The current Ferragamo business structure features founder Salvatore Ferragamo's six sons and daughters, each with a role on the board of directors. In addition, several other relatives have an active role in the organization. To assist in attracting external management, the family decided that only three members from the third generation should be involved in the business. These three members were required to complete a University degree, preferably an advanced degree, work at an outside company for a minimum of two years, and acquire good English language and information technology skills.





Top, from left to right: James Ferragamo, Dean of the Stern Undergraduate College Sally Blount-Lyon, Stern Dean Thomas Cooley, Salvatore Ferragamo, and Massimo Ferragamo.
Bottom: Massimo Ferragamo (left) and James and Salvatore Ferragamo describe their family business at the Stern event held at the Ferragamo flagship store on Fifth Avenue in New York City.

Salvatore Ferragamo (BS '93, MBA '97) discussed how the Ferragamo family is expanding its brand portfolio into the wine industry and agro-tourism with Il Borro villa, located in Tuscany, Italy. The Ferragamo family purchased Il Borro in 1993, and Salvatore has led the charge to restore the estate and its surroundings. Il Borro has become a destination that reflects the typical Tuscan lifestyle and produces sophisticated Italian wine in a Bordeaux style. Guests enjoyed a tasting of the wine at the event.

His twin brother, James (BS '93, MBA '97), spoke about the family connection to Stern and New York University, noting that he still uses Professor Aswath Damodaran's financial models when completing valuations. The Ferragamo family has also developed a special purple NYU Torch tie, which James says allows Ferragamo to showcase what they do to the large international community at NYU.

Dean Thomas Cooley attended the event and shared the guests' enthusiasm. "I am grateful to James and Salvatore for giving us an insider's look at their family business. Events such as this one show the depth of talent and range of accomplishments of our alumni. Multiply this energy and entrepreneurial enthusiasm by the 70,000 Stern alumni in more than 100 countries, and you quickly get a sense of what an extraordinary and formidable alumni network we have built at Stern. And it keeps growing, too. Every year, the network expands with new graduates and new alumni who value the sense of community and connection that this network represents." ■

James (left) and Salvatore Ferragamo.

8 QUESTIONS

JAMES (BS '93, MBA '97) AND SALVATORE (BS '93, MBA '97) FERRAGAMO

1. How have you been able to keep Salvatore Ferragamo a family business after all these years?

James: The company has always been private with very limited risk taking and has always maintained a healthy balance sheet. Today, six family members have a role on the board of directors. My father Ferruccio, my uncle Massimo, and my aunt Fulvia have an active role in the organization. From my generation, the third generation, only three have an active role: our cousin Diego di San Giuliano, who assists the family office; Angelica Visconti, who is currently based in Shanghai and is following the development of the China market; and myself. I am product director for women's leather goods. My responsibilities range from merchandising and marketing to creation and product development.

2. Why has the company remained private?

James: Being private has allowed the company to think more long-term rather than short-term. By doing so, we have been able to build on the achievements of our grandfather, Salvatore, by expanding our product offering and building international distribution. Today, we are present in over 60 countries, and we're still expanding.

3. What are some markets that you aren't currently involved in where you see the business expanding?

James: In March, we opened our first shop in India, and we believe the opportunity for growth in this market is equal to the opportunities we're seeing in China, where we have 25 points-of-sales with high double-digit growth. Our future challenge will be maintaining our advantage in this emerging market as the competitive framework changes.

4. Asia presents both a challenge and opportunity for luxury goods companies like Ferragamo. The opportunity is the new market; the challenge is piracy and competition from low-cost labor. How is Ferragamo dealing with Asia?

James: Because our product offering relies on Italian craftsmanship, piracy has been limited. We strive to create products that are clearly made in Italy. Not only because this is our heritage, but also because the products are crafted with unique detail that are not easily copied.

5. How did the family become involved in Il Borro?

Salvatore: Our father purchased Il Borro from Duke Amadeo of Aosta, cousin to the heir of the Italian throne, in 1993. The Borro estate is not only a private family retreat, but also a fine resort where others can escape the pressures of urban life and enjoy a very special Tuscan living experience. We wanted to cultivate the estate's natural assets and preserve its origins and beauty, which have lasted more than a millennium. There are no antennas, wires, or phone lines. Our goal was not to disturb the beautiful illusion of what it looked like a thousand years ago.

6. How is Il Borro's wine an extension of the Salvatore Ferragamo luxury brand?

Salvatore: Il Borro is synergistic with the portfolio of our family's luxury holdings, including the fashion and accessories business, four hotels in Florence, and Nautor Swan, a yacht-building company. Our name means something on the wine bottle, and we are as proud of that as we are of the other products we make. The wine business is a special developmental focal point for Il Borro. Production has grown from 6,800 bottles in 1999, to 80,000 in 2004. This year, we should reach 200,000 bottles.

7. How has being twins worked to your advantage and disadvantage?

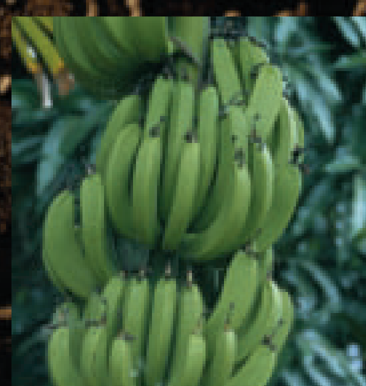
James: There are many advantages in being twins. The biggest one is having a born friend to share all the experiences with during our time in New York.

Salvatore: I think the main advantage of being a twin is that I have someone who is very close to me. I understand him, and he understands me very well. The down side of being a twin is that you are often associated as one person with the common phrase, 'the twins did…,' and since we are identical, it is difficult to make an excuse.

8. How did studying at NYU Stern and working in New York help you as you entered the business world?

James: NYU helped me to balance my professional experience with my academic experience. Living and working in New York City provided the opportunity to understand the practical application of what I learned, as both a graduate and an undergraduate, whether it was about finance, fashion, marketing, or advertising.

Salvatore: Studying in New York gives you the unique opportunity to learn in the business capital of the world and to be in contact with people from different countries, cultures, and businesses. This is very important as I am promoting Il Borro estate worldwide, and it is crucial to understand, recognize, and respect different cultures when entering into any type of global business relationship. ■



Return of the Native Son

By **Daniel Gross**

Like many other residents of the Northeast, Abraham George (MBA '73, PhD '75) has found himself spending a chunk of the year in a warmer climate. But when the fall winds begin to blow, he doesn't repair to a beachfront condo in Florida or a gated community in Arizona. Instead, he spends months at a time in the villages of Southern India, where, in the past 10 years, the software entrepreneur has founded a boarding school, a hospital, a post-graduate journalism school, and a huge banana farm. In between, he led a successful campaign to get the world's second-largest nation to stop using leaded gasoline.

For many successful technology executives, selling a company you've spent 25 years building is the culmination of a career. For Abraham George, the sale of his company marked the beginning of a second career – as an ambitious social entrepreneur bent on fighting poverty in his native India.

In recent years, Americans have come to learn of India's great successes – the technology-savvy outsourcing companies and venture capitalists. But George notes that the gleaming picture of Bangalore is belied by the reality of life for the vast majority of India's rural population. "The prosperity so far is only for a few," he said. "The entire IT sector employs less than 5 million people in a country of 1.1 billion." While a middle class has been growing in India, equipped with cell phones and Internet access, George notes that "for the rest of the population, approximately 700 million people, their lives are untouched."

But the 60-year-old New Jersey resident is doing something about it. He's personally financing a series of efforts in health, education, journalism, and agriculture intended to change lives directly and serve as an example.

George's first career was sufficiently impressive – he came to NYU Stern from Kerala in 1969 to study international economics, and then founded and built a company that made software applications for foreign currency analysis and risk management. It was sold in 1998 for a seven-figure sum. But his seemingly quixotic campaign against one of the world's greatest problems – deeply entrenched, harsh rural poverty in India – has earned him more attention and acclaim. "Give me 100 Abraham Georges as well," writes Thomas Friedman in his best-selling book on globalization, *The World is Flat*. "Individuals who step out of their context and set a different example can have such a huge impact on the imagination of so many others."

GETTING THE LEAD OUT

Lead poisoning is the leading environmental disease among children in developing countries and can seriously impair their ability to learn. George said that soon after he began working in India, "my interest in children brought my attention to leaded gasoline."

George contacted Steve Null, with Friends of Lead-Free Children, who had done work on the issue in the Dominican Republic. "My suggestion was to do a small, isolated study in Bangalore to show the scope of the problem, and then use that to lobby local officials to remove lead from gasoline," Null said.

Instead, working with an Indian medical school, the George Foundation carried out blood lead tests on more than 22,000 children and adults in seven cities, the largest such study ever conducted. And in February 1999, George put together a conference in Bangalore with the World Bank and other NGOs. The study, which showed that 51 percent of the children in major urban areas had unacceptably high levels of lead, generated a large amount of media interest. In response, India's three major oil refining companies announced that they would offer unleaded petrol within 15 months. Soon after, India's government announced it would ban leaded gasoline altogether – a move that has since been followed by similar actions in Pakistan, Bangladesh, and the Philippines.

Abraham George came from what he describes as a middle-class family, although he had some opportunities that were clearly not available to all middle-class Indians. His parents were both professors. After serving as a captain in the Indian Army, he came to NYU Stern for graduate school. "I had felt a desire to make a difference, and looked to NYU to provide me the basic training and motivation to one day undertake such an endeavor," he said. He was interested in international development issues and completed both an MBA and PhD in international economics, writing a dissertation on the benefits of a managed foreign exchange rate system. "What impressed me then was his persistence, and a real ability to listen to instructive criticism and incorporate it into his own thinking and activities," said Robert Hawkins, a retired former vice dean and professor of economics at NYU Stern who advised George.

Upon graduating in 1975, George, who had become an American citizen, worked at Chemical Bank's international division. But in his spare time, he worked on a software application that could be used in the field of currency risk management. He eventually left the bank and created a company in the basement of his house in Montclair, New Jersey, to make the product. His wife, Mariam, also a native of India, was his assistant. "We were taking on giants like Chase and Chemical who had advisory services."

At first, the company, Multinational Computer Models, Inc. (MCM), marketed its products through banks. Eventually, it began selling them directly to companies and added products dealing with interest rates and cash management. By 1990, MCM had expanded to three offices – in New York, New Jersey, and London – and counted some 200 members of the *Fortune 500* as customers.

That year, First Boston approached George about creating a joint venture in international financial risk management. "Abe was very knowledgeable, and he had a really unique way of looking at foreign exchange that nobody had done," said C. William Schroth, then a First Boston executive who currently serves on the board of George's foundation. "And he had a client list that was the best and the brightest of the *Fortune 500* using his system." George agreed, and worked with the bank for five years.

In the 1990s, as he was essentially running two businesses, George found his priorities began to change. "I began to feel that time was sort of running out for me in terms of being youthful enough to do something for the poor," he said. "If I waited too long, I'd probably make a lot more money but wouldn't have the mental and physical energy that I'd need."

So in 1995, George returned to India for the first time in 22 years, and set up a charitable foundation in Bangalore. "What struck me most was the big contrast between what was happening in Bangalore, where multinationals were pouring in and the five-star hotels were filled with rich Indians and foreigners, and hardly an hour away, 80 percent of the people have only one meal to live on, and the caste system placed a good number of them in a socially unjust and degrading situation," he said.

George says he returned to his native country with principles he had learned at NYU Stern and on Wall Street. First: whether you run a nongovernmental organization (NGO) or a private company, there is no substitute for good management. And second: people need opportunities, not handouts. "That meant it was incumbent upon me to create opportunities for people to be employed and learn new skills," said George. That also meant he'd be spending more time in poor Indian villages in the Tamil Nadu region than in boardrooms in New York.

The George Foundation's first effort was the establishment of a boarding school to serve some of the most disadvantaged Indians: orphans and children of lower-caste families. George believed that giving poor children excellent opportunities and solid educations would enable them not only to rise up, but to act as leaders of their communities. In the summer of 1997, the school, Shanti Bhavan, formally opened with 48 students. Today, it enrolls 220 children and employs 60 individuals.

Once the school got up and running, George realized it would be a significant time commitment. "As I got deeper and deeper, I was beginning to spend two to three months at a time in India, and emotionally I was drawn more toward this than the company," he said. In 1998, he sold MCM to SunGard. George initially stayed on, but resigned in 2000.

Freed from his responsibilities, George began to focus more on the root causes of India's poverty. George quickly learned that health care is a pressing need. "If you're sick, you can't learn anything," he noted. So in 2000, George built the Baldev Medical & Community Centre to demonstrate how essential health education and health care could be delivered by a private-sector organization. The hospital today has a staff of eight who serve some 17,000 people. George also developed a software application that can diagnose common diseases like diarrhea, malaria, and typhoid in the absence of a doctor. The so-called "Doctor in a Box" was tested in India by the Johns Hopkins University School of Public Health and found to be effective. George has founded a company, E-medex Online, to develop the product for use around the world. "We won't charge more than 10 to 25 cents per patient per year," he said. The potential market: between 3 and 4 billion people.

While NGOs and the state have a role to play, George believes that in the long run, only vibrant private-sector economic activity can lift the 600 million truly poor Indians out of poverty. The IT sector is only one of several industries that he believes will contribute to improvement. "The key is to train people where they have natural abilities, like farm-

EXCERPT FROM ***THE WORLD IS FLAT***

In his book, *The World is Flat*, Thomas Friedman describes a visit to Shanti Bhavan, the school Abraham George built for children.

"The word 'wretched' does not even begin to describe the living conditions in the villages around the school. When we eventually reached the school complex, though, we found neatly painted buildings, surrounded by some grass and flowers, a total contrast to the nearby hamlets. The first classroom we walked into had 20 untouchable kids at computers working on Excel and Microsoft Word. Next door, another class was practicing typing on a computer typing program. I loudly asked the teacher who was the fastest typist in the class. She pointed to an 8-year-old girl with a smile that could have melted a glacier…".

"After our little typing race at the Shanti Bhavan school, I went around the classroom and asked all the children – most of whom had been in school, and out of a life of open sewers, for only three years – what they wanted to be when they grew up. These were 8-year-old Indian kids whose parents were untouchables. It was one of the most moving experiences of my life. Their answers were as follows: 'an astronaut,' 'a doctor,' 'a pediatrician,' 'a poetess,' 'physics and chemistry,' 'a scientist and an astronaut,' 'a surgeon,' 'a detective,' 'an author.'"

—Thomas Friedman

FROM GENERATION TO GENERATION

Abraham George credits NYU Stern with giving him the tools needed to succeed as a software entrepreneur on Wall Street, and as a social entrepreneur in India. But his connection with New York University goes much deeper. Both his parents taught at New York University, his mother, Aleyamma, as a post-doctoral fellow in physics, his father, Mathew, as a Fulbright Fellow in law.

George's son, Vivek, graduated from NYU with a bachelor's degree in economics. And his brother, Bijoy, and two sisters, Lekha and Vinita, also studied at NYU in economics and English at the master's level.

Dean Thomas Cooley (left) and Abraham George at a Stern event held in the spring. George spoke to nearly 50 MBA students from the South Asian Business Association at Stern (SABAS) and Social Enterprise Association (SEA) about his views on India's development and how to bridge the gap between the world's rich and poor. He's working with Stern to arrange a conference this fall to invite corporate leaders in industries that can operate in rural sectors – from agriculture to textiles – to learn more.

ing, bring in better technology, and help create assets," he said.

That's exactly what he's done in a poor, isolated region outside Bangalore where the George Foundation acquired about 250 acres of land and started a large-scale banana farm. Virtually all of the employees are lower-caste women. Working with an Israeli company, the Foundation taught the farm's employees the techniques of drip irrigation and precision fertilizing. Today, Baldev Farm is the second-largest banana grower in southern India, shipping about 20 tons a day. Profits from the farm support the hospital, but also go into a fund to allow employees to purchase land. "The dual goals are to economically empower the women so their social status can improve and also own permanent income-generating assets," he said.

Through such efforts, George is aiming to prove that profits and poverty reduction can't just co-exist, but that they're vital to one another. "He's combining entrepreneurial risk-taking and attitudes in an economic development context," said Professor Hawkins, who now serves on the board of the George Foundation.

