

*Executive Policy Seminar Series*  
*Capital Markets Research Center*

# **The Business of Football**

**Paul Tagliabue**  
**Commissioner, National Football League**

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New York City

GEORGETOWN



**McDONOUGH**  
*School of Business*

UNIVERSITY



## **David A. Walker**

Director, Capital Markets Research Center

### **Welcome**

Welcome to our annual New York Executive Policy Seminar. It will be my pleasure to introduce our guest speaker, but first I would like to recognize three special Georgetown students.

They are the three graduating seniors who have worked with me in the Capital Markets Research Center since they were freshmen: Sharon Sweeney, Jennifer Rooke and John Antonelli. It would take hours to describe even a few of their contributions. I would like to offer one example for each of them.

Sharon Sweeney has worked with me on a wide range of programs and studies. Her contributions are reflected by the fact that Professor Alan Mayer-Sommer and I selected her to be our co-author on a technical research paper on bank mergers applying purchase versus pooled accounting. Sharon also presented the paper jointly with me at an international finance conference in Dublin last summer. Jennifer Rooke is the author of the spiral bound time line published by the Center. I had asked her to identify one program from each year since our first event in 1989 from our applications, reports, and announcements. Instead, she developed a history of all the executive, student, sponsor, and special events from each year, beginning with our first executive policy seminar on January 31, 1989.

Approximately 18 months ago, our complete mailing list of more than 750 names and addresses was destroyed. Before I could even think about how we might reconstruct the list, John Antonelli gathered reams of paper documents and an early electronic version. He said, "Give me two weeks" and he returned with a new list that was more complete than the one we had lost.

I owe Sharon, Jennifer, and John a tremendous debt of gratitude for their personal and professional support. Two years ago I had bypass heart surgery, from which I have recovered completely. The support from all of them was essential to sustaining the Center, while I recuperated.

As a token of our appreciation, I am presenting each of them with a commemorative bowl to celebrate our 15 years of programs to which they contributed. Sharon, Jennifer, and John, thank you for all of your support. Each of them will graduate from Georgetown with special academic and service awards on Saturday, May 22, 2004.

Two other seniors – Julie Davies and Neil Jain – have also contributed a great deal to our efforts and we appreciate their coming to celebrate this occasion.

### **Introduction**

It is now my honor to introduce our speaker, Mr. Paul Tagliabue, Commissioner of the National Football League. He is responsible for many achievements that most of us recognize, but perhaps none of you know that he has a claim to many of the recent improvements of the U.S. Internal Revenue Service. Barbara Rossotti told me that one of the main reasons that Paul's close friend Charles, a Georgetown alum and good friend of the

business school, accepted President Clinton's request for Charles to become IRS Commissioner was because his friend and our guest speaker already had the title of commissioner.

You probably know that Charles Rossotti provided the leadership to restructure the IRS. His Fall Executive Policy Seminar has been published by the Center and he was the one who convinced Mr. Tagliabue to address us tonight.

Paul Tagliabue became Commissioner November 3, 1989, succeeding Pete Rozelle who served from 1960 to 1989. As Commissioner, Mr. Tagliabue has addressed many NFL priorities. Among them was the expansion of the NFL from 28 to 32 teams, realignment, successive long-term labor agreements with the NFL Players Association, and securing the largest TV contract in entertainment history. Additionally, during this time, the NFL has expanded league and team commitments to include community service, refocused efforts in developing public-private partnerships for new stadiums, and adopted a new divisional alignment and scheduling formula.

Under Mr. Tagliabue's leadership, the competitive action has flourished, and stadium attendance and TV audiences have reached record levels. The value of an NFL franchise has soared.

Mr. Tagliabue has received many honors including Sports Industrialist of the Year by *Sports Business Daily*, Sports Executive of the Year by *The Sports Business Journal* and recognition as the Most Powerful Person in Sports by *The Sporting News*.

Mr. Tagliabue has served on the Board of Governors of the United Way of America, chairing it in 1998-1999, and serves as a member of the boards of the National Urban League, the Pro Football Hall of Fame, and the Local Initiatives Support Corporation. He is also a member of the Council on Foreign Relations where he serves on the Council's Homeland Security Task Force.

Previously, Mr. Tagliabue served in the office of the Secretary of Defense, where he was awarded the Secretary's Meritorious Civilian Service Medal, and he was a partner with the Washington law firm of Covington & Burling. Paul and Mrs. Tagliabue are among the generous donors to Georgetown's \$1 Billion Dollar Campaign.

He received an athletic scholarship from Georgetown University, where he was Captain of the 1961-1962 basketball team, president of his senior class, a Rhodes Scholar finalist, and a Dean's List honor graduate.