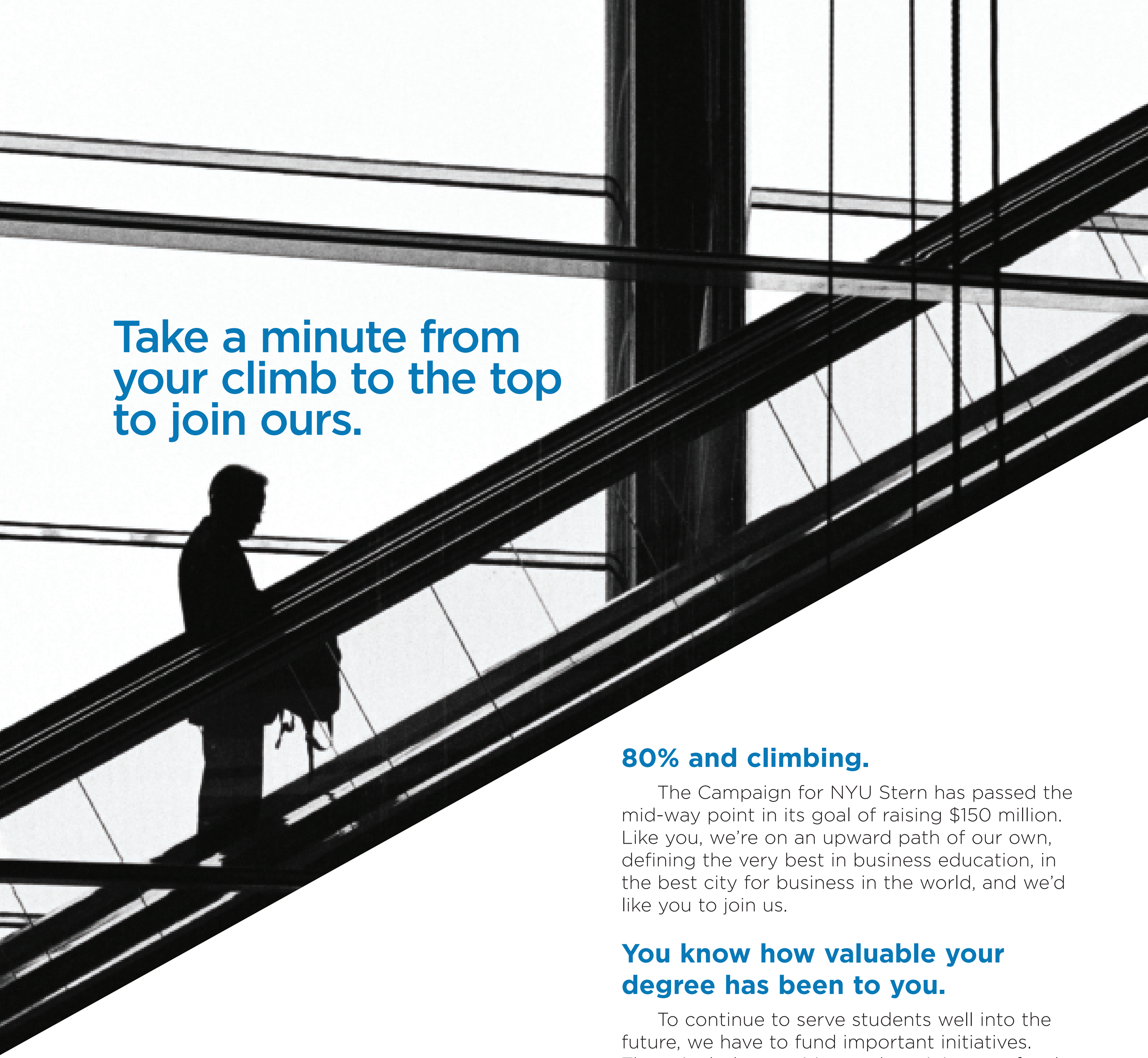
Dean Thomas Cooley traveled to India with his son this past spring and experienced first-hand the work that George is undertaking. "The vastness of his challenge, and how Abraham is tackling it head-on with many intertwined efforts is extremely impressive," said Dean Cooley. "Seeing the need for education led to the creation of the school. The desire to make families self-sufficient prompted the banana plantations and processing. Abraham, with all he has accomplished in India, is a shining example of how businesses can be a profound positive force for social good."

Recognizing that corruption and poor governance are a problem, George felt that the Indian press wasn't doing a particularly good job exercising oversight. "So I thought the best thing I could do was to train some young people in the principles of journalism," said George. And so in 2000, he established a school about 15 miles outside of Bangalore that provides a one-year graduate degree in journalism. It graduates about three dozen students per year. "It will take a long time, but we have to start somewhere," he said.

Abraham George is aware that he's only one person and has his limits. While his energy seems boundless, his resources are not. He has put in some $17 million of his own funds and is now appealing for outside assistance. (Individuals currently account for approximately 10 to 15 percent of the Foundation's annual budget of about $2 million.) While the return on this investment has been "exceedingly high," he can't do it indefinitely. "If I don't get anybody to help me, I'll have to scale back my activities." Both his sons are actively involved in the Foundation on a part-time basis, and his entire family helps out in many ways.

Thomas Friedman asks for 100 Abraham Georges. Given India's scale, many more are needed. Right now, there's only one. But in the space of a few years, he has demonstrated the ability of a single person to affect change on a large scale. ■

Daniel Gross is the editor of STERN*business*.



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The Campaign for NYU Stern

Susan Whiting

president and chief executive officer

Neilsen Media Research

Susan Whiting has been president and chief executive officer of the television ratings company, Nielsen Media Research, since 2002. Whiting is also executive vice president of the Media Measurement and Information Group of VNU, Nielsen's Netherlands-based parent company. Whiting joined Nielsen in the late 1970s. Starting in the Management Development Program, she worked in virtually every aspect of the business. A graduate of Denison University, Whiting is the former president of the New York Radio and TV Research Council, and was named one of *Multi-Channel News'* Wonder Women of 2003.

Whiting was interviewed by David Lieberman, senior media business reporter for the "Money" section of *USA Today*.

David Lieberman: *You're the umpire for a $70 billion dollar business – television advertising – at a time when the baselines are all changing. So I want to start off with some questions that may seem ridiculously simple. From your point of view, what is television today?*

Susan Whiting: A few years ago the answer was pretty straightforward. But that's changed. And you just have to look at what happened with the Super Bowl commercials. Ads bought for one of the biggest events of the television year now get a lot of exposure on websites. So I think we've morphed from the television in the home, to the PC, to your cell phone, to your video iPod, and wherever the TV content ends up.

DL: *Next, what is a television viewer? In my office, just about everyone has a television set on, but the sound will be off and we're not watching. Are we viewers?*

SW: Nielsen ratings show the viewing estimate from the sample of homes that we measure. It is not at your office; it is not, today, a hand-held device, although it will be. Most of the methods we use require an audio code to determine whether the program is on. So if you have the sound off, it wouldn't be picked up.

DL: *Do you know who's watching?*

SW: Our People Meter service puts a meter on each TV set, and it tells us what channel you're tuned to and for how long. But it doesn't tell us *who* is in front of the television set. And since most advertising is targeted by demographics, you need the *who*. We measure that in a couple of ways. The People Meter has a button for each person in the home, so we can monitor *who* within a particular household is watching what. That's how we get demographic ratings.

DL: *Last night, my family watched "American Idol" and obviously somebody paid for the glasses of Coca-Cola to be on the judges' desk. Is that an advertisement?*

SW: Absolutely. We have much more fragmented attention, because digital video recorders (DVRs) allow people to skip through things. Advertisers still need a way to reach their audience, and so they're looking back in time to sponsorship of whole programs. We measure product placement.

DL: *Advertisers in the past sprayed their ads all over and prayed that they would reach the target market. But now, television is becoming a lot more intelligent and accurate with audience measurements. Why will they need you to sample if they can find out precisely how many people are watching their shows?*

SW: If you are an advertiser or a manufacturer with a website, you know all about the traffic to your site. But you don't know about the activity on your competitors' sites, or what the people who visit your site are doing with the rest of their time. And these are all things you need to know in order to build your business and market. That's the advantage of having panels that go across the industry or business. Also, you don't generally know who is coming to your site. And so by collecting a sample of people and measuring their behavior, you can select their demographic. Finally, there's independence. A lot of the advertising support in media needs to prove to advertisers that they've spent their money well. And for that, you need an independent measure.

> **"I think we've morphed from the television in the home to the PC, to your cell phone, to your video iPod and wherever the TV ends up."**

DL: *I know you've been spending a lot of time recently looking at DVRs. And there seems to be still a bit of controversy as to how much advertising people really watch when they watch a recorded show. What are you finding?*

SW: About 7 percent of the country has DVRs right now. We just started our national panel measuring them at the end of December, so we don't have a lot of data. But we see that young men and women, 18- to 34-year-olds, in particular, use them more. People are watching their favorite programs more. So the ratings of a program actually increase when you look at the people who watch within the next 24 hours or seven days.

DL: *What's the difference between the People Meter and the new local People Meter?*

SW: It's the same technology. When you see a Nielsen rating in *USA Today* it's generally the rating from our national panel of homes. But we took the technology we've used for 20 years nationally, and brought it into the top 10 cities in the country. And the People Meters replace the diaries, where we used to compile ratings by charting what people said they watch.

DL: *When the local People Meters began to come out, everyone from Al Sharpton to Rupert Murdoch criticized them. The fear was that new technology would undercount the number of minority viewers in particular. Where do you stand with that?*

SW: We've put the People Meters in nine of the top 10 markets, so we have a lot of information about the transition. And in fact, in almost every market where we've introduced the People Meters, we've actually seen much higher viewing levels

"I never set out to be the CEO of a company. I wanted an interesting job where I could travel. I was an economics major and so what we did at Nielsen made sense to me, because it was all about trends, demographics, and marketing."

among African-Americans, Hispanics, and Asian-Americans. People weren't remembering everything that they were watching, and they weren't writing it all down.

DL: *I think that probably a lot of people in the audience would like eventually to become CEOs. Is this something you've always wanted to be?*
SW: I never set out to be the CEO of a company. I wanted an interesting job where I could travel. I was an economics major and so what we did at Nielsen made sense to me, because it was about trends, demographics, and marketing. And I love building businesses. I think I finally thought it might be possible to be CEO when I reached the general manager position, which is someone who basically runs half the company.

DL: *Did you have to change your life at that point?*
SW: It really is a seven-day-a-week job. I don't care what anybody says. Even if you're not at work, you're thinking about it. I have to go a long way away to turn it off.

DL: *Would you say that your experience was typical or atypical to the other CEOs that you know?*
SW: I think it's probably fairly typical. You become known for building businesses, which is a lot of what I did for Nielsen, or you become known for turning around businesses. But it's unusual to be at one company for 27 years, so I know that's different. It gives me a great, great perspective, and in some ways it makes it easier for me to change the company. I think there's a certain level of trust you get because you've been there for a while.

DL: *Is there any advice you'd give for people who might be graduating and starting off in their career?*
SW: You want to find an area that you're interested in, that you have some passion and feeling about. It's a lot easier to go to work every day if you're doing something you're interested in. You need to work with people you respect. The way you find many good jobs is by asking everybody you know about what they do, until something clicks. But you better ask a lot of questions.

DL: *And are we still in an era where it's harder for women to go up the corporate ladder, or has that changed?*
SW: I think it's still harder, although I think it's much, much better than when I started working. Our company is very, very diverse, and I honestly can say that for the last 10 years I didn't even think about it. But I still will often go into board or client situations where I'm the only woman in the room.

Audience Questions:
Q: *Are you researching the measurement of consumer-driven initiatives, such as interactive marketing programs?*
SW: We just invested in a company called BuzzMetric, which uses the Web and publicly displayed information and examines word-of-mouth on programs and products. Will that be the way an advertiser values an ad? Not directly. But it will tell people something about opinions and thoughts about programs and other things.

Above, from left to right: Deputy Dean Russell Winer, David Lieberman, Susan Whiting, and Dean Thomas Cooley.
Below: David Lieberman interviews Susan Whiting.

Q: *You said that it's going to take you quite a bit of time to launch this People Meter across 200 cities. Are you worried that somebody might roll out a similar technology more quickly?*
SW: A big part of the reason we don't have People Meters in all markets is the economics. We measure markets with a population of 20,000. So it's hard to imagine how these smaller markets would support the type of expensive but higher-value service we use in the big cities. We feel we have to offer a service that our clients can afford to use, and they could not afford People Meter service in 200 markets. Also, technology by itself will never win the day.

Q: *In 1965, a TV advertiser could reach 80 percent of the US population with three prime time ads. Today it would take between 100 and 200 ads. What is Nielsen doing to facilitate, assist, and advise advertisers on how they can improve advertising effectiveness in this changing world?*
SW: We do things like retention analyses – we'll look at how the viewers stay or didn't stay through certain commercials. We're announcing a set of studies of what we call Engagement, where we'll re-contact and re-interview homes that are in a panel. This is where we're starting to work directly with advertisers, because traditionally, in our business model, we work with their ad agencies.

Q: *As advertising methods change, one method coming about now is more emphasis on point-of-purchase promotions, and in-store video. How do you think that's affecting Nielsen's business?*
SW: We're actually measuring things like Wal-Mart TV and other place-based media because it is really important if you're a major advertiser to understand that. We have a growing business in sports stadiums and other places. Basically, we know we have to measure wherever the advertising is. ■

PROSPECTUS

NYU Stern Builds Faculty Pipeline

This fall, NYU Stern welcomes 12 new scholars to the faculty. Four professors each joined the management and economics departments, two in information, operations, and management sciences, and one each in marketing and finance.

"We are delighted to welcome an esteemed group of diverse faculty who will further the academic scholarship at Stern through both their research and teaching," said Lee Sproull, vice dean of faculty. "Their broad spectrum of knowledge will strengthen Stern's community of scholars."

Yuval S. Rottenstreich joined the management department as an associate professor from Duke University's Fuqua School of Business. His research focuses on judgment and decision making and the role emotion plays in such decisions. In addition, the management department has added three new assistant professors. **Dolly Chugh**, a Harvard PhD who worked at Morgan Stanley, Time Inc., and Merrill Lynch, teaches courses in negotiation, and her research focuses on ethical decision-making. **Geraldine A. Wu**'s current research focuses on financing and innovation in the medical device industry. Her PhD dissertation research at Columbia University was sponsored by the Kauffman Foundation, the National Science Foundation, and the NASDAQ Educational Foundation. A PhD graduate from Duke University's Fuqua School of Business, **Kelly E. See** joins Stern from Wharton. Her research focuses on social psychological aspects of organizational behavior including coping with uncertainty, perceptions of fairness in reactions to authorities, power and status, effects of goals, and decision making and innovation.

The economics department welcomed four new assistant professors: **Allan Collard-Wexler**, **Ignacio Esponda**, **Jan De Loecker**, and **Vasiliki Skreta**. Professor Collard-Wexler received his PhD from the Kellogg School of Management at Northwestern University, and his research focuses on empirical industrial organization and applied econometrics. Recently, he investigated the impact of mergers in the Canadian newspaper and airline industries. A PhD graduate from Stanford University, Professor Esponda researches game theory and industrial organization. He teaches Firms and Markets, a core course for the MBA program at Stern. With research focusing on industry dynamics using firm-level and product-level data, Professor De Loecker has analyzed the impact of trade liberalization in the EU textile industry on the productivity of Belgian textile producers. He will receive his PhD from KU Leuven in Belgium. Professor Skreta, a National Science Foundation grant recipient, joins Stern from the University of California, Los Angeles. She also holds an affiliation with the department of economics at NYU's Graduate School for Arts and Sciences. Her research focuses on the design of contracts, auctions, and negotiation procedures.

Wenqiang Xiao and **Sinan Aral** have joined the information, operations, and management sciences department as assistant professors. Professor Xiao's research is primarily focused on designing and evaluating incentive contracts under supply chain settings. He received his PhD from Columbia Business School. Professor Aral, a former Fulbright Scholar, studies the role of information and information technology in the productivity and performance of individuals, teams, and organizations. He will receive his PhD from MIT's Sloan School of Management, and worked at the European Commission in Brussels and as a technology consultant.

Otto van Hemert comes to Stern as an assistant professor of finance. He received his PhD from the University of Amsterdam, and his research is focused on continuous-time portfolio choice, computational finance, pension economics, and real estate finance. In 1995, Professor van Hemert was a member of the six-person team representing the Netherlands at the International Mathematical Olympiad.

Stern's marketing department welcomes leading international marketing researcher **Tülin Erdem** as a chaired professor and research director of CeDER (Center for Digital Economy Research). Prior to joining Stern, she was the ET Grether Professor of Business Administration and Marketing at the Haas School of Business, University of California at Berkeley, where she also served as the associate dean for academic affairs, the marketing group chair, and the PhD program director. She is currently the president of INFORMS Marketing Society and is also an editor or editorial board member at several leading marketing journals. Her research interests include advertising, brand management and equity, consumer choice, customer relationship management, decision-making under uncertainty, econometric modeling, and pricing.

In addition to the 12 new tenure-track professors, **Edward J. Lincoln** joins Stern as clinical professor of economics and director of the Center for Japan-US Business and Economic Studies (see article below).

For more information about these new faculty members, or Stern's other faculty and their research, please see the faculty index on Stern's website, http://w4.stern.nyu.edu/faculty/facultyindex.cgi.

Edward Lincoln Named Director of Center for Japan-US Business and Economic Studies

In July, Edward J. Lincoln was named director of NYU Stern's Center for Japan-US Business and Economic Studies. An expert on Asian economic and trade issues, Lincoln will be responsible for leading the Japan-US Center, leveraging his experience in academia, government, and public policy to explore the dynamic economic relationship between Japan and the United States. As a clinical professor of economics, he will also teach courses on Japan, East Asia, and the global economy.

Lincoln joins Stern after a distinguished career as a policy maker, analyst, and writer. In the mid-1990s, he served a three-year appointment at the American Embassy in Tokyo as special economic advisor to Ambassador Walter Mondale. For 16 years, he was affiliated with the Brookings Institute in Washington, DC. Most recently, he was a senior fellow at the Council on Foreign Relations, specializing in Japanese and Asian economic issues. A regular columnist for *Newsweek* Japan, Lincoln is the author of eight books. *A World Transformed: Economics and American Foreign Policy* will be published in 2007.

"We are honored to welcome Ed Lincoln, a recognized authority on Japan and its economy, to NYU Stern," said Dean Thomas F. Cooley. "This is an exciting time for the Center, with the resurgence of the Japanese economy and the improvement of the US/Japan trade relationship. I am confident that Ed will continue the Center's mission of promoting scholarly dialogue on business and economic issues that affect both countries."

research*roundup*

The *Journal of Marketing* recently selected an article by NYU Stern Marketing Professor **Vicki G. Morwitz**, and colleagues Pierre Chandon and Werner J. Reinartz, as an honorable mention for the 2005 Marketing Science Institute H. Paul Root Award, which is given each year to the article published in the *Journal of Marketing* that made the greatest contribution to advancing the practice of marketing.

The article, "Do Intentions Really Predict Behavior? Self-Generated Validity Effects in Survey Research," aimed to detect the amount of self-fulfilling prophecy in survey methods. "In market research, the simple act of measuring people's intentions changes their subsequent behavior," said Morwitz, whose primary research areas include the validity and reliability of purchase intention measures, effects of responding to surveys, and exposure to survey or poll results. "With our approach, we can better predict the behavior of the general population beyond those who answered the survey. We tested our methodology in three different industries and found that it considerably improves the ability to forecast future behavior."

Panagiotis Ipeirotis and **Anindya Ghose**, both assistant professors of information, operations, and management sciences at NYU Stern, received a Microsoft Live Labs Search Award for their research proposal entitled, "Combining Econometric and Text Mining Approaches for Measuring the Effect of Online Information Exchange." Microsoft Live Labs is a partnership between MSN and Microsoft Research that centers on applied research for Internet products and services. This award consists of a significant unrestricted cash gift for one year and access to a proprietary dataset of a few million search queries detailing various aspects of consumer search on the Internet.


Panagiotis Ipeirotis

Ghose and Ipeirotis are exploring how text in reputation systems, online reviews, and online blogs affect customers' perception about different merchants and products. By measuring the economic effect of an online information exchange (i.e., changes in prices or revenues), Ghose and Ipeirotis identify the economic value of a particular piece of text.

Ipeirotis also won the best paper award at the annual Association for Computing Machinery (ACM) Special Interest Group on Management of Data (SIGMOD) 2006 conference for his research paper entitled, "To Search or to Crawl? Towards a Query Optimizer for Text-Centric Tasks." The ACM SIGMOD conference is one of two leading international forums for database researchers, developers, and users from industry and academia.

Ipeirotis shared the honor with co-authors Eugene Agichtein, postdoctoral researcher at Microsoft Research, and Pranay Jain and Luis Gravano, graduate student and associate professor at Columbia University, respectively. Their research provides a foundation for the efficient execution of complex searches over the Web. When trying to answer such queries, there is a trade-off between output speed and obtaining all relevant data that answers the question. "The paper provides the theoretical and algorithmic foundations for selecting the fastest execution strategy for a task and the desired level of completeness," said Ipeirotis, whose recent research has also won an award from the International Conference on Data Engineering.


Anindya Ghose

short*takes*

In March, **Lawrence White**, Arthur E. Imperatore Professor of Entrepreneurial Studies and deputy chair of the economics department, testified before the US Senate Committee on Commerce, Science, and Transportation on wireless communications issues and reforms. The hearing addressed the growing demands and viability of providing "wireless" services worldwide to governments, industry, and individual consumers as consolidation and competition among cable and telecommunications companies increase.

White is co-chair of the Spectrum Policy Working Group, a group that is working on creating a Digital Age Communications Act to guide the reform of the US telecommunications policy. He testified that the system of "command-and-control" regulation of the spectrum has yielded and will continue to yield large and growing inefficiencies, and that a system relying primarily on a framework of fully developed property rights and markets in spectrum would yield great benefits for the US economy. White proposed creating a "National Spectrum Registry" and negotiations and offered a range of options to a transition to a "propertized" framework.

NYU Stern's Glucksman Institute for Research in Securities Markets awarded its annual prizes to three teams of researchers in February. These awards, designed to recognize and promote excellence in financial research, are given to the best research papers that have been submitted to an academic journal. First prize was shared by two sets of authors: **Stijn Van Nieuwerburgh** and **Laura Veldkamp**, assistant professors of finance and economics, respectively, for an article entitled, "Information Immobility and the Home Bias Puzzle;" and Assistant Professor of Finance **Daniel Wolfenzon** and his colleagues, Morten Bennedsen, Kasper Nielsen, and Francisco Perez-Gonzalez, for their paper entitled, "Inside the Family Firm: The Role of Families in Succession Decisions and Performance." The two groups of faculty will split both first and second place research grants of $5,000 and $2,500.

Van Nieuwerburgh and Veldkamp's study explores how numerous investors will specialize in home assets while remaining uninformed about foreign assets. Wolfenzon et al investigate the role of family characteristics in corporate decision making, and the consequences of these decisions on firm performance. **Heitor Almeida** and **Thomas Philippon**, both assistant professors of finance, were given honorable mention and $1,000 for their paper entitled, "The Risk-Adjusted Cost of Financial Distress." Their research argues that systematic risk affects the valuation of financial distress costs.

"We look for a paper that is likely to have a high impact in the profession, either because it deals with an important topic or because it resolves a long-standing problem in finance," said Glucksman Institute Director **William L. Silber**, the Marcus Nadler Professor of Finance and Economics. "All of these papers support these criteria."

In April, **Jianping Mei**, associate professor of finance, and **Michael Moses**, recently retired associate professor of management at NYU Stern, received the Investment Management Consultants Association (IMCA) 2006 Journalism Award for their article, "Beautiful Asset: Art as Investment." Their piece was published in 2005 in *The Journal of Investment Consulting*. Using repeat sales prices for paintings most recently sold at the two main New York auction houses, Christie's and Sotheby's, Mei and Moses created a database now comprising more than 9,000 price pairs from 1925 to 2005. The article showed that art has historically outperformed bonds and nearly matched the performance of stocks over the long term, and that art has a low correlation with other asset classes, specifically government bonds and stocks – making it an attractive choice for portfolio diversification.

Vishal Gaur, assistant professor of operations management, won the 2006 Wickham Skinner Early-Career Research Accomplishments Award, presented by the Production and Operations Management Society (POMS). Gaur was recognized for his research on retail operations, empirical analysis of retail inventory turnover, the management of product variety, the implications of consumer behavior theory on retailers' inventory decisions, and the impact of financial markets on operational decisions.

ALL SYSTEMS GO

ILLUSTRATION BY JOHN S. DYKES

Capitalism comes in many blends and varieties around the globe. Which flavor is most effective at promoting economic growth?

By **William J. Baumol**

With the crumbling of the Soviet empire in 1989 and the remarkable transformation of China's economy, one of recent history's great conflicts seems to have been settled. When it comes to the prosperity and growth of an economy, the choice is no longer between socialism (or communism) and capitalism. Rather, the choice is between forms of control of the economy that are all arguably capitalistic, in the sense that the bulk of the means of production are in private hands.

Yet across the globe, we see a remarkable variety in capitalist systems – and in performance. There

are capitalist societies whose record of innovation and growth is remarkable and, indeed, historically unprecedented. The United States is a prime example, as are many of the most industrialized countries of Europe and several other economies that are moving toward the forefront. And there are several apparently capitalist nations, including several in South America, in which growth has been slow – and, in some instances has managed to decline – despite the outpouring of productivity-enhancing innovations in the world economy.

The uneven record begs several questions and has stimulated a great deal of research into the different types of capitalism and how well they work. The results are discussed in the upcoming book, *Good Capitalism, Bad Capitalism*, co-authored by Robert Litan and Carl J. Schramm, president and vice president, respectively, of the Ewing Marion Kauffmann Foundation, and myself. *Good Capitalism, Bad Capitalism* seeks to create what Benjamin Franklin called "useful knowledge," specifically, the determination of ways in which the pursuit of economic growth and the reduction of world poverty can be carried out more effectively. To do so, it helps to deal with a more nuanced view of capitalism today. Carl Schramm provides an important insight by pointing out that capitalist economies assume several forms, which are fundamentally different. We found it useful to discuss four different forms of capitalism: Oligarchic Capitalism, Bureaucratic Capitalism, Oligopolistic Capitalism, and Entrepreneurial Capitalism. Reality, of course, is generally populated by hybrids, but these categories are useful for the purpose of classification and argument.

Oligarchic Capitalism

Oligarchic Capitalism, a system in which the most critical of the economy's productive resources are in the hands of a few extremely wealthy individuals or families, is the most indefensible form of capitalism from the point of view of growth. In such economies, the wealthy few characteristically siphon off greatly disproportionate shares of the output of their economies, lead the lives of royalty, and are surrounded by a desperately impoverished population. The oligarchs generally do nothing to promote growth and have little interest in doing so. After all, they are apt to be aware that any changes can trigger threats to their positions. As a result, in such economies methods of production are frequently all but stagnant and evolve slowly only when their retrograde character threatens foreign markets or domestic unrest, so that the oligarchs are reluctantly forced to yield and to permit an iota of economic progress. It should hardly be surprising that the oligarchic economies in Africa, Latin America, and parts of Asia are models of stagnation and economic misery.

Bureaucratic Capitalism

Bureaucratic Capitalism, in contrast, has a more mixed record. This form of capitalism entails substantial government intervention and control. Today, China provides a prime example of this approach, although it still has substantial vestiges of communism, with a very substantial portion of the larger firms still owned by the state. There are countries in Africa that are similarly organized. As a rule, economists tend to express distaste for government intervention in the economy. But it must be admitted that in a number of places, such as South Korea, governmental influence in the economy has been very successful in getting growth started. The transformation of South Korea from a desperately poor, war-ravaged nation in the 1950s into a highly industrialized economic powerhouse has been one of the great success stories of the past half-century. Such stimulation of start-up is not easy to achieve, as repeated unfortunate experiences have shown. But in Korea's case, government intervention, including industrial policy, played a significant role.

> **"When it comes to the prosperity and growth of an economy, the choice is no longer between socialism (or communism) and capitalism. Rather, the choice is between forms of control of the economy that are all arguably capitalistic, in the sense that the bulk of the means of production are in private hands."**

The downside of bureaucratic capitalism is that the government does not always make the right choices. On the contrary, bureaucratic capitalist economies have had their share of dismal failures. Still, the record shows that this form of organization is not to be dismissed out of hand – as a start-up mechanism.

It's in the next phase of development that bureaucratic capitalist economies appear to have experienced quite consistent failure. Many nations find it difficult to preserve the incentives that ensure continued innovation and growth and do not sink the economy in the morass of traditional ways of operation. In order to spur continued growth, there must be some mechanism that does not permit those who guide the economy to sit on their laurels and simply enjoy their initial achievement.

Oligopolistic Capitalism

The third form, *Oligopolistic Capitalism* (or Big Firm Capitalism), is widely prevalent, notably in Asia. In these economies, preeminent portions of activities are carried out by large – or even gigantic – enterprises. Japan is a prime example. Japanese firms like Sony, Toyota, and Mitsubishi have been successful in capturing large shares of the world markets with their products. Moreover, they have been leaders in innovation, providing products that are constantly improved, and may even regularly be one step ahead of those of their prime competitors.

In the early 1980s, after having enjoyed several decades of growth, the Japanese economy appeared to be unstoppable and threatened to leave all of its rivals in the dust. But the juggernaut came to a screeching halt at the end of the 1980s. For much of the past 16 years, Japan's economy has been mired in stagnation. This stagnation is at least partly attributable to the fact that the giant corporations that dominate Japan's economy are inherently very conservative in their innovative activities. They tend to invest only after the market for any invention has been thoroughly explored and the firm's engineers have carefully pre-assessed the technical difficulties a proposed project entails. The big firms, therefore, have tended to specialize in small, cumulative, incremental improvements. While never a sure thing, these efforts are selected to keep the risks to a minimum.

Entrepreneurial Capitalism

The fourth, and most successful, form of capitalism is *Entrepreneurial Capitalism*. It is a variety of economy that may no longer exist in its purest form, but it characterized the way the world's leading economies were organized during or soon after the British industrial revolution at the end of the 18th century. To a greater or lesser degree, it was replicated in the United States, France, and Germany when they entered periods of remarkable industrialization in Great Britain's wake.

"Relentless competition enmeshes the larger innovative firms in an arms race with start-ups, in which each is constantly seeking to outperform its rivals by providing new innovations."

In such an economy, most of the activity is carried out by firms that today would be considered tiny. Entry to markets is easy, and upstarts encounter comparatively few impediments. Innovation is characteristically carried out by independent inventors and their entrepreneur partners who ensure adaptation of the inventions to prevailing market conditions and play a key role in actually bringing the inventions to market. This was often done by arranging for the inventor-entrepreneurs themselves to produce the final products and arrange for their sale. Think of Henry Ford building his first car in a shed behind his house, or Cyrus McCormick perfecting the reaper on a farm. But there also soon arose lively markets in inventions, in which the new products and technology were sold to others, or in which licenses were regularly issued.

Today, in the United States, Great Britain, Ireland, Israel, and a number of other countries, entrepreneurship continues to be subject only to minimal impediments. Thus, it is relatively easy to acquire patents – a special feature of US arrangements since the earliest days of the nation, well before it happened in other countries. The preliminaries for establishing a number of firms are a matter of days or at most weeks, while in some other nations more than a year is typically required. Funds are obtainable with comparative ease, with special institutions such as venture capitalist firms specializing in the provision of the needed resources.

In contrast to the pervasive conservatism of research and development and other innovative activities in the large firms, the smaller enterprises have become the prime providers of breakthrough innovations. Consider this remarkable list from the US Small Business Administration of breakthrough innovations of the 20th century for which small firms are responsible (**Table 1**). It literally spans the alphabet, from the airplane to the zipper.

Table 1. **Some Important Innovations by US Small Firms in the 20th Century**

Air Conditioning ... Air Passenger Service ... Airplane ... Articulated Tractor Chassis ... Assembly Line ... Audio Tape Recorder Bakelite ... Biomagnetic Imaging ... Biosynthetic Insulin ... Catalytic Petroleum Cracking ... Computerized Blood Pressure Controller Continuous Casting ... Cotton Picker ... Defibrillator ... DNA Fingerprinting ... Double-Knit Fabric ... Electronic Spreadsheet ... Freewing Aircraft ... FM Radio ... Front-End Loader ... Geodesic Dome ... Gyrocompass ... Heart Valve ... Heat Sensor ... Helicopter ... High Resolution Cat Scanner ... High Resolution Digital X-Ray ... High Resolution X-Ray Microscope ... Hydraulic Brake ... Integrated Circuit ... Kidney Stone Laser ... Large Computer ... Link Trainer ... Microprocessor ... Nuclear Magnetic Resonance Scanner ... Optical Scanner ... Oral Contraceptives ... Outboard Engine ... Overnight National Delivery ... Pacemaker Personal Computer ... Photo Typesetting ... Polaroid Camera ... Portable Computer ... Prestressed Concrete Prefabricated Housing ... Pressure Sensitive Tape ... Programmable Computer ... Quick-Frozen Food Reading Machine ... Rotary Oil Drilling Bit ... Safety Razor ... Six-Axis Robot Arm ... Soft Contact Lens ... Solid Fuel Rocket Engine ... Stereoscopic Map Scanner ... Strain Gauge ... Strobe Lights ... Supercomputer ... Two-Armed Mobile Robot ... Vacuum Tube ... Variable Output Transformer Vascular Lesion Laser ... Xerography ... X-Ray Telescope ... Zipper

Source: US Small Business Administration

Spurring Innovation

Now, small companies are not alone in spurring innovation. Indeed, it is important not to overlook how the incremental contributions of large companies can add up and compound to results of enormous magnitude. Take the stunning progress in computer chip manufacturing engineered by Intel Corp., which has brought to market successive generations of chips and transistors, on which the performance of computers is so heavily dependent. Moore's Law, named after Intel founder Gordon Moore, holds that that the transistor density of semiconductor chips would double roughly every 18 months.

Indeed, between 1971 and 2003, the "clock speed" of Intel's microprocessor chips – that is, the number of instructions each chip can carry out per second – has increased by some *3 million percent*, reaching about 3 billion computations per second today. Between 1968 and 2003, the number of transistors embedded in a single chip has expanded more than *10 million percent*, and the number of transistors that can be purchased for a dollar has grown by *5 billion percent*. Added up, these developments have surely contributed far more computing capacity than was provided by the original invention of the electronic computer.

To be sure, that initial invention of the integrated circuit was an indispensable necessity for all of the later improvements. But it is only the combined work of the two – the small firms and the large – that together made possible the powerful and inexpensive apparatus that serves us so effectively today.

This is a key dynamic for entrepreneurial capitalism. Relentless competition enmeshes the larger innovative firms in an arms race with start-ups, in which each is constantly seeking to outperform its rivals by providing new innovations. Such a competitive race permits no lagging and time off to the participants, because that way lies insolvency. In the metaphor of Lewis Carroll, each firm is forced, without letup, to run as quickly as it can in order just to retain its market position. And while it is certainly exhausting for executives and managers, it is difficult to think of a more effective incentive mechanism for the innovation process.

I noted at the outset that reality is populated by hybrid capitalisms. Just the same holds when it comes to evaluating the relative efficacy of different modes of capitalism. Our conclusion is that it is neither pure entrepreneurial capitalism nor unalloyed oligopolistic capitalism that holds the greatest promise for our economic future and its growth performance. Rather, it is a combination of the two, such as we now have in the United States, which offers the greatest prospects for continued success. ■

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FROM JNK

Over the past 30 years, high-yield and distressed debt have evolved into respectable and massive asset

By **Edward I. Altman**

One of the most remarkable developments in finance in the past few decades has been the way in which high-yield "junk" bonds and securities of distressed companies have gained legitimate status as important alternative asset classes for many types of institutional investors. Nearly 30 years ago, the high-yield bond market consisted almost entirely of "fallen angels" – bonds that were investment grade at birth but whose ratings were cut as the issuing companies' fortunes sagged. And it was tiny. Less than $10 billion of such bonds were outstanding in the United States in 1978. Since then, the market has enjoyed spectacular growth, with more than $1 trillion in high-yield bonds outstanding in the US this year. And today, the market is dominated not by fallen angels but by newly issued non-investment grade securities. (Non-investment grade bonds are those that receive ratings from Standard & Poor's and Fitch of below BBB-, or Moody's ratings of below Baa3.)

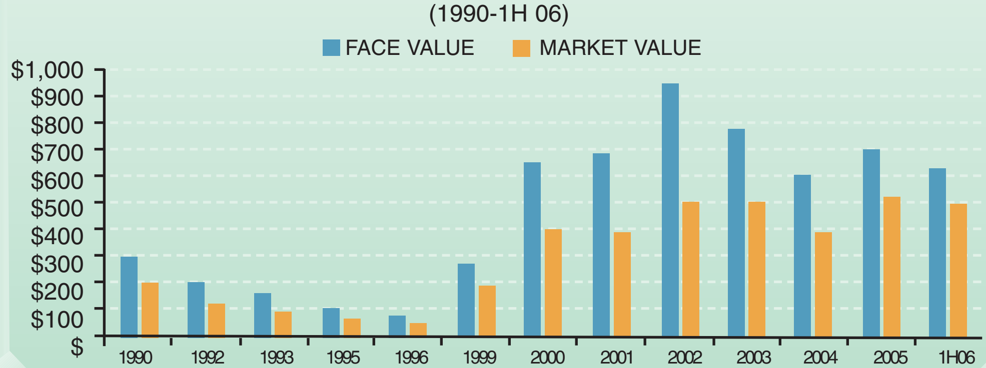
Companies in emerging markets and in Europe now also routinely issue these securities. The relatively favorable risk-return attributes of high-yield bonds, and of its private-debt, leveraged-loan analog, regularly attract new annual investments of at least $100 billion each in the US and of increasing amounts abroad. In addition, the US has seen a substantial rise in the syndicated loan market. Syndicated lending has risen more than 60 percent in the last three years, and rose to $1.5 trillion in 2005. The growth in this sector has been paced by more risky leveraged loans. Leveraged loans, defined as loans of $100 million or more of companies with non-investment grade bonds outstanding, or whose loans yield about 125 basis points (1.25 percent) over an appropriate risk-free benchmark, are now estimated to be about $500 billion, or about one-third of the total syndicated loan market. Increasingly, these loans are being supplied by non-bank financial entities.