Mr. Tagliabue earned his law degree from New York University, where he was an editor of the Law Review, and graduated with honors. He has received honorary degrees from Colgate University and Northeastern University. Paul and his wife, Chandler, were married in 1965 and have two adult children and two grandchildren.

Mr. Commissioner, with all of these wonderful contributions and achievements, we bring you one request from Washington: Could you please raise the Redskins' salary cap so that we can activate Sam Huff, John Riggins, Sonny Jorgenson, Billy Kilmer and Charlie Taylor for the first Giants' game? Before the skeptics react, did you ever think Joe Gibbs would return as coach?

Mr. Commissioner, thank you for taking time out of your busy schedule to join us.

# **The Business of Football**

**Paul Tagliabue**

**Commissioner, National Football League**

## **Introduction**

As an adjunct professor at the Georgetown University Law Center, the first thing I emphasized in my course was that it would have little to do with sports as athletic competition. That is no less true for my remarks this evening. If I do speak about sports as athletic competition, it is only in the context of the National Football League's product, which is both athletic competition and entertainment. I will focus instead on the NFL's structure, economics, and governance.

Besides Charles O. Rossotti (Senior Advisor, The Carlyle Group, and former Commissioner, U.S. Internal Revenue Service), who has already been mentioned, the other person I credit with arranging this evening's speaking engagement is Frank Hawkins of the NFL staff. He works at the cutting edge of financial markets, telecommunications policy, and intellectual property policy as it evolves and develops in the digital and internet age.

## **State of the NFL**

The NFL is highly successful. By almost any measure, we are the number one spectator sport in America by a wide margin. Our structure ensures a very strong product on the field that is attractive to a mass audience, continuing to attract and retain that mass audience is one of the key objectives of our business. The other sports leagues with which we compete may be losing their mass audience on television. We are the only league sport that continues to be prominent on broadcast television without heavily migrating to cable television.

Off the field, the NFL has unique structural elements unlike those of any other athletic league in the United States and probably the world. For example, the League controls the television broadcasts of our regular-season and post-season games, which have

generated between 50 and 60 percent of our total revenue over the life of our current television contracts. We expect to have about \$5 billion in revenue this year. Just over half (about \$2.7 billion) will come from national television, with additional contributions coming from other national media. No other league has that kind of control over its televised product or the resulting revenues – in fact, because clubs in other sports have so many more games to telecast, it may not be possible for any other sports league to manage its television exposure in the way the NFL does.

These television arrangements also have a beneficial competitive effect. All of the League's national media revenue is shared equally among the teams, providing each club with a solid financial base on which to operate. The NFL's player salary cap and free agency arrangements are predicated on this equal sharing of media revenue and broad sharing of most of the rest of our revenue. No other league has revenue sharing as extensive as the NFL's. Thus, control of media exposure and equal sharing of the revenue it generates are the two unique structural underpinnings of our League that differentiate us from other sports leagues worldwide.

## **Goals of the NFL**

It is critical for any business to have a clear vision of its key goals and to pursue those goals with both vigor and rigor. Next month I will celebrate my 35<sup>th</sup> year of involvement with the NFL, 20 years as outside counsel and 15 years as commissioner. For ten years I have kept our strategic goals on one sheet of paper.

We have six key goals. The first is to continue to cultivate America's passion for the sport of NFL football. The second is to ensure that the game on the field is outstanding; on-field competition is our core product. The third is to guarantee great television that reaches a mass audience, which requires a substantial effort, especially with our digital and online technological revolution. The fourth is to have fan-friendly stadiums for all of the teams in the League. The fifth is to continue to support the development of the game at all levels — especially among America's youth – to ensure that the game remains strong for future generations. The sixth goal is to continue to expand our presence and fan base, both domestically and internationally.

I would like to discuss these goals and to address two key issues. One is how to deal with the new demographics and the changing face of America, including the growth of the Hispanic population, the increasing participation of women in sports, and the aging of the population. The other area concerns international expansion because I expect that the future of all sports will be tightly intertwined with globalization.

## **Inside the NFL**

### **Talent**

We operate in an environment with several over-arching considerations. First and foremost is maintaining the supply of great football-playing talent. Specifically, how do we ensure that we continue to have gifted athletes playing our sport to maintain the quality product that we supply? We do so by thinking ahead – making sure that football is as safe as it can be so that young athletes will choose football over other sports, and making sure that as demographics and as college and high school athletic programs change, football remains a viable option for the best young athletes in America and elsewhere. Many of the initiatives we have implemented to address these issues have been cooperatively devised with the NFL Players Association, as I will discuss later.