In another sign of growth and maturity of speculative grade fixed-income debt securities as an asset class, a new breed of distressed debt investors, called "vulture" funds, has emerged as one of the fastest growing sectors of the burgeoning hedge fund and private equity field. Distressed debt, a subgroup of the high-yield bond market, is defined as securities that yield at least 10 percent (1000 basis points) above the risk-free rate benchmark, and defaulted debt is defined as securities that trade after the issuing firm has missed an interest payment and/or has filed for bankruptcy. In the United States alone, we estimate that as of June 30, 2006, the size of the distressed debt market was about $620 billion in face value and about $500 billion in market value (see **Figure 1**). A similar amount, or more, is also attracting investors in Asia, particularly from Japanese and Chinese banks, and in Europe from German and Italian banks, among others.

FIGURE 1

SIZE OF THE DEFAULTED AND DISTRESSED DEBT MARKET ($ Billions)

(1990-1H 06)



The impressive growth in low-grade and distressed debt has spurred the development of statistics, analytics, and models that seek to explain and predict these markets' size and risk-return trade-offs. Investors are constantly focusing on the outlook of these markets in order to develop strategies and to use market forecasts to attract new capital. Over

TO JEWELS

classes. What does the future hold for junk bonds?

PHOTO-ILLUSTRATION BY MICHAEL CASWELL

the years, I have constructed numerous models and forecasts for the assessment of market dynamics of high-yield and distressed debt. Until very recently, these models have been quite accurate (annual reports can be seen at the website of NYU Stern's Salomon Center, www.stern.nyu.edu/salomon). Forecasts of default and recovery rates on defaulted bonds that use mortality-actuarial methods and statistical regression techniques are now well-known and accepted by market participants and scholars.

But as is readily apparent from examining the history of high-yield bonds, markets are dynamic and constantly shifting. And there are times when even the most carefully constructed and tested forecasting models can be off the mark. The last few years have been one such period. Given the unique environment of the last several years, which has been fueled by massive liquidity and the advent of new participants like hedge funds, it is worth asking whether historically based estimates of default probabilities and recovery rates are still relevant for banks and hedge funds in today's credit environment.

Changing Forces

Traditional measures of defaults and default rates involve the comparison of the dollar amount of defaults from a particular market, such as the high-yield bond market, with the amount outstanding as of the beginning or the mid-point in a year. **Figure 2** shows the default rate calculation from 1971 to the second quarter of 2006, and indicates that the weighted average default rate over the 36-year period is about 4.65 percent per year. The rate was a minuscule 0.42 percent for the first half of 2006. An alternative method, used by most rating agencies, involves the number of high-yield issuers rather than the dollar amount of defaults. And this rate is also very low of late.

Historically, the default rate has experienced spikes in periods when the economy was entering a recession or a slowdown. The default rate since 2002 has been relatively low, especially in 2004 and 2005, with the exception of some rather large bankruptcies that contributed high amounts of defaults in the second-half of 2005, among them Delta and Northwest Airlines, auto parts maker Delphi, and the energy company Calpine. And in the first half of 2006, the default rate was extremely low by historical standards. Yet, using an actuarial-mortality rate approach that we developed in 1989 (which has been quite accurate in most years), we have consistently over-estimated default rates in recent years, with the exception of 2005. This technique analyzes the credit quality of new issues in the entire corporate bond market. We estimate future defaults based on the historical incidence of defaults to these new issue credit quality cohorts. In other words, by examining the quality of newly sold bonds at a given time, we have generally been able to project the rate of default for future periods. For example, **Figure 3** shows that the proportion of newly issued "junk" bonds rated B- or below (the so-called bad cohort) has risen sharply starting in 2002, which would normally indicate increased defaults two to four years after issuance. But the expected increase in defaults to which the data points to simply has not manifested. Why?

FIGURE 2

1971-2Q 2006 HISTORICAL DEFAULT RATES - STRAIGHT BONDS ONLY

EXCLUDING DEFAULTED ISSUES FROM PAR VALUE OUTSTANDING ($ MILLIONS) STANDARD DEVIATION

YEAR	PAR VALUE OUTSTANDING	PAR VALUE DEFAULTS	DEFAULT RATES
2006	$1,039,000	$4,348	0.418%
2005	$1,073,000	$36,181	3.372%
2004	$933,100	$11,657	1.249%
2003	$825,000	$38,451	4.661%
2002	$757,000	$96,858	12.795%
2001	$649,000	$63,609	9.801%
2000	$597,200	$30,295	5.073%
1999	$567,400	$23,532	4.147%
1998	$465,500	$7,464	1.603%
1997	$335,400	$4,200	1.252%
1996	$271,000	$3,336	1.231%
1995	$240,000	$4,551	1.896%
1994	$235,000	$3,418	1.454%
1993	$206,907	$2,287	1.105%
1992	$163,000	$5,545	3.402%
1991	$183,600	$18,862	10.273%
1990	$181,000	$18,354	10.140%
1989	$189,258	$8,110	4.285%
1988	$148,187	$3,944	2.662%
1987	$129,557	$7,486	5.778%
1986	$90,243	$3,156	3.497%
1985	$58,088	$992	1.708%
1984	$40,939	$344	0.840%
1983	$27,492	$301	1.095%
1982	$18,109	$577	3.186%
1981	$17,115	$27	0.158%
1980	$14,935	$224	1.500%
1979	$10,356	$20	0.193%
1978	$8,946	$119	1.330%
1977	$8,157	$381	4.671%
1976	$7,735	$30	0.388%
1975	$7,471	$204	2.731%
1974	$10,894	$123	1.129%
1973	$7,824	$49	0.626%
1972	$6,928	$193	2.786%
1971	$6,602	$82	1.242%

Increased Liquidity

To answer this question, it helps to look at trends in the investing landscape. The lower default rates have coincided with a rise in the number and size of hedge funds and private equity firms that employ related investment strategies. The driving force behind all of these strategies is the enormous increase in liquidity stimulated by the quest for higher yields and returns. The presence of so many investors with large amounts of money to deploy in the sector has, in the short run, along with a fairly robust economy and persistently low interest rates, lessened the incidence of defaults. (Both the robust economy and the persistently low interest rates have recently shown clear signs of change.) Indeed, the huge returns observed on low-quality assets in 2003, and the impressive but somewhat lower returns in 2004, fueled an already frothy distressed debt market in the aftermath of the enormous increase in defaults in 2001 and 2002.

In recent years, highly leveraged home owners have been less likely to default on their mortgages because the mortgage industry continually develops new products that allow them to restructure debt. A similar dynamic is taking place in the high-yield debt market, where companies in distress have a wider range of options – beyond default. Until recently, firms that got into trouble went to their traditional sources of financing – banks, insurance companies, and bond markets – to provide refinancing packages that could rescue them from temporary stressed conditions. But in the aftermath of the enormous default and loss experience of the early years of this decade, these traditional sources were reluctant to lend to newly distressed firms. Non-traditional sources, such as distressed debt hedge funds, saw an opportunity to fill the rescue financing void at attractive yields – e.g., double the spreads on comparably rated companies. These investors, flush with new capital infusions after they posted huge returns in 2003, have proven more willing to take subordinated positions than the traditional senior-secured lender. This has accounted for the impressive growth in the second-lien market of notes and bonds. Such loans bear interest of 500 to 600 basis points above LIBOR. And in order to hit the funds' hurdle rates, leverage of two to three times is being used. Investors argue that private rescue financing packages (e.g., notes with warrants attached) can be structured to ensure relatively high recoveries if the rescue financing is not successful. Still, it is easy to observe that recent public and private financings have very weak or no protective covenants. Is the time bomb ticking away?

But investors aren't just seeking to keep leveraged companies on life support; they are seeking to use high-yield debt as a means of getting involved with corporate governance or taking control of companies. "Active investing" has always

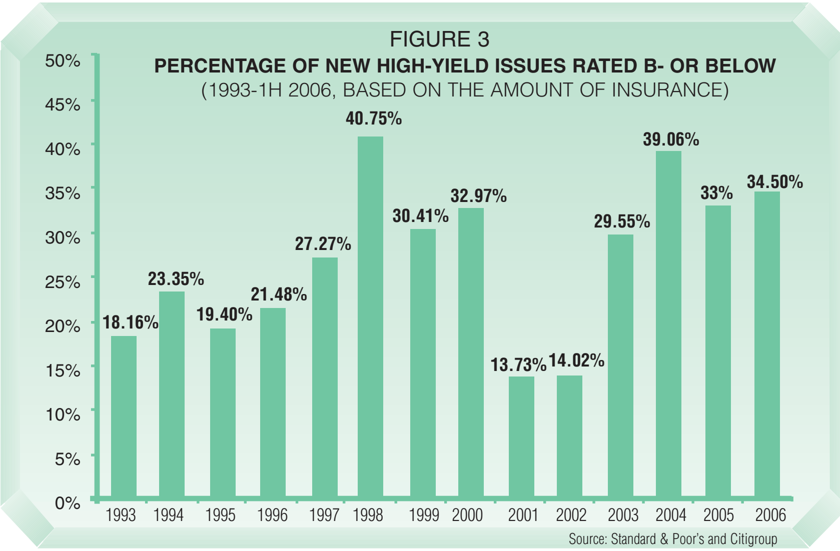


FIGURE 3
PERCENTAGE OF NEW HIGH-YIELD ISSUES RATED B- OR BELOW
(1993-1H 2006, BASED ON THE AMOUNT OF INSURANCE)

Source: Standard & Poor's and Citigroup

been evident in distressed investing. There are numerous anecdotes of successful ventures, whereby the debt investor with large positions uses its position to influence the valuation of the reorganized company to receive a greater slice of the emerged-company pie. In some circumstances, including Sunbeam, Kmart, Barneys, and LTV/Bethlehem Steel, the active investor was also involved in a control situation – i.e., the investor winds up running the company when it emerges from bankruptcy.

Or, active distressed debt hedge funds have provided rescue equity buyouts, further reducing the default rate. For example, Asprey & Garrard, the venerable English luxury jewelry retailer, was recently rescued by an American distressed hedge fund managed by Plainfield Asset Management, a firm run by NYU Stern Adjunct Professor Max Holmes. General Motors is in the process of selling a majority stake in its finance unit, GMAC, to Cerberus Capital, a huge hedge fund/private equity firm that specializes in distressed situations. The one-year probability of a GM default was considerably greater before the announcement of the proposed sale to Cerberus.

Success in these ventures has motivated more traditional private equity firms to enter the distressed firm space. And that has led to more purchases of distressed firms that investors believe can be viable, given new management and a new capital structure. This additional liquidity in the distressed firm market, both from traditional and non-traditional "vultures," has no doubt reduced the number of defaults from the levels that might be expected.

New Paradigm?

The greater liquidity can be a double-edged sword. While it is certainly saving some firms from default, it could be laying the groundwork for more potential defaults down the road. Aggressive financing packages for struggling companies and merger activities are adding significant new leverage to corporate balance sheets. Debt-to-cash flow ratios have risen to above six in some of these transactions. Our research has shown that unless debt is reduced to manageable levels in two to four years after the highly leveraged transactions, we could experience firm meltdowns similar to what we saw in 1990 and 1991 – years in which the default rate rose to approximately 10 percent. This will be even more likely if the economy itself experiences a coincidental slowdown and interest rates rise. In the meantime, however, default rates remain relatively low.

A crucial metric for investors in this arena is the percentage of the face value of defaulted debt that will be paid back if there is a default – the recovery rate. Our research has clearly shown a significant negative correlation between coincident default and recovery rates. In other words, when default rates rise, recovery rates fall; and vice versa. Here, again, however, the dynamics seem to be changing. Forecasted recovery rates based on a supply/demand relationship for defaulted securities were quite accurate until 2005. But in 2005, our forecasted recovery rate (about 40-45 percent) was much lower than the actual rate (about 60 percent). This is another example in which the use of historical data has proved problematic in today's unusual environment.

The key question today, therefore, is whether the benign credit environment, fueled by significant liquidity from traditional and non-traditional institutions, will continue to affect the high-yield, leverage-loan, and distressed debt markets. Or will the hot money recede, moving to other uses – commodities, alternative energy stocks, emerging markets, real estate – and the more normal default and recovery patterns return based on firm fundamentals. I believe that the latter scenario will manifest, perhaps toward the end of the second half of 2006 or, more likely, in 2007. And some of the hedge funds that used a good deal of leverage will find it difficult to cover their own loan requirements, as well as the inevitable fund withdrawals, given a fall-off in returns. But as investment managers like to say, the past is not necessarily a perfect guide to future performance. If the 2006 default rate remains at historically low levels, our 4 percent default rate forecast for 2006 will significantly over-estimate the reality, and the recovery rate will remain much above average. In other words, investors may continue to find valuables in the junkyard. ■

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On November 9, 2006, NYU Stern will host a *Feschrift* and gala dinner in honor of Professor Altman's 65th birthday and 40 years of service to NYU Stern and the global financial community. A presentation of research and conference focused on credit risk, distressed debt investing, and restructuring will take place earlier in the day. *For tickets to the gala or for more information, call 212-998-0383.*

ILLUSTRATION BY GORDON STUDER

MARKET FORCES

The rise in executive compensation in the United States in recent decades has triggered a large amount of public controversy and academic study. Critics are quick to point out that the wages of chief executive officers have skyrocketed in a period when earnings of typical workers have grown far more slowly. And in the early years of this decade, when many executives took home large compensation packages even as the stock market tanked, investors felt like salt was being rubbed in their wounds.

Scholars have generally used three types of economic arguments to explain the phenomenon of rising CEO pay. The first explanation attributes the rise to the widespread adoption of compensation packages with high-powered incentives like stock options, performance bonuses, and restricted stock since the late 1980s. And with greater volatility in the business environment, risk-averse CEOs must be offered – and paid – compensation packages that have higher value to compensate for

By **Xavier Gabaix** and **Augustin Landier**

It may be tempting to blame greedy CEOs and lazy boards for runaway executive pay. But a study shows top executives' salaries are rising in direct proportion to top companies' size and value.

their riskiness in order to keep them on the job.

In the post-Enron era, a second explanation gained momentum. Lucian Bebchuk of Harvard University, a proponent of the "skimming" view, argues that CEO compensation can be explained by an increase in managerial entrenchment. Secure in their positions, and operating with little effective oversight, "managers will seek to take full advantage of it and will push firms toward an equilibrium in which they can do so." In this view, stock-option plans are seen as a way to increase CEO compensation without attracting too much notice from the shareholders. A milder form of the skimming view has been expressed by scholars who attribute the explosion in the level of stock-option pay to an inability of boards to evaluate the true costs of this form of compensation.

A third explanation attributes the increase to changes in the nature of the CEO job. To compensate CEOs for the increased likelihood that they will be fired, companies must pay them more in the short term. And some scholars have noted that CEO jobs have increasingly placed a greater emphasis on general rather than firm-specific skills, a trend that increases CEOs' outside options and thus places upward pressure on pay.

A New Model

We've chosen to look at executive compensation through the prism of a different model, which has led us to reach quite a different conclusion. Rising CEO compensation isn't a function of the greater use of stock options, the presence of more greedy bosses, or a fundamental shift in the nature of the position. Rather, rising CEO pay in the last 25 years has largely been a function of the substantial growth in the size and market value of US firms.

"A-list movie stars have the potential to turn an average movie into a blockbuster and change the economic model for the studios – and thus command astronomical salaries – while most other actors earn far less. Just so, the market for CEOs produces a fat-tailed distribution curve, with those at the very top earning much more than those in the middle."

We set out to develop a simple, tractable, and calibratable competitive model of CEO pay: what might be called a neoclassical model of equilibrium CEO compensation. The model involves a lot of equations and number-crunching (the full text can be seen at Professor Landier's website: http://pages.stern.nyu.edu/~alandier/), but it can be pared down to its essentials. CEOs have observable managerial talent and are matched to assets in a competitive assignment model. Companies pick the potential manager that maximizes performance net of salary. And the best CEOs go to the bigger firms, which maximizes their impact. The marginal impact of a CEO's talent is assumed to increase with the value of the assets under his control. Under very general conditions, then, the compensation of a CEO is a function of the scarcity of CEOs who are judged capable of running large firms, the firm's market value, and the market value of the other large firms.

The most basic prediction of our theory is that the average CEO compensation should be proportional to the average size of the firms in that group, and that it should grow accordingly. Now, in the US, between 1980 and 2003, the average asset market value of the largest 500 firms (including debt and equity) increased (in real terms) by a factor of six – i.e., it rose 500 percent. This rise can be decomposed as follows: both the asset price to earnings ratio and earnings have increased by a factor of approximately 2.5 during that period. The model therefore predicts that CEO pay should increase by a factor of six.

Did it? To find out, we used two different indices of CEO compensation. The first was based on the data of Michael Jensen, Kevin Murphy, and Eric Wruck, whose sample runs from 1970 onwards and is based on all CEOs included in the S&P 500, using data from *Forbes* and ExecuComp. Their measure of CEO total pay includes cash, restricted stock, payouts from long-term pay programs, and the value of stock options granted using ExecuComp's modified Black-Scholes approach. (A shortcoming of these data is that total pay prior to 1978 excludes option grants, and total pay between 1978 and 1991 is computed using the amounts realized from exercising stock options, rather than grant-date values. The latter can create a mechanical positive correlation between stock-market valuations and pay in the short-run.)

Our second index was based on the data from Carola Frydman and Raven Saks, and includes cash compensation, bonuses, and the Black-Scholes value of options on the date they were granted. The data are based on the three highest-paid officers in the largest 50 firms in the US in 1940, 1960, and 1990. The correlation of the mean asset value of the top 500 companies in Compustat is 0.93 with the first dataset and 0.97 with the second data set. When we charted the data (see **Figure 1**), an interesting pattern emerged: CEO compensation as produced by both datasets closely tracks the rise of market capitalization. In other words, it seems the six-fold increase of CEO pay between 1980 and 2000 can be fully attributed to the increase in market capitalization of large US companies.

FIGURE 1

Executive Compensation and Market Cap of Top 500 Firms

Normalized to 1 in 1980

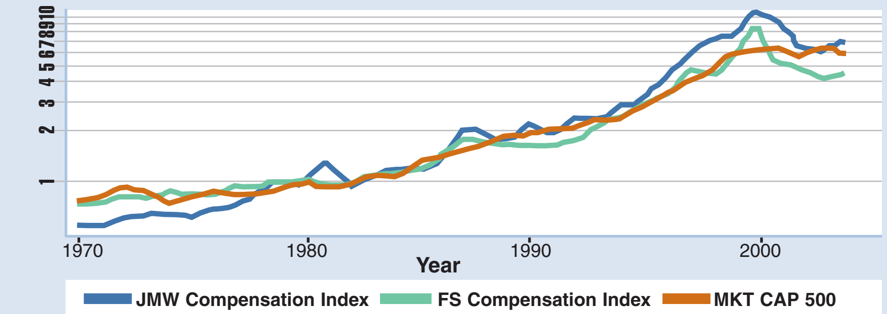
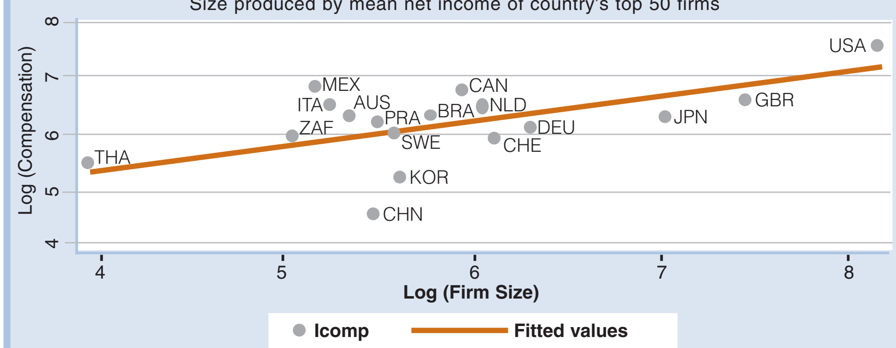


FIGURE 2

CEO Compensation and Country Firm Size in 2001

Size produced by mean net income of country's top 50 firms



Global View

It is frequently noted that in the US, CEOs are paid far more than their counterparts in Europe and Asia. And so we thought it would be useful to evaluate comparative CEO pay across countries using the model. The model predicts that CEOs heading similar firms in different countries will earn different salaries. If there are two firms of equal size, one German, one American, our model predicts the salary of the American CEO would be higher than that of the German CEO because large American companies are in substantially larger number, so that the competition of firms to hire top-managerial talent is higher. Indeed, despite a recent trend, national CEO markets are still quite segmented, e.g., due to language barriers. Our model also predicts that countries where stocks have risen at a less robust rate than stocks have in the US would also show lower executive compensation growth.

Testing the model internationally is challenging. In most countries, public disclosure about executive compensation is either non-existent or much less complete than in the US. The variation in tax systems, pension benefits, perquisites, and cost of living across countries also makes comparisons difficult. We constructed international compensation figures using public information from a compensation consulting company (Towers Perrin).

The Towers Perrin survey provides levels of CEO pay across countries for a typical company with $500 million of sales in 2001. To get information on a country's typical firms, we used Compustat global data for 2000. For each country, we computed the median net income of the top 50 firms, which gives us a proxy for the country-specific reference firm size. We chose net income as a measure of firm size, because market capitalization is absent from the Compustat Global data set. We chose 50 firms, because requiring a markedly higher number of firms would lead drop too many countries from the sample. When we ran regression analysis on these figures, we found that the variation in typical firm size accounts for about a half of the variance in CEO compensation across countries. (See **Figure 2**)

Interestingly, country characteristics that have often been put forth as important determinants of variations in executive CEO compensation across countries, such as the percentage of family-controlled companies, or social attitudes toward inequality (which can be retrieved from the World Value Survey), have no predictive power once controlling for our measure of firm size.

Surprising Findings

The model also produced some surprising findings. Perhaps the most surprising one is that the dispersion of CEO talent distribution appeared to be extremely small at the top. If we rank CEOs by talent, and, at the head of a firm, replace CEO number one by CEO number 250, the value of that firm will decrease by only 0.02 percent. This means that the spacings between talents can look very small. However, these very small talent differences translate into considerable compensation differentials, as they are magnified by the size of very large firms. If there is a paradox in CEO pay, it is that firms must think that talent differentials between the top CEOs are small. Otherwise, they would be willing to pay CEOs much more.

A few additional remarks are in order when considering executive compensation. There may be other factors at work, which we have not examined with our simple benchmark model. The rise of new sectors, such as venture capital and the money management industry, might have exerted substantial upward pressure on CEO pay in the period we studied. The dynamics of compensation in a specific industry, say the finance industry, can have large "contagion" effects to the rest of the economy. Also, it is often casually argued that a large amount of herding drives the dynamics of CEO compensation. If a few firms increase compensation (for example, because they believe talent impact has increased) the others might somehow be "forced to follow." Here again, other firms might be forced to align their compensation policy to these new standards. Our model allows us to calibrate such contagion effects, whether they are due to market forces or not. For example, we predict that if 1 percent of the firms pay their manager twice as much as the market (e.g., due to poor corporate governance), then all firms will have to increase CEO compensation by 5 percent.

Clearly, a superstar effect is at work here. The best managers are paired with the largest firms, which allows them to command a high compensation. A-list movie stars have the potential to turn an average movie into a blockbuster, and change the economic model for the studios – and thus command astronomical salaries – while most other actors earn far less. Just so, the market for CEOs produces a fat-tailed distribution curve, with those at the very top earning much more than those in the middle. It would be interesting to apply the analytics of the present paper to these markets such as finance, law, and entertainment and see to what extent variations in the sizes of stakes (size of funds, size of contested amounts in lawsuits, concert revenues, movie revenues) explain the evolution in top pay in these markets.

In every such instance, scholars would not be surprised to find that compensation bears a direct relation to the size of the enterprise involved, and to the competition for the talent in question. And perhaps that is the most significant contribution this model can make to the discussion about executive compensation. There is no doubt that many factors help determine the composition of executive compensation. But in the end, CEOs' pay is determined by two interconnected and very large markets – the market for talent and skills and the market for stocks. The money at stake for the stockholders, which has massively increased in the last decades, is the main determinant of CEO compensation levels. ■

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PUTTING PRINCIPLES INTO PRACTICE: MBA STUDENTS MANAGE $2M INVESTMENT FUND

What's the best way to teach MBA students how to run an investment fund? Let them manage one, of course. At NYU Stern, students are doing exactly that, thanks to the Michael Price Student Investment Fund (MPSIF), which was established in 1999 through a generous gift from Michael Price, managing partner at MFP Investors, LLC and former chairman of Franklin Mutual Series funds.

The Fund, which is part of the overall New York University endowment, provides Stern MBA students interested in pursuing a career in asset management with hands-on experience managing a real fund. MPSIF is part of the two-semester Managing Investment Funds course taught by Richard Levich, professor of finance and international business and deputy chair of the finance department. Students must apply to the course, and demand has consistently exceeded the approximately 45 available spots.

After serving as an analyst during the first semester, screening and evaluating stocks, studying industry sectors, and preparing and presenting pitches for buy and sell recommendations, Michael Turgel (MBA '06), CPA, was appointed in fall 2005 as co-portfolio manager to oversee the Value Fund, one of three equity funds in the $2 million MPSIF's family of funds, which also consists of a Small Cap Fund, Growth Fund, and Fixed Income Fund. Managing the Fund entailed "checking the news of the market every day; staying in touch with our Fund analysts covering certain stocks that are either blowing up or tanking so we can understand why; and assigning sectors and stocks to team members and making sure they are covering them" – in short, a typical day in the life of any Wall Street fund manager.

The Fall 2005 MPSIF Executive Committee, including Professor Richard Levich (second row, third from left) and Michael Turgel (first row, far left).

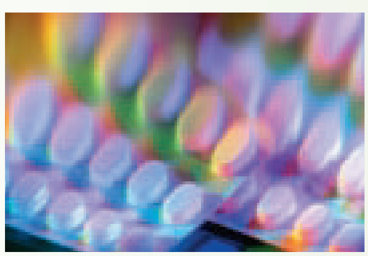
The biggest struggle for the managers, according to Turgel, is the MPSIF's dual mandate – it is required to pay a 5 percent annual dividend to the University of Oklahoma Price School of Business, Price's alma mater, for its students to attend summer classes at Stern, and it has to keep pace with inflation. "We have a mandate to have an absolute return of no less than 8 or 8.5 percent," Turgel said. "However, we're also benchmarked to our index – for example, our Value Fund is measured against the Russell 1000 Value Index – so we have a relative measure that we have to exceed as well."

The students have easily met and exceeded this challenge, earning a cumulative return of 44.3 percent (at February 2006) since the Fund made its first investments in March 2000, and outpacing its benchmarks by 20 percentage points.

The Fund pays non-financial dividends as well. "The class truly helps students differentiate themselves for employers," said Professor Levich. "If they're looking for a job with investment managers and they're in an interview and are asked for their opinion of the stock market, they can pull out the reports they wrote showing the analysis of stocks they pitched for the Fund."

The pay-offs for students are evident too. "Given the fact that we were managing real money, that it was student-run, and that we had oversight from the advisory board and Stern faculty, it felt like we were running a mutual fund," said Turgel, who now works as an analyst at Eaton Vance, a mutual fund company in Boston, within the floating-rate bank loan group. "I don't think I would have gotten my job without it."

Benefit Consultants



Many NYU Stern students travel far and wide during breaks and vacations to work with nonprofit and charitable groups. But a group of undergraduates are applying their skills and energies to affect social change closer to home.

As part of its effort to enroll eligible seniors in the new Medicare prescription drug benefit – Medicare Part D – before the May 15, 2006 deadline, the New York City Department for the Aging (DFTA), decided to partner with a business school. NYU Stern was a natural choice. "There was a real need for volunteers with computer savvy, bilingual capabilities, interpersonal skills, and an eagerness to help," said Stern alumna Lenore Glickhouse (BS '72), associate director of the Aging in New York Fund (the Department's charitable arm). "I knew the Stern students could offer all of that."

A group of Stern students trained and worked side-by-side Department professionals to help seniors navigate the Medicare online form at a number of different sites around New York City.

Sunny (Sandeep) Parihar (BS '07), a Stern Scholars student who volunteered on several occasions in April and May at a center in Hunts Point in the Bronx, said his volunteer experience offered him the opportunity to apply his soft business skills to a social service setting while making a contribution to the local community. "It required me to take initiative and to be very focused. And patience – without it, I wouldn't have gotten very far. I also had to pay attention to detail. These are people's lives, so you can't overlook any detail," he said.

Students also gained something from the effort. "When working with the seniors on the application, they would often start talking about the good ol' days. The stories they told were very interesting, and funny," said Parihar. "A lot of these people came in nervous and confused, and would get easily upset with the process. It was rewarding in the sense that I knew at the end of the day that they were better off than before they came in."

With the assistance of Stern students and other partners, DFTA was able to aid hundreds of seniors at 44 enrollment and information centers citywide in enrolling in the Medicare Part D Plan. The Department hopes to continue to partner with Stern students for future enrollments. "I was most impressed with the students' reason for volunteering," said Glickhouse. "They weren't there because they had to be, but because they wanted to be. And we hope to continue to work with them in the future."

With students like Parihar, the Department can be confident they will continue to receive Stern's help. "Everyone has to do their little bit. I feel like I did mine. Can I do more? Sure. Will I do more? Yes. I get an overall feeling of satisfaction by being able to do my part," said Parihar.

Stern Undergraduates Ride with Business Legend Warren Buffett

"Who would refuse an offer from Warren Buffett to go for a drive in his car?" asked recent NYU Stern graduate Sonali Patel (BS '06). Patel and 16 other NYU Stern undergraduate students recently had a chance to do just that. "I was expecting a limousine, but as we walked to the parking garage at his corporate offices, I quickly realized that the group was going to pile into Mr. Buffett's Lincoln, which sports the custom license plate 'thrifty,' and that he was driving," she said.

The excursion to Buffett's hometown, Omaha, Nebraska, was part of a day-long visit with the CEO of Berkshire Hathaway, a diversified company with holdings in insurance, utilities and energy, retailing, and investments. Buffett, the nation's second wealthiest man (behind his friend and partner in bridge and philanthropy Bill Gates), had generously agreed to spend the day with these Stern undergraduates, who are part of the Undergraduate College's Senior Honors Program, and Professor Marti Subrahmanyam, Charles E. Merrill Professor of Finance and the director of the Honors Program.

The students visited two of Buffett's businesses: the Nebraska Furniture Mart, a chain with more than $600 million in annual sales, and National Indemnity Company, Buffett's primary insurance group. The highlight was the time spent with Buffett, and going to lunch at one of his favorite local steak houses. During the two-hour Q&A session, Buffett told the students that they could ask him about anything except his next deal.

Buffett's warm, easy-going style came as a pleasant surprise to the group. "Mr. Buffett was the most down-to-earth executive I've ever met. You meet him and you have complete faith in the business world," said Patel. "He didn't talk down to anybody," added Subrahmanyam. "He took every question seriously and answered each one patiently. He has incredible people skills."

Patel said she walked away from the experience with two key insights from Buffett: first, to figure out what you are good at and pursue it with passion and, second, to follow your gut. "Mr. Buffett is living proof that you can really make a difference in the world. This was an experience that will influence me throughout my career," she said.

Professor Marti Subrahmanyam and Stern undergraduate Honors students in Omaha with Warren Buffett and his "thrifty" Lincoln.

Lights, Camera, AXE-ion… MBA Students Screen Branded Entertainment Films

NYU Stern students interested in working in media don't have to wait until graduation to get involved in the intricacies of film production. Since 2004, groups of MBA students have been working with counterparts at the Kanbar Institute of Film & Television at NYU's Tisch School of the Arts graduate programs to produce branded entertainment films for major companies.

On May 2, NYU Stern ProMotion Pictures Film Competition's three winning films, produced by Stern MBA students and directed by NYU Kanbar graduate students, premiered for this year's sponsor, Unilever's AXE body spray. Screened in front of a group of 200 people who munched on popcorn and concession-stand candy, the films featured the popular body spray and depicted the "AXE Effect," which gives guys the edge in the dating game.

At the red-carpet gala, each winning team received a framed copy of its script with comments and a surprise early review from one of NYU's own: award-winning filmmaker Spike Lee (NYU Kanbar, MFA '82).

Kevin George, Unilever vice president/general manager, Deodorants, underscored the advantages of sponsoring the NYU Stern ProMotion Pictures Film Competition in a recent *Wall Street Journal* article: "We're trying to push the boundaries of branded entertainment and create engaging promotions that our 18- to 24-year-old target male will seek out," he said. "The NYU students working together understand both business and creative filmmaking, a combination we don't find often enough in people. They have created scripts that fit the Axe sensibility and aren't clichés."

MBA student and ProMotion Pictures Executive Producer Jonas Greenberg (MBA '07), who worked for Twentieth Century Fox in Los Angeles before coming to NYU Stern, said the program has helped him build relationships with executives from major companies, such as Heineken, Verizon, and of course, Unilever. "This competition has given me the unique opportunity to supplement my MBA coursework with valuable real-world experience in branded entertainment, which I'll bring to my future career," he said.

From left to right: Jeffrey Grossman; Matthew Kelly (MBA '06), executive producer; Jonas Greenberg; Russ Axelrod; and Kevin George.

The competition, created by Stern alumni Jeffrey Grossman (MBA '04) and Russ Axelrod (MBA '05), is sponsored by a different company each year and awards upwards of $150,000 to three winning teams to produce the short films, which are used as part of the company's marketing campaign. The competition began in 2004 when Volvo signed on to have students create branded entertainment films to support the US launch of its Volvo V50 station wagon. In 2005, students created short films for Verizon's Broadband branding campaign, "Richer. Deeper. Broader." Students are currently working with Heineken on a short film to appeal to the urban market, a comedic short for the new Premium Light beer, and a documentary for Heineken's Amsterjam music festival in August.

ALUMNI AFFAIRS Alumni News & Events

ALUMNI REUNION WEEKEND 2006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2

1. Members of the MBA Class of 1996 Reunion Committee **2.** Alumni reconnect at the MBA 1996 Reunion **3.** Members of the MBA Class of 2001 Reunion Committee with Dean Thomas F. Cooley (center), Jeanne Marano, Executive Director of Alumni Affairs (right), and other administrators. **4.** Members of the MBA Class of 2001 enjoy their five-year reunion **5.** Former classmates at the Undergraduate College Class of 2001 five-year reunion **6.** Members of the Undergraduate College Class of 2001 **7.** Dean Cooley presents a State of the School update at the Dean's Luncheon **8.** Alumni and industry leaders at an EMT panel event, "Changing Channels: Reaching Consumers Through Today's Media."


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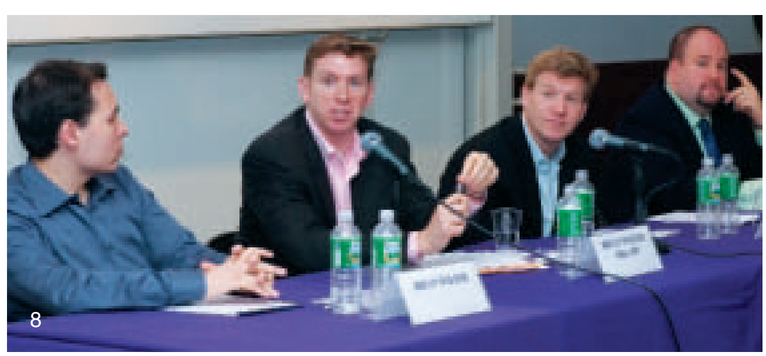
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"SWAP" Careers with CCWP

Through its on- and off-line resources, the Career Center for Working Professionals (CCWP) provides Stern alumni with career development resources and expertise to prepare them to compete effectively for opportunities in a rapidly changing labor market and to connect them with employment opportunities that match their individual skills, interests, and experiences.