### **Audience**

I have already alluded to the need to maintain the appeal of the sport for a mass audience. In the current television environment, where the typical household may have access to between 60 and 400 channels on digital cable and satellite television, much programming, including sports programming, has been commoditized to the point where it is becoming marginalized and irrelevant. From both an advertiser's and a sponsor's perspective, audiences that other sports attract on 400-channel television are so marginal that the telecasts may become unattractive as an advertising platform. In many respects, the only sports that continue to have mass television audience appeal for spectators and advertisers alike are the NFL and the Olympics; they may well be the only sports that will continue to find it financially viable to use broadcast television as their main media delivery vehicle.

It may or may not be a coincidence that the NFL and the Olympics each present only 17 days of programming, that their programming is concentrated in terms of when it occurs (thereby generating huge fan interest), and that they continue to have broad reach on broadcast television. The Olympics last for two and a half weeks; our regular season is 17 weeks. About 125 million people watch our games every Sunday; the Olympics draw on a similar-sized audience when they are at their peak. Other sports attract audiences that are only a fraction of that number, producing the sponsor and advertiser concerns that I previously mentioned. Therefore, retaining the mass appeal needed to attract such an audience is an over-arching consideration that shapes much of what we do and what concerns us.

Our biggest competitive advantage on television has been that our product is offered only one day of the week, through a broad array of regional telecasts, with key matchups of national interest featured as late games on Sunday afternoon and Sunday evening and with one Monday telecast – Monday Night Football – which has become an American television institution. Many current and potential television partners have noted this concentration of product and have proposed NFL television packages to air other nights of the week. We have approached such suggestions with caution because scheduling large numbers of games on other weekdays could conceivably fragment our audience and commoditize our product. On the other hand, we might be able to “incubate” a cable network by playing a Thursday night series of cable games, and such a network could be a long-run success that would strengthen our product as well. But before we proceed with any new package, we must assure ourselves that it is based on sound television premises and that it is structured to complement our other television packages rather than to cannibalize our Sunday and Monday night audiences and move us down the road to commoditization. As previously mentioned, commoditization is ultimately very negative in a 400-channel universe, and the challenge we face is how to balance the need for revenue and viewers to ensure the long-run success of our sport. In theory, greater revenues are available from cable television, which is both advertiser and subscriber supported, than from broadcast television, which is only ad-supported, but

despite cable channels' gains in viewership over the years, more viewers are still available from traditional broadcast television.

## **Structure**

The third consideration is our ownership structure. We have some unique rules, including debt ceiling limits and clear limitations in terms of how teams can be financially structured with debt and equity. We are the only league that continues to prohibit companies with outside business interests from owning teams. Teams must be owned by individuals, corporations, or LLCs that are owned by individuals. For many years, in order to ensure that owners were football-focused, we even prohibited owners from owning teams in other sports leagues. (Now we allow our owners to own teams only in other sports leagues in their own community, but for both governance reasons and others, we do not allow an NFL owner to own a team in a community served by another NFL owner's club.)

We have a governance structure that requires all decisions to be made by a three-fourths vote of our membership. Whether we are voting on a playing rule, on a new owner, or on some of the most fundamental economic decisions that affect the long-term future of the sport, it takes a three-fourths consensus and vote of the membership to be adopted as League policy.

We spend a lot of our time thinking about structure. Recently, we addressed the structure of our sponsorship and retail licensing business. All of the owners voted on a master agreement for conducting this business, which included everything from apparel manufacturing to soft drink advertising and distribution. We have an equity joint venture with Reebok through which we conduct our League-wide apparel business, as well as sponsorship agreements — at both the local club level and the League level — with a variety of business entities. But we must be careful in pursuing these business opportunities and others not to do damage to our long-run interests.

For example, some clubs have sponsorship arrangements with hospitals, with the hospital sponsors receiving as part of the sponsorship arrangement both advertising privileges and the responsibility of providing medical care for the players. However, these arrangements raise ethical issues that must be considered — including but not limited to our need to ensure that quality medical care is being

delivered to the players. As a result, we have strongly discouraged some of these arrangements and have restricted these sponsorship agreements in a way that has dramatically changed the local sponsorship model originally conceived seven or eight years ago. I am sure that our new “master agreement” will be refined in a similar manner over the next seven or eight years as circumstances change.

This evolutionary approach – refining our business models to reflect changing circumstances and to address new and previously unforeseen issues as they arise – is in many ways driven by our structure, in which both individual clubs and League-level businesses seek out new opportunities that must be harmonized with existing lines of business and overarching long-term interests.