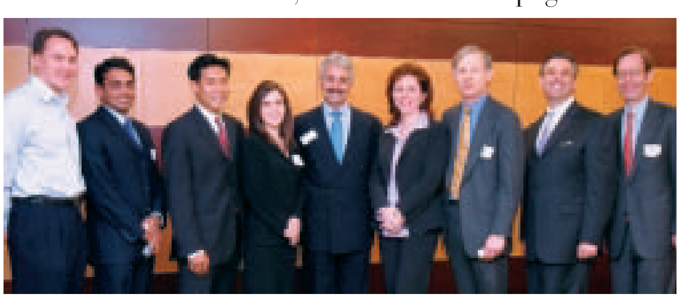
Alumni have exclusive access to a variety of career-related tools and resources through the Career Center in SWAP, the Stern Worldwide Alumni Platform, which is managed by the CCWP. The Career Center provides access to job postings, resume postings, CAP – the Career Advisory Program – and access to online career-related services like Vault.com. The Center also provides archives of past career-related workshops and tools, including "Creating a Career Transition Plan," "Networking and Informational Interviewing," sample cover letters and resumes, and salary/compensation websites.

The CCWP offers a wide range of non-virtual services – individual counseling, workshops, professional development seminars, networking events, and job postings – designed to assist alumni with career planning and job development at every stage of the search. The CCWP office is open during convenient evening and Saturday hours as well as remotely through streaming media, upon request.

To visit the Career Centers log on to SWAP on the Alumni Affairs website at *www.stern.nyu.edu/Alumni*. For more information on the CCWP, contact their office at (212) 998-0235.

"Fund"amentals: Students Past and Present Discuss Investment Funds

In April 2006, the Finance Management Committee of the NYU Stern Alumni Council and Professor Richard Levich, Director of the Michael Price Student Investment Fund (MPSIF), hosted an event to highlight the MPSIF, a family of funds managed directly by NYU Stern MBA students. The event included presentations by current MBA students managing four funds, followed by a networking reception with students and alumni. For more info on MPSIF, see the article on page 36.



From left to right: Zack Buck (MBA '01); Shivanker Saxena (MBA '06), Portfolio Manager, Small Cap Fund; Nelson Shim (MBA '06), Portfolio Manager, Growth Fund; Debbie Jones (MBA '06), President, MPSIF; Hassan Tabbah (BS '78); Jeanne Marano, Executive Director of Alumni Affairs; Professor Levich; Jim Iseman (MBA '85); and Tom Fogarty (MBA '01) pause for a photo at the reception.

Join alumni from around the world for this unique conference featuring exclusive intellectual and cultural offerings.

Additional details will be available in the coming months.

Visit www.stern.nyu.edu/Alumni for updated information.

Undergraduate Scholars Reunion: October 26, 2006

Each year, the Stern Scholars Program welcomes a group of 80 to 100 incoming freshmen, who are chosen based on their demonstrated academic excellence and leadership abilities. The Scholars Program offers these outstanding students a unique co-curricular program designed to enhance the Stern experience. Stern Scholars are exposed to an expansive program through a mixture of seminars, executive lectures, international travel, social activities, and community service projects.

On October 26, the NYU Stern Undergraduate College and the Office of Alumni Affairs will host a reunion reception for undergraduate alumni of the Scholars Program. The event will offer graduates an evening to reconnect with former classmates and fellow alumni.

"The Scholars Program was a huge part of my experience at Stern," said Benoy Thanjan (BS '97). "The programs and trips that my fellow Scholars and I experienced together created an extremely close bond among us. This Reunion is a wonderful opportunity to reconnect with my class and to meet fellow alumni of the Scholars Program."

To register for the Stern Scholars Reunion, please visit the events section of SWAP or contact Alumni Affairs at (212) 998-4040 or alumni@stern.nyu.edu.

Catching Up With…the New Jersey Regional Group

Of the 59 regional alumni groups composing Stern*Net*, the NYU Stern Global Alumni Network, New Jersey represents the largest alumni constituency. With more than 12,000 alumni living or working in the state, New Jersey accounts for about 17 percent of Stern's 70,000 alumni worldwide.

The NJ Regional Group has a rich 20-year history, hosting programs and events in the northern part of the state that have included faculty speakers, partnerships with other schools and associations, and a career networking forum.

In an effort to build and strengthen the alumni network and effectively address the needs of this alumni group, Alumni Affairs recently announced a new leadership structure for the NJ Regional Group. Daniel Ang (MBA '01) and Tracy Copple (BS '96) will serve as Co-chairs of the New Jersey group, leading 12 alumni volunteers who are serving as representatives of the various counties and regions.

"We see this change as a great opportunity to better reach the thousands of alumni in the state of New Jersey," explained Jeanne Marano, Executive Director of Alumni Affairs. "The new structure will yield positive results in terms of increased activities, and we hope to use the NJ Regional Group as one of our model regional groups moving forward."

The New Jersey group has several activities planned for the 2006-2007 academic year, including four School-sponsored events in the following counties: Morris/Union/Essex, Bergen/Passaic, Mercer/Middlesex/Somerset/Hunterdon, and Monmouth/Ocean. Additional programming will be planned by various counties and regions throughout the year. For updated information on regional programming, visit the online calendar at www.stern.nyu.edu/Alumni.

Regional Roundup

Tri-State

Stern alumni in **Westchester/Fairfield** gathered with other NYU alumni to hear a presentation on corporate governance by Professor Bruce Buchanan. Alumni in **Albany** and **New Jersey** attended an "NYU in Your Neighborhood" event with President John Sexton, while alumni in **Connecticut** heard Dr. Bob Kavesh's economic outlook.

United States

Deputy Dean Russell Winer visited **Houston**, **Denver**, and **San Diego**, where he met with alumni and gave presentations on marketing. In addition, alumni in Houston and San Diego, as well as Ft. Lauderdale and St. Pete Beach, **Florida**, **Los Angeles**, **Boston**, and **San Francisco**, attended "NYU in Your Neighborhood" receptions. Boston alumni also joined admitted students to hear Dean Thomas Cooley give an update on the State of the School, and San Francisco alumni joined admitted students to hear a presentation from Rebecca Zucker (BS '90) on creating a personal marketing plan. In **Chicago**, alumni heard Dr. Bob Kavesh speak on the economic and financial outlook. **Philadelphia** alumni and current students enjoyed a presentation on entrepreneurship by Professor Jeffrey Robinson.

International

In **Shanghai** and Rio de Janeiro, **Brazil**, alumni met with Executive MBA students on their Global Study Tour. **Japan** alumni joined students for the Japan Business Association (JBA) TREK. Alumni in **London**, **Seoul**, and **Hong Kong** met with Deputy Dean Russell Winer. Professor Ed Altman dined with alumni in **Australia** and **Taiwan**, and Professor Michael Pinedo dined with alumni in **Amsterdam**.

Benefits for Alumni — Time to Get Away: The 2007 NYU Alumni Travel Program

"Exotic" is the best word to describe the upcoming NYU Alumni Travel Program. For the first time, destinations such as Antarctica, the Amazon, and southern Africa are being offered alongside travel program mainstays France and Italy. A preview of the 2007 travel program is below. For more information, visit the website at **http://www.nyu.edu/alumni/benefits/travelcalendar.shtml** or call **(212) 998-4639** or e-mail **amm2@nyu.edu.**

Expedition to Antarctica
January 12 - 25, 2007

Galapagos Adventure
January 26 - February 3, 2007

Jewels of India
March 6 - 17, 2007

Red Sea & Egypt Cruise
May 14 - 31, 2007

Berlin, Dresden, & Prague Discovery
June 9 - 19, 2007

Alumni Campus Abroad

Peru: March 15 - 22, 2007

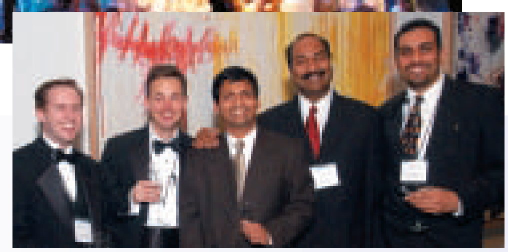
Tuscany: Cortona: June 20 - 28, 2007

Sardinia & Corsica:
June 29 - July 10, 2007

French Riviera: Avignon & Nice:
September 30 - October 11, 2007

Sicily: Taormina & Mondello:
September 29 - October 10, 2007

Spain: Barcelona & San Sebastian:
October 1 - 12, 2007



Join Us at the Sixth Annual

Stern Alumni Ball

Saturday, December 2, 2006 ❖ 8:00 pm - Midnight

American Museum of Natural History

Central Park West at 79th Street, New York City

This black-tie gala has become a special tradition that brings together members of the Stern community to celebrate during the holiday season. Don't miss the 2006 event, which promises to be a festive evening of dancing, dining, and mingling with friends new and old in one of New York City's premier locations.

Ticket Price: $150 USD per person ($175 after November 17)
Recent graduate discounts apply for the Classes of 2002 – 2006.
Call or visit the website for more details.

Visit the Alumni Ball website at www.stern.nyu.edu/alumni for registration and event information. While you're there, browse through photo galleries from previous years and read testimonials about the Alumni Ball from alumni attendees.
Call Alumni Affairs at (212) 998-4040 for additional information.

class *notes*

1940s

Richard Essey (BS '47, MBA '48), of San Francisco, CA, was awarded the lifetime achievement award by California Staffing Professionals.

Frank J. Dito (BS '49), of Brooklyn, NY, won the US Small Business Administration's 2005 Stanley Mangeria Veteran's Advocate of the Year Award. Serving as the Veteran's Affairs Officer in the SBA's New York regional and district offices since 1991, he has provided outreach, training, and educational services to help veterans start and grow their small businesses.

1950s

Ronald Michman (BS '53), of Delray Beach, FL, recently co-authored *The Affluent Consumer: Marketing and Selling the Luxury Lifestyle*.

Barry H. Gordon (BS '56), of Rockville, MD, has recently retired from Paradigm Systems Corporation where he served as the Director of Corporate Development. He still plays an active role within Enterprise Rent-A-Car's marketing group.

Michael D. Levin (BS '56), of New York, NY, had a successful career in daily journalism, spending 26 years as a writer, producer, and founding producer of "News for the Grapevine" on WCBS AM. He recently retired and serves as Chief American Correspondent for *China Drinks,* the main wine and spirits magazine in China.

George Gero (BS '59), of New York, NY, was re-elected in May of 2006 to serve on the New York Mercantile Exchange Board. He is currently Senior Vice President of RBC Dain Rauscher and Vice President of Global Futures at RBC Capital Markets.

Charles A. Lipetz (BS '59), of Orange County, CT, and retired Executive Vice President of the American Association of Industrial Management, has been appointed to serve a second term as Chairman of Greater Bridgeport SCORE (a resource agency of the Federal Small Business Association), the largest SCORE district in Connecticut.

1960s

Joseph J. McCarthy (BS '61), of White Plains, NY, was recently named President of Sulgrave Owners Corporation Cooperative. He has previously worked for Philip Morris Inc., Olivetti Corporation of America, Morse Typewriter, and WRG Management Corporation.

Robert Donnelly (BS '65), of Paramus, NJ, authored a book, *Guidebook to Planning: A Common Sense Approach*, which is in its second printing. He is also President of Compact Inc.

Shau Wai Lam (MBA '67), of Summit, NJ, was presented with the 2006 Ellis Island Medal of Honor on May 13, 2006. This award recognizes distinguished American citizens of diverse origins who have made significant contributions to the US. He currently serves as President of the Dah Chong Hong Trading Corporation.

1970s

Lewis Altfest (MBA '70), of New York, NY, received the 2006 Career Achievement Award from the City College of New York, for his role in the development of the financial planning profession.

Kevin J. Berry (BS '72), of Milpitas, CA, was named interim CFO of CA Micro Devices. He is also a consulting CFO for several private technology companies.

Thomas A. Bologna (MBA '72), of Rancho Santa Fe, CA, has been appointed President and CEO of Orchid Cellmark Inc.

Jan H. Newman (BS '72), of Hillsborough, CA, recently published a book entitled, *Chance Meetings that Tied the Knot, Finding Love When Least Expected.*

Michael Shaw (MBA '72), of New York, NY, was named Senior Vice President and Head of Credit Risk Oversight at Fannie Mae. He previously served as Senior Credit Executive for Consumer Banking for JPMorgan Chase.

Clifford Sobel (BS '72), of Short Hills, NJ, was nominated by President Bush to serve as US Ambassador to Brazil. He formerly served as US Ambassador to the Netherlands.

Frank P. Filipps (MBA '73), of Gladwyne, PA, has been named Chairman and CEO of Clayton Holdings Inc., which provides high-tech back-office services for processing mortgage transactions automatically.

Robert Hill (BS '73), of Syracuse, NY, has been named 2006 Renaissance Communicator of the Year by the Pittsburgh Chapter of the Public Relations Society of America. He serves as Publisher of the University of Pittsburgh's flagship publications.

Harvey Schoenfeld (MS '73), of Hackensack, NJ, has been elected to the Board of Trustees of the Endowment Foundation of the UJA (United Jewish Appeal) -Northern NJ.

Saby Behar (MBA '74), of Hialeah, FL, was elected President of the Greater Miami Jewish Federation. He is a real estate developer and CEO of General Stair Corporation, a company he founded in 1987.

Raymond W. Dusch (BS '76), of East Setauket, NJ, has been appointed to the Board of Editors of the *Equipment Leasing Newsletter,* which is published by a division of American Lawyer Media.

Carol Lewis (MBA '76), of Rockville, MD, was elected to the Ultralife Batteries Board of Directors. She is Co-founder and Principal of Suburban Capital Markets, a commerical real estate finance company, and President of MAS-DUN Capital Advisors, a private investment company.

Mark S. Finkel (MBA '77), of Greenwich, CT, CFO of Halo Technology Holdings, has been promoted to the additional position of President. In addition to his financial responsibilities, his new role will include oversight of day-to-day operations of all subsidiaries.

Gary Rautenstrauch (MBA '77), of San Diego, CA, was recently appointed President and CEO of Advanced Marketing Services Inc, a provider of customized wholesaling and contract distribution services. He previously served as CEO of Blackwell Book Services, a supplier of books and services to academic and research libraries worldwide.

Lewis Chakrin (PhD '78), of Mendham, NJ, has been appointed Dean of the Ramapo College of New Jersey's Anisfield School of Business.

George Handjinicolaou (MBA '78, PhD '83), of New York, NY, has joined the Board of Rockwater Hedge, an investment management firm, as an advisory member. He is Founding Member and Managing Partner of Etolian Capital, a capital structure arbitrage hedge fund.

Barry T. Mehlman (MBA '78), of Glen Ridge, NJ, has joined the Corporate Department of Loeb & Loeb as Partner in the New York office. His practice focuses on the representation of private equity firms in connection with the purchase, management, and sale of middle-market businesses. Previously, he was at Pitney Hardin where he was Of Counsel.

Richard A. Cohen (MBA '79), of Colts Neck, NJ, was recently named Business Manager for CitiBusiness Credit Cards after two years as Head of Risk Policy for Citicards Travel & Business group.

Kenneth J. Ferrera (MBA '79), of Alpharetta, GA, has been named Senior Vice President in the Credit Risks Management Division of Sun Trust Banks Inc.

Abby Kohnstamm (MBA '79), of Larchmont, NY, was recently elected to the Board of Directors for Progressive Corporation. She is President and Founder of Abby F. Kohnstamm and Associates, a marketing and consulting firm, and a member of the NYU Stern Board of Overseers.

Marc J. Oppenheimer (BS '79, MBA '84), of Fort Lee, NJ, has been appointed to the Corporate Board of Directors of IDT Corporation.

Christine L. Reilly (MBA '79), of Berkeley Heights, NJ, has been promoted to President of CIT Small Business Lending. Since joining CIT in 1994, she has served in various leadership roles, most recently as Executive Vice President of Corporate Development.

Arthur L. Smith (MBA '79), of Houston, TX, is the Chairman and CEO of John S. Herold Inc. He was recently interviewed by *Barron's* in an article entitled, "Energy, an Aging Bull."

1980s

Jeffrey P. Freimarket (MBA '80), of Fort Smith, AZ, has been appointed Executive Vice President and Chief Financial Officer at Intelsat Ltd. Previously, he was the Executive Vice President and Chief Financial and Information Officer of Beverly Enterprises Inc.

Mihir Doshi (BS '81), of Mumbai, India, was named Head of Credit Suisse First Boston's business in India. Prior to this appointment, he spent 22 years at Morgan Stanley, and served as Managing Director and CEO of JPMorgan Stanley Securities for the last 10 years.

William F. Spengler (MBA '81), of Baltimore, MD, has been appointed Senior Vice President and CFO of MGI Pharma, a biopharmaceutical company. He was previously Senior Vice President of International and Corporate Development at the firm.

Claudia Vargish (BS '81), of Westport, CT, founded a textile business, ASI – A Soft Idea, that designs and manufactures blankets and throws for the home, as well as a full line of baby blankets and sweaters.

Rick Handelman (MBA '82), of Scarsdale, NY, serves as Vice Chairman and CFO for the New Haven County Cutters baseball team. He has also been with his family's business, Meyer Handelman Company, since 1978.

Amar P. Singh (MBA '82), of Monmouth Junction, NJ, has been appointed Chief Commercialization Officer at Novacea Inc. He will oversee commercial strategy and implementation for Novacea's product candidates as well as licensing and partnering deals to enhance its oncology portfolio. He joins Novacea from Abraxis Oncology where he served as Vice President of Marketing and Sales and successfully launched the anti-cancer agent, Abraxane™.

Ellen Breyer (MBA '83), of Minneapolis, MN, and President and CEO of Hazelden, a national leader in drug and alcohol addiction treatment, was named Administrator of the Year by the American College of Treatment Administrators.

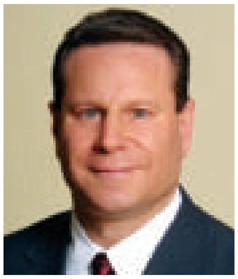
Seth Margolis (MBA '83), of New York, NY, recently published his sixth novel, *Closing Costs*, which is centered around the Manhattan real estate market. He is also a branding consultant to such companies as CIT Group, Pfizer, and the Robert Wood Johnson Foundation.

Joseph Alotta (MBA '84), of Westmont, IL, married Lyudmila Lakisova, an internationally known concert pianist, in June 2005. In May 2006, he and his wife graduated from Charis Bible College, where he was elected President of the Alumni Association. Both are licensed ministers.

John L. Cusack (MBA '84), of Eastchester, NY, was recently hired to serve as a part-time Executive Director of the NJ Higher Education Partnership for Sustainability. In 1993, he founded a management consulting firm, Gifford Park Associates, that specializes in assisting financial institutions, manufacturing companies, governments, NGOs, and academic institutions to develop and manage their environmental/sustainability strategy, operations, and risk management practices.

George Lintz (MBA '84), of Sylmar, CA, co-founded QPC Lasers, where he serves as

Re:Insurance



Steven J. Bensinger (BS '76)

In the spring of 2005, American International Group, Inc. (AIG) was facing enormous challenges amid a leadership transition. And when the Board drew up a short list of potential leaders to steer the company, Steve Bensinger, who was Senior Vice President, Treasurer, and Comptroller, found his name was near the top. In March 2005, Bensinger was promoted to the post of Executive Vice President and Chief Financial Officer. Today, along with CEO Martin Sullivan, he helps guide the finances and strategy of the massive global insurance and financial services company.

Under Bensinger's guidance, AIG has taken many steps to improve corporate governance. The departments and functions he oversees include financial reporting, tax, treasury, strategic planning, enterprise risk management, actuary, operations and systems, investor relations, rating agencies, administration, corporate research, and development. Having assumed tremendous responsibility at a component of the Dow Jones Industrial Average, Bensinger acknowledges that every day presents a new challenge. "AIG is such a large and diverse organization, both in terms of geography and products offered," he notes. "We are in 130 countries, and brought in approximately $108 billion in revenue last year."

After completing a double major in accounting and information technology at NYU Stern, Bensinger was unsure which career to pursue. But advice from his father, combined with a conviction that accounting would provide a strong business platform, led him to join Coopers & Lybrand. Bensinger enjoyed his work in general auditing, and in the late 1980s took the first of a series of operating and finance positions in the insurance industry. He joined AIG as Vice President and Treasurer in 2002.

Bensinger's assessment of his accomplishments may come as something of a surprise. "I am most proud to see many people who have worked for me over the years emerge as today's industry leaders," he says. "Watching people grow and flourish under my guidance is what I consider to be my greatest achievement."

Despite formidable time constraints, Bensinger is an active alumnus. "I have a strong affinity for Stern because the combination of academics and practical work experience I received while at School was instrumental in my career," he says. He is a former Board member and President of the Stern School of Business Alumni Association, and has served on the Board of the New York University Alumni Association. Bensinger received the 2005 Stern Award for Excellence in Global Business at the NYU Stern Global Business Conference. With his good friend, Joseph Puglisi (BS '76, MBA '83), Bensinger was one of the first sponsors of the Undergraduate College Cohort Initiative.

Bensinger's recipe for success is simple. "Follow your passion, work hard, and make it easy for the people you are working for," he says. "It worked for me."

CFO, COO, and Director. QPC develops and produces next generation semiconductor lasers and associated optical components for the industrial, military, homeland security, and medical markets.

Steve Posner (MBA '84), of Evergreen, CO, authored *Privacy Law and the USA Patriot Act,* which is a scholarly treatise on the privacy-related aspects of the Act.

James B. Rosenwald III (MBA '84), of Rolling Hills, CA, recently co-founded Dalton Investments LLC, an asset management firm, where he also serves as Managing Partner.

Susan Marshall (MBA '85), of New York, NY, received certification as a financial planner (CFP) and recently founded Gateway Investments Inc., a financial and investment advisory firm.

Leslie F. Seidman (MS '85), of Westport, CT, has been reappointed to a five-year term as a member of the Financial Accounting Standards Board (FASB). She was initially appointed to FASB in 2003.

Donald L. Correll (MBA '86), of Franklin Lakes, NJ, has been appointed to President and CEO of American Water, a diversified provider of water services in North America. He was previously the President and CEO of Pennichuck Corporation.

Todd Korren (BS '86, MBA '94), of New York, NY, has been promoted to Senior Vice President and Director of Commerical Leasing and Operations at Swig Equities, a New York-based commerical and residential real estate development and management firm. Prior to joining Swig, he served as Managing Director of Rockrose Development Corp.

John M. McIntyre (MBA '86), of Short Hills, NJ, was recently awarded the fifth annual Stephen Dimino and Ian Schneider Beneficial Owner Award for Leadership. He won the award based on his contributions to the industry while leading the securities lending team at Prudential Fixed Income. He is currently a Principal and Head of the firm's securities team.

Phyllis Salzman (BS '86, MBA '89), of West Harrison, NY, was recently granted tenure and promoted to Associate Professor of Business at Westchester Community College. She is currently studying diversity

Saving On Loans


Vishal Garg (BS '98)

As Co-founder and Chief Financial Officer of MyRichUncle, a student loan company, Vishal Garg is determined to "put the 'student' back in student loans." Unlike its much-larger competitors, including Sallie Mae and Nelnet, MyRichUncle looks at the student borrower holistically. In determining eligibility for loans, the six-year-old company looks beyond purely credit-based criteria to include academic and work history, course of study, and institution.

Garg co-founded MyRichUncle with long-time friend Raza Khan shortly after he graduated from NYU Stern. Their motivation came from the realization, as Garg puts it, that the student loan industry "takes advantage of students and is completely unfair." While in college, they had watched as high school friends failed to secure loans and were forced to choose between transferring to less expensive schools, dropping out entirely, or accumulating massive debt through less desirable means of financing.

In July 2004, the company went public with the name of MRU Holdings, Inc. (symbol: MHOI.OB). By February 2005, the company had raised $300 million from Nomura Credit and Capital Inc. to provide private loans to students. Three months later, MRU began offering a variety of student loan products through its consumer brand MyRichUncle, and it recently began offering Federal Student Loans at a significantly lower interest rate than other national providers.

MyRichUncle's success has been fueled by Garg's entrepreneurial spirit. During his time at NYU Stern, he traded approximately $200 million (using his dorm room as an office) while working in emerging markets for the hedge fund VZB Partners. After graduation, Garg worked briefly at Morgan Stanley's Latin American Investment Banking and Mergers & Acquisitions groups. He subsequently started a hedge fund with a focus on emerging markets, 1/0 Capital LLC, before turning his attention full-time to MyRichUncle.

Garg remains strongly connected to his alma mater. A co-founder of the Young Alumni Leadership Council (YALC), he is proud to have watched a group of approximately 20 committed alumni grow to a membership of more than 330 across the University. "Eighty percent of my current friends were made at Stern," says Garg. "YALC is a way for me to give back the positive experience I had, while enjoying a formal alumni network." At MRU, he looks to Stern when hiring interns. "Stern students are of the highest quality, and we have found they have the best track record at our company."

Garg's entrepreneurial vision and early success have earned him numerous accolades. He and Raza were listed among *BusinessWeek*'s 2006 Tech's Best Young Entrepreneurs, and also share a spot on *FastCompany*'s list of the 2006 Fast 50. He advises aspiring entrepreneurs that "the best path to success is one that has you doing something you truly believe in."

and marketing under a fellowship grant.

Ronald J. Terry (MBA '86), of Dix Hills, NY, was promoted to Senior Vice President in the Corporate Services Department at New York Life Insurance Company.

Jacqueline M. Ganim-DeFalco (MBA '87), of East Gloucester, MA, founded Marketing Recon, which provides marketing and business development services to executive teams in the technology and service fields.

John A. Kritzmacher (MBA '87), of Basking Ridge, NJ, has been appointed CFO of Lucent Technologies. Previously, he served as Corporate Controller for the company.

Robert Matza (MBA '87), of Scarsdale, NY, has joined GoldenTree Asset Management as President. He most recently served as President and COO of Neuberger Berman, as well as a member of the Management Committee at Lehman Brothers.

Christopher O'Leary (MBA '87), of Minneapolis, MN, has been named Executive Vice President and COO of General Mills International, with responsibility for the company's international and Canadian buinesses. He also serves on the board of the Minneapolis YMCA.

Michael R. Albert (BS '88), of White Plains, NY, has developed his own line of juices called SirReal. The labels feature his own Magritte-inspired artwork of fruits wearing tuxedos and debris, such as discarded cereal boxes and other consumer packaging.

Jeffrey H. Barnes (MBA '88), of Westford, MA, has joined iCAD Inc, a provider of Computer-Aided Detection solutions for the early identification of cancer, as Senior Vice President of Sales. He was most recently Vice President of Sales and National Sales Manager for Cardiac Resuscitation Solutions at Philips Medical Systems.

Christopher Blake (MBA '88, MPhil '89, PhD '92), of Wayne, NJ, the Joseph Keating, S.J., Distinguished Professor of Finance at Fordham Univeristy's College of Business, delivered the commencement address at William Paterson University's 183rd Commencement on May 16, 2006, and was honored with the University President's Medal.

Bill Donohue (MBA '88), of Wilton, CT, joined Alvarez & Marshal Real Estate Advisory Services as Managing Director. Prior to this position, he was a Principal of Gemini Realty Advisors and Gemini Realty Asset Management, both of which he co-founded.

R. Todd Firebaugh (MBA '88), of Allen, TX, has joined the Board of Advisors of Solutran®, a national treasury management service provider. He is currently the Chief Administrative Officer of Piper Jaffray.

Khaled T. Haram (MBA '88), of Oyster Bay, NY, has joined Handleman Company as Senior Vice President and CIO. He will be responsible for all aspects of the company's information technology systems. Handleman Company is a category manager and distributor of pre-recorded music and video game hardware, software, and accessories.

Susan Holden (MS '88), of Croton-on-Hudson, NY, has been appointed to the Board of Directors for the Hudson Stage Company, a Croton-based theater company.

Joseph A. Michalik (MBA '88), of Hillside, NJ, was recently promoted to Vice President and Chief Credit Officer of MetLife Bank.

David M. Nuyen (BS '88), of Yonkers, NY, has been named Manager of Hotel Bandolero, a rural hotel and restaurant located in the Serrania de Ronda Mountains in Malaga Province, Spain.

Teri P. Cox (MBA '89), of Lawrenceville, NJ, has been awarded the St. George National Award by the American Cancer Society. She is currently a Senior Managing Partner of Cox Communications Partners, which specializes in public relations, advocacy, and marketing and corporate communications.

John Cutting (MBA '89), of Greenwich, CT, joined MBIA Asset Management as Managing Director and will focus on the asset-backed securities (ABS) sector. He previously served as Managing Director of Eurohypo, where he built the US Asset Management Group.

Tina L. Fiumenero (BS '89), of Princeton, NJ, has been appointed to Senior Vice President of Finance and Administration at Bristol-Meyers Squibb.

Marie L. Wieck (MBA '89), of Cold Spring, NY, has been awarded the 2005 Work/Life Balance Award from the Society of Women Engineers. She is currently the Vice

President of the WebSphere platform group at IBM. The award recognizes her role in establishing a landmark program for IBM to improve the ability of all employees to balance work, family, and personal interests.

1990s

Matthew B. Burris (MBA '90), of Westport, CT, has been named Executive Vice President, CFO, and COO of Klinger Advanced Aesthetics. He previously worked in Liz Claiborne Inc's Wholesale Non-Apparel segment in senior finance and operations positions.

Thomas M. Boehlert (MBA '91), of Larchmont, NY, has been appointed Executive Vice President and CFO at Kinross Gold Corporation. Previously, he was Executive Vice President and CFO of TX Genco of Houston.

Patricia C. France (MBA '91), of West Orange, NJ, has been appointed Vice President of Marketing at ALM, a media company serving legal and business professionals.

John Gonsalves (MBA '91), of Edison, NJ, has been named Partner in the communications and hi-tech practice of BusinessEdge Solutions. His new responsibilities will span thought leadership, business development, and service delivery.

Lawrence A. Lieberman (MBA '91), of Dobbs Ferry, NY, has been named Chief Marketing Officer at Virgin Comics/Virgin Animation. He will oversee the company's US operations, as well as the company's global licensing business, strategic marketing, publishing, and advertising sales divisions.

Harvin Moore (MBA '91), of Houston, TX, was elected to a second term on the Houston Board of Education.

Melinda Poon (BS '91), of New York, NY, has been named Counsel of Carter Ledyard & Milburn LLP, where she works in the firm's real estate practice.

Seth Rosenfield (BS '91, MBA '98), of Rye, NY, recently joined Harris Nesbitt, the US investment and corporate banking arm of BMO Financial Group, as a Director in its Media, Communciations, and Technology Group.

Matt Ross (MBA '91), of Cresskill, NJ, was recently appointed CEO of the Paul Green School of Rock Music LLC, which is based out of Philadelphia, PA. He is also President and Founder of the Kids Foundation, which raises money for children with autism and other developmental disabilities.

Tayeb Tahir (MBA '91), of Barrington, RI, has been named Senior Vice President of Business Development for EnerZ Corporation, with a focus on international expansion opportunities. He most recently served as Vice President of Business Development for Calpine Corporation.

Jean-Pierre L. Trouillot (BS '91), of Miami, FL, has been promoted to Partner at KPMG LLC.

Robert S. Derbabian (MBA '92), of Croton-on-Hudson, NY, has joined Signature Bank's private banking team as Associate Group Director and Vice President. Most recently, he worked for Sterling National Bank.

Todd Neufeld (MBA '92), of Chappaqua, NY, has been appointed to the WCM (Wyper Capital Management) Fund plc Board of Directors. He is COO at Wyper Capital.

Henry Queiro (MBA '92), of Verona, NJ, has started a program called "shopwithpurpose," which allows users to shop over the Internet at discount prices while supporting their favorite nonprofit organizations.

Jacques Tizabi (BS '92), of Los Angeles, CA, was elected Co-chairman of the Board and Chairman of the Executive Committee of VSUS Technologies Inc. He is CEO and Chairman of the Board of Universal Detection Technology, a publicly traded company that manufactures a biological weapons detections device. He is also Principal and Co-founder of Astor Capital Inc., a specialized investment banking and asset management company.

Catherine M. Bonneau (MBA '93), of Wallingford, CT, has recently joined PRIMEVEST Financial Services as COO, with responsibility for the customer service, operations, and trading departments. She most recently served as President of ING Trust USA.

Michael J. Gebo (MBA '93), of Hoboken, NJ, has joined Piper Jaffray as Managing Director in the Financial Services Investment Banking Group. He will head the insurance practice within the financial services division. He was previously at Bank of America Securities, where he worked in the financial institutions group and focused on the insurance sector.

Steve Luttman (MBA '93), of New York, NY, and CEO of Leblon Holdings LLC, recently unveiled a new beverage, Leblon Cachaca, a popular liquor in Brazil.

Vincent J. Costa (MBA '94), of Shrewsbury, NJ, has joined ING Investment Management as Senior Vice President and Head of Portfolio Management for Quantitative Equity.

Gerald B. Lee (BS '94), of Darien, CT, has been appointed Vice President of Business Development at JetBlue Airways Corp. He was most recently Assistant Treasurer of the firm.

Amy E. Beard (MBA '95), of San Francisco, CA, has joined Merriham Curhan Ford & Co. as a Managing Director in its sales and trading group. She was most recently at CIBC World Markets where she served as Executive Director of Sales and Trading.

John Boylan (MBA '95), of Houston, TX, was elected to the Houston American Energy Corporation Board of Directors. He is CFO and Director of Business Development for Atasca Resources and Owner/Operator of Boylan Energy Corporation, independent oil and gas exploration/production companies.

Linda Soldatos (MBA '95), of Brooklyn, NY, was recently named Senior Vice President of Customer Relationship Management for Monster, where she will direct Monster's CRM strategic business plan. Previously, she held several management positions at JPMorgan Chase, including her most recent role as SVP, Chief Marketing Officer for Chase's Small Business Unit.

John J. Trizzino (MBA '95), of Southborough, MA, has been appointed Vice President of Trade and Distribution at MedImmune Inc. Previously, he was Senior Vice President of Business Development at ID Biomedical.

Tony Anzalone (MBA '96), of Houston, TX, joined IDev Technologies as Vice President of Marketing. IDev is an emerging leader in the development and marketing of minimally invasive stent systems. He was previously the Senior Director of Marketing for Cyberonics Inc., a manufacturerer of medical devices for epilepsy and depression.

Mark K. Bhasin (BS '96), of New York, NY, is a Senior Associate at CW Capital. He recently received his CFA charter and completed his master's degree at Columbia University.

Mike Fish (MPhil '96), of New York, NY, was recently promoted to CIO at Swift, the industry-owned financial cooperative that supplies secure messaging services and software to financial institutions.

M. Benjamin Gerig (MBA '96), of Valley Stream, NY, has joined Black Diamond Capital Management LLC as Director in its Greenwich, CT, office. He most recently served as Senior Vice President of General Electric Real Estate.

David B. Kestenbaum (MBA '96), of Upper Saddle River, NJ, has been named Director of Equity Research and promoted to Managing Director at Morgan Joseph & Co., an investment bank serving middle-market companies.

Robert I. Matayev (BS '96, MBA '03), of Forest Hills, NY, welcomed daughter, Rebecca Eleanor, on September 30, 2005.

Peter A. Barna (MBA '97), of New York, NY, has joined Deutsche Bank Securities as Director in the US Convertible and Equity Linked Solution group. Previously, he was Director in Equity-Linked Capital Markets at Merrill Lynch where he was responsible for both public and private equity derivatives.

Robert Toole (MBA '97), of Manlius, NY, formed a consulting company in 2005, Kona HR Consulting. With offices in New York and Connecticut, the firm specializes in human resource solutions for corporations. He also completed the IronMan triathalon in March of 2006.

Mark A. DeWyngaert (MBA '98), of South Salem, NY, has joined Huron Consulting Group as Managing Director in the Pharmaceutical and Health Plans practice. He previously worked at Ernst & Young in the Health Sciences group.

Merideth Fiedler (MBA '98), of New York, NY, was married to Mark Dennes on May 13, 2006, in New York, NY.

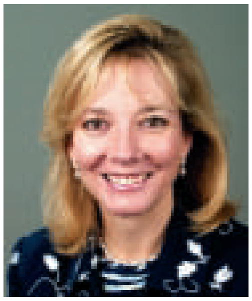
Andrew Frazier (MBA '98), of Montclair, NJ, has been appointed to the position of Assistant Vice President of a newly created diversity office at New York Life Insurance Company. He will be assisting in the achievement of diversity and inclusion goals for the corporation.

Barry Friedson (MBA '98), of Scotch Plains, NJ, joined Arden Asset Management, a leading fund of hedge fund managers, as Chief Technology Officer. He was previously Director of Deutsche Bank's Absolute Return Strategies Technology Group.

Mark Sparano, (MBA '98), of New Canaan, CT, was recently appointed Vice President and Chief Auditor for Mellon Financial Corporation. He was formerly Managing Director and Chief Risk Officer at US Trust.

Glenn Turell (MBA '98), of New York, NY, has been appointed Vice President of Finance and Adminstration at EliasArts, a company that uses the emotional power of music and sound to launch, grow, and reposition brands and companies.

Leveraging Experience



Kathryn B. Swintek (MBA '79)

Kathryn Swintek is a pioneer in the world of finance in more than one way. In 1990, after holding senior positions in risk management, international banking, and acquisition finance at Irving Trust Company, she joined the New York office of French bank BNP Paribas to found its Structured Finance Group. The unit has since grown into a leading debt arranger of financing for leveraged transactions. A decade later, she founded the bank's Global High Yield Group, and for three years, she ran the unit while simultaneously serving as Head of Merchant Banking Group.

As a woman entering the finance industry in the early 1980s, Swintek, a graduate of the College of Mount Saint Vincent, was in the distinct minority. "Being the only woman in the room never bothered me, I just continued on," she said. "I was tapped at a very early age for a position in North Africa, which is not the safest place for a young woman. I took the position anyway – it's all about taking a risk."

Today, Swintek, who is a Managing Director and Head of leveraged finance for North America at BNP Paribas, is recognized as a leader at the bank, and in the industry. She is a member of BNP Paribas North America's Management Committee and Business Council, the US representative of the Global Structured Finance Division of BNP Paribas Group, and a Director of BNP Paribas Securities Corp. She also chairs the Leveraged Finance North America Business Council.

Regarding her experience as an entrepreneur in the corporate world, Swintek said, "I don't work on cruise control. You have to find a way to distinguish yourself from the pack, and taking risks is how I've done that. It's definitely not for everyone, but it has worked for me."

Swintek is a champion for women in the workplace. "If you want to create value, you should reach out and get the best assets to create that value," she said. "As investors, we should all be looking for the best assets. When we overlook a class of people, it's just not in our best self-interest."

Swintek joined the Board of Trustees of the College of Mount Saint Vincent in 1998 and is a member of its Executive and Development Committees. She is also a member of the Committee of 200 and the Women Business Leaders of the US Health Care Industry Foundation. Additionally, Swintek is a Director of rue21, a privately held apparel retailer.

Baruch Katz (MBA '99), of Narberth, PA, has been appointed CIO of Ecount. He will focus on technology strategy and oversee the further development of Ecount's electronic payments platform.

Elona J. Logue (MBA '99), of New York, NY, and husband, Michael, welcomed their son, Noah Bryant, on October 21, 2005. He joins his sister, Rachel Alisenne. Elona is a marketing consultant and recently founded her own firm, PROJEX Marketing, specializing in marketing within the nonprofit sector.

Ronald Worthy (MBA '99), of Brooklyn, NY, married Dana A. Peck on May 28, 2006, at the Adler Planetarium and Astronomy Museum in Chicago.

2000s

Joseph A. Cambareri (BS '00), of Staten Island, NY, has joined VanthedgePoint Securities as Director of Finance, and will serve as the firm's Financial Operations Principal (FINOP). Previously, he was at Morgan Stanley, where he served as Controller for the distressed debt and private equity desk.

Peter J. Eastwood (MBA '00), of Norwell, MA, has been named Senior Executive of AIG Healthcare, a provider of professional liability insurance for the healthcare industry. He also serves as Senior Vice President of Lexington Insurance Company, a member company of AIG.

Brian Fitzgerald (MBA '00), of Ridgewood, NJ, joined the Equity Research Department at Banc of America Securities as a Senior Research Analyst covering the Internet sector.

Jake Kamuonka (MBA '00), of New York, NY, has been appointed Vice President of Finance and Operations for Skins Inc., an emerging footwear company. He was previously Senior Associate at Moody's Investors Service.

Oded Agam (MBA '01), of Hertzeliya, Israel, and his wife announced the birth of their third son, Edo, on March 19, 2006.

Marcelo Fischer (MBA '01), of Brooklyn, NY, was named CFO and Treasurer at IDT Corporation. He previously served as Controller and Chief Accounting Officer for the corporation.

Carlo Mantica (MBA '01), of New York, NY, and wife, **Amy Bennett Mantica (MBA '01)**, welcomed their first child, Marco Michael, on May 22, 2006.

Eric Merrill (BS '01), of Atlanta, GA, married Kerri Bernstein on December 18, 2005, at the Grand Hyatt Hotel Buckhead in Atlanta.

Raymond G. Pullaro (MBA '01), of New York, NY, joined Blackstone Alternative Asset Management as Managing Director. He was previously a Senior Investment Officer of the alternative investment solutions team at UBS Alternative and Quantitative Investments.

Aaron L. Smith (BS '02), of Boca Raton, FL, is the US Managing Director of Superfund, a $1.7 billion virtual hedge fund.

Dan Suratt (MBA '02), of Brooklyn, NY, was recently named Executive Vice President of Digital Media and Business Development for Lifetime Networks. He was previously Director of Business Development for NBC Olympics.

Juchiro Tampi (BS '02), of Jakarta, Indonesia, has been appointed President and Director of PT Seleraya Merangin Dua, a production sharing contractor of oil and gas in Indonesia.

Susan E. Terry (MBA '02), of New York, NY, has been named Vice President of Finance and Administration for the International Copper Association Ltd.

Michelle Boisvert (MBA '04), of New York, NY, married Spencer Cutter, on May 7, 2006, at the Winterthur Museum in Delaware.

Pablo Triano (MS '04), of Madrid, Spain, is currently Associate Professor at the Instituto de Empresa, a business school in Spain. He also recently authored a book entitled, *Corporate Derivatives: A Practioner's Guide*, published by Risk Books.

Russ Axelrod (MBA '05), of Seattle, WA, joined Microsoft as the US Manager for Entertainment and Alternative Marketing for Microsoft Xbox. He is also Co-founder of the NYU Stern ProMotion Pictures Film Competition, which brings together business and creative talent from NYU's Stern School of Business and NYU Tisch's Kanbar Institute of Film & Television graduate programs to produce branded entertainment films for major companies.

Michael Royal (MBA '06), of Fair Haven, NJ, recently graduated from the TRIUM Global Executive MBA program and joined Cadence Pharmaceuticals as Vice President of Clinical Development, Analgesics. He was previously Chief Medical Officer of Solstice Neurosciences where he was responsible for research and development and medical and regulatory affairs.

The Italian Job

Patrizia Micucci (MBA '90)

Born and reared in a small, impoverished town in Southern Italy, Patrizia Micucci never dreamed she would share the stage with accessories maven Miuccia Prada and eight other accomplished women. But in 2005, the women were included in *The Wall Street Journal*'s list of the top "10 European Women to Watch."

Micucci, who joined Lehman Brothers' New York office in 1990 before transferring to Italy in 1992, leads Lehman Brothers' Italian investment banking division. Since then, she has been involved in some of the most significant Italian mergers and acquisitions and capital market transactions of the past 15 years, including the privatization of Banca Commerciale Italiana, Aeroporti di Roma, and SEAT Pagine Gialle. Micucci also advised on the IPO of STMicroelectronics, the acquisition of Deutsche Telekom, and Telecom Italia's stake in Eutelsat, among others. In 2003, she was the sole adviser to DeAgostini on its acquisition of Toro Assicurazioni from Fiat – a deal that created one of the largest insurance and financial services companies in Italy.

Prior to her corporate life, Micucci, 47, worked in academia at two of her alma maters. She was a visiting scholar at NYU, where she received her MBA, and an assistant professor of mathematics at LUISS University in Rome, where she earned her degree in economics. She also served as a visiting scholar at the University of California at Berkeley.

Currently, Micucci is a member of Lehman Brothers Investment Banking European Operating Committee. She lives in Milan with her husband and two children.

In Memoriam

Bertha S. Amrhein (BS '28)
Mandel Weiss (BS '29)
Pearl K. Orson (BS '34)
Ellsworth B. Hurwin (BS '39)
Geraldo J. Sasso (BS '39)
Estelle C. Zelnick (BS '40)
William Petrie (BS '42)
John B. Huttlinger (BS '45)
Sandord B. Halperin (BS '47, MBA '54)
Saul J. Katz (BS '48)
Michael R. Nadurak (MBA '54)
Eileen E. Carlson (MBA '58)
Philip D. Vock (BS '59)
Walter S. Skolnik (BS '61)
Robert M. O'Conner (MBA '72)
Diane M. Luisi (BS '85)
Judith S. Nunez (BS '91)
Charles M. Miller (MBA '02)
Rachelle S. Curry (MBA '04)
Richard Fisher (Professor)

NEWS

SEND US YOUR NEWS

Do you have a new job or promotion? An award, honor, or achievement to share? How about a marriage, new baby, or adoption? Let other alumni know about the things happening in your life.

Send us your news online through Class Notes in SWAP – the Stern Worldwide Alumni Platform – at **www.stern.nyu.edu/Alumni,** or mail in the following form, and we will publish it in an upcoming issue of STERN*business*.

Name

Class Year(s) and Degree(s) from NYU Stern

Degree from Other Institutions

Job Title

Company Name

Business Address

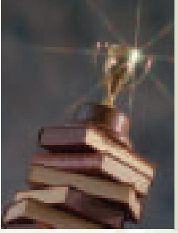
Home Address

Work Phone Home Phone

Preferred E-mail Address

News to Share with NYU Stern Classmates

Please send or fax this form to: **Office of Alumni Affairs**
NYU Stern School of Business
44 West Fourth Street, Suite 10-160
New York, NY 10012-1126
Fax: 212-995-4515



PastPerformance

The Constant Statistician

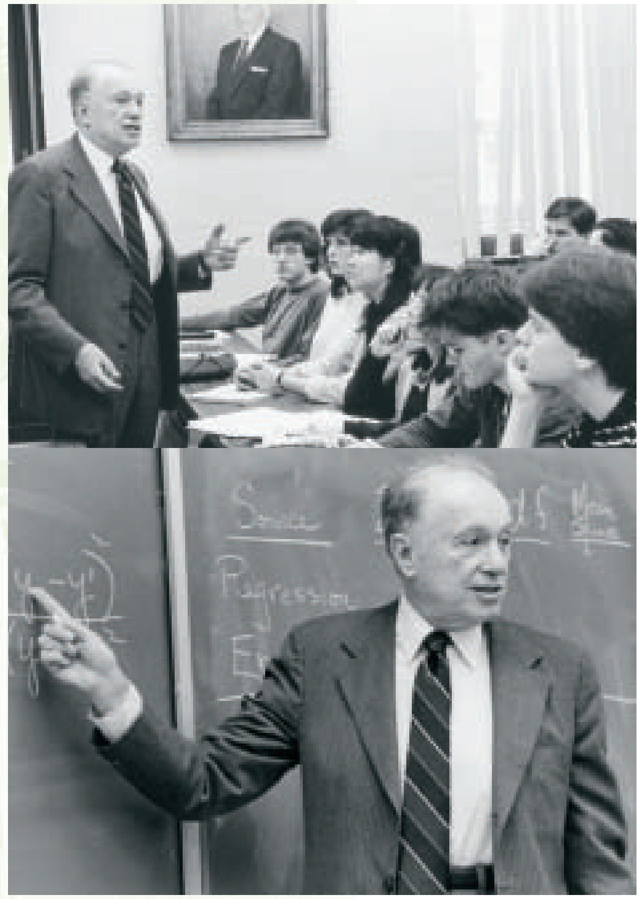
By **Daniel Gross**

This fall, when 94-year-young Ernest Kurnow (PhD '51), professor emeritus of business statistics, enters the classroom to teach Statistics for Business Control and Regression and Forecasting Models, it will mark his 62nd year introducing Stern students to the wonders of regression analysis and probability.

Born in Brooklyn in 1912, Kurnow received bachelor's and master's degrees in math from New York City College in 1932 and 1933, respectively. In the depths of the depression, the best he could do was a job pushing a hand-truck in the garment center. But in 1935, he got a Works Progress Administration job teaching remedial reading and arithmetic. Five years later, he went to work as a statistician. He spent a year at the Aberdeen Proving Ground, the military base in Maryland that was to be the locus of important war-time innovations in computing and the application of statistical quality control, and then joined the New York City Board of Education.

In 1945, Kurnow's wife, Joyce, encouraged him to enroll at New York University to take more courses in statistics. And here, he found a home – and a calling. In 1948, he became a full-time instructor in statistics, and the rest is history. When he started, there were 10,000 students in the undergraduate school. The goal was to train students to take entry-level positions at companies. "The walls at the old graduate school at 90 Trinity Place were paper thin, and I remember overhearing a professor teaching an international trade course next door," Kurnow recalls. "He was teaching graduate students how to fill out a bill of lading."

Kurnow became chairman of the statistics department in 1963. "I asked Deming" – W. Edwards Deming, the NYU professor who pioneered total quality management – "if he wanted to be chair. But he said he was too busy." Kurnow headed the department through 1975, a period in which Stern changed its curriculum and focused on building full-time, research-based MBA and PhD programs.



Ernest Kurnow circa 1974, the year he received the NYU Great Teacher Award.

Many of his most prominent students have retired, among them former Federal Reserve Chairman Alan Greenspan (BS '48, MA '50, PhD '77), "a very bright guy," and former head of Toyota Motors Tatsuro Toyoda (MBA '58). When NYU gave Toyoda an honorary degree in 2004, Kurnow, who had saved his grade sheets over the years, presented him with the original. "He was tickled pink." But Kurnow continues to teach as an adjunct professor. "I finally took a semester off during the spring 2006 semester, and I'm going crazy," he said.

A great deal has changed – inside and outside the classroom since Kurnow started teaching. The computer has replaced the slide rule, for example. But Kurnow still gets the same thrill from teaching. "I love to teach, I love the contact with the students, and it gives me a feeling of accomplishment." Students evidently agree – Kurnow received the NYU Great Teacher Award in 1974. And, today, as Stern students rank their professors on a seven-point scale, the statistics expert proudly notes that his scores are consistently above six.

DANIEL GROSS *is editor of* STERN*business.*

CALENDAR OF EVENTS

For the most up-to-date information on events, visit the Office of Alumni Affairs website at www.stern.nyu.edu/Alumni or contact the Office at (212) 998-4040 or alumni@stern.nyu.edu.

PROFESSONIAL EDUCATION ALUMNI PROGRAMMING

October	**3**	**The Economy and Today's Global Markets: Can US Businesses Survive and Thrive?** Featuring Maria Bartiromo (WSC '89) 6:30 pm; Schimmel Auditorium, Tisch Hall
	10	**The True Hollywood Story: Breaking into the Entertainment, Media, and Technology Industry** 6:00 pm; Room 2-60, Kaufman Management Center (KMC)
	24	**Boardroom Bound: A Guide to Nonprofit Boards** 6:00 pm; Room 3-110, KMC
November	**2**	**First Thursday Program for Recent Undergraduate Alumni: Interviewing Strategies** Conducted by Hamilton Lin (BS '00) 6:00 pm; Barr-Kawamura Commons (Room 5-50), KMC
	6	**Author Lecture Series: Danny Meyer, Restauranteur and Author of *Setting the Table*** 6:00 pm; Schimmel Auditorium, Tisch Hall
	7	**Nobody Makes it Without a Mentor** Featuring Sheila Wellington, Clinical Professor of Management, Former President of Catalyst 6:00 pm; Room 5-50, KMC
	14	**Charting the Digital Frontier: The Future of Digital Content and Its Impact on the Entertainment Industry** 6:00 pm; Room 2-60, KMC
June	**8,9**	**Florence 2007: Global Alumni Conference** La Pietra; Florence, Italy

SOCIAL NETWORKING ALUMNI EVENTS

October	**5**	**First Thursday Program for Recent Undergraduate Alumni: Wine Tasting** 6:00 pm; Room 5-50, KMC
	21	**Community Service Event: New York Cares Day**
	26	**Scholars Reunion** 6:30 pm; Room 5-50, KMC
November	**9**	**MBA Happy Hour: "Welcome to the Class of 2006"** 6:00 pm; NYU Torch Club, Tap Room
December	**2**	**Sixth Annual Stern Alumni Ball** 8:00 pm - Midnight; American Museum of Natural History, Milstein Hall of Ocean Life
January	**25**	**Reception for January 2007 Graduates of The Langone Program** 6:00 pm; The Commons, KMC
February	**22**	**Seventh Annual Wine Tasting** 6:00 pm; The Commons, KMC

STERN STUDENT CLUB CONFERENCES

October	**13**	**Association of Hispanic & Black Business Students (AHBBS) Conference**
November	**3**	**Graduate Marketing Association (GMA) Conference**
	10	**Graduate Finance Association (GFA) Conference**
January	**26**	**Stern Private Equity Club (SPEC) Conference**
February	**2**	**Stern Women in Business (SWIB) Conference**
	9	**Media and Entertainment Association (MEA) Conference**
	23	**Global Business Conference (GBC)**
March	**2**	**Association of Investment Management (AIM) Conference**

"NYU IN YOUR NEIGHBORHOOD"

Reservations required. For complete information, visit the website at **www.nyu.edu/alumni**.

November	**1**	**Long Island, NY**
	8	**Greenwich, CT**
	28	**New York, NY**
January	**29**	**Palm Beach, FL**
	29	**Delray Beach, FL**
	30	**Ft. Lauderdale, FL**
February	**27**	**Albany, NY**

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