Shepherding this diverse organization, I often say, is in many respects probably more akin to being the majority leader of the United States Senate and less like being the CEO of a typical corporation. Any time you need a super-majority vote among 32 owners, each of whom is operating in his or her own economic context and his or her own market and stadium, you have a federalist model that involves an element of consensus building and politics in the best sense of the word. All decision-making requires being responsive to the varying interests of the different constituent members of the League.

### **Economic Interdependence**

A fourth over-arching consideration is the economic interdependence of the teams. They share equally in over 50 percent of the League’s total revenue, and they share about 80 percent of that total revenue in one way or another. Some of the non-media revenue is not shared equally — for example, 66 percent of ticket revenue belongs to the team that generates the revenue by selling the tickets and the remaining 34 percent is divided equally among all the clubs. Some revenue is not shared at all – for instance, in-stadium advertising. Nevertheless, we collectively recognize the importance of growing all revenue streams and increasing the League’s and clubs’ exposure throughout the nation. This recognition has produced some new and innovative policies.

We are the only US sports league that has invested as a league in stadiums, such as new ones in Philadelphia, Chicago, New

England, and even the stadium in Green Bay. In recent years in the NFL, a stadium investment is a three-way investment – there is public money, team money, and League money. We have generated the League money for these investments in the last five years by assessing each team up to \$1 million a year from its television revenue, for a total of \$32 million; we have then borrowed money in the capital markets, supported by these assessments plus incremental shared revenues that will be produced by the new stadium, and used the proceeds to make grants to the teams building or reconstructing stadiums. The maximum grant size is \$150 million for a team in one of the top six television markets, and other grants are for up to \$102 million. Through this subsidy program we have invested television revenue in stadiums throughout the League, with an eye towards keeping strong local presences in all our markets – especially the largest – which will, in turn, produce a continued mass audience for our games and strong television revenues over the long run. In the last five or six years, we have invested about \$750 million, which we will amortize over the next 25 years. We are still making such grants to spur construction of new stadiums and will seek to devise means to continue to do so for a number of years, until every team has a new stadium.

For teams in smaller markets we try to make certain that both direct and indirect economic returns are positive. Public authorities considering investing in stadiums in the context of a broad array of community obligations want – and need — to examine each potential investment carefully. We share investment models of stadiums in other cities to help public authorities make their decisions. We usually take the position that both the team and the community should have a business model that sustains the individual team. For example, we are playing the Super Bowl in Jacksonville, Florida, next February at least in part because the community invested a significant amount of public money in the stadium and convinced us that we should put the team there as part of our expansion process in the mid-1990s. Jacksonville is the smallest community with an NFL team; with the Super Bowl there next year, both the team and the community will be able to realize many of the types of benefits they anticipated when they invested.

## **Player Relations**

One of the biggest accomplishments of the past decade has been the stabilization of our relationship with our players' association. Maintaining this relationship is a fifth overarching consideration. This stable relationship has meaning not only in terms of the allocation of talent and the rigor of the competition on the field, but also in giving us an element of cost stability and an invaluable comparability of player costs among clubs.

Currently, each club spends about \$90 million annually on player compensation and benefits. The average club has approximately \$160 million in revenues (including its equal share of national media revenues), so roughly 57 percent of the average club's revenue goes directly to the players. This number can vary from year to year, but over any given five-year cycle, each team in the League will spend approximately the same amount on total player compensation. Thus, one way of expressing the challenge facing each NFL team, coaching staff, and owner is to note that they must decide over the next five years how to invest half a billion dollars in playing talent in an effort to win the Super Bowl. The magnitude of this investment, and the public scrutiny that attaches to a club if such an investment is not made wisely, have a huge impact in terms of the skill sets that our teams bring to bear, how they are organized, and how they are able to compete for players.

With our players' union, we have also addressed other key issues – for example, we have created a youth football fund to which we have allocated about \$200 million over a 5- to 10-year period to promote interest in the game among young athletes. We have also funded and conducted a number of studies on safety issues, some of which have been peer reviewed by scientific organizations and are being published in professional journals, such as the *Journal of Neuroscience*.

We have encouraged outreach efforts with our players in many areas of their communities and have worked extremely hard to align our interests with the players' career development, education, and degree completion. Frequently, people say that our league distinguishes itself from the others because of the strength of our relationship with our players' union. Last year, in a speech in Germany, I was thus able to tell a German business audience that we have a

socialist system of economics in a capitalist society. We have co-determination – “mitbestimmung” — with our players union and are proud of our system and its success.

## **Future Business Models**

Over the last ten years, we have continued to develop integrated economic policies. I have already discussed the stadium subsidy program. We also have supplemental revenue sharing arrangements, through which we make transfer payments of about \$40 million a year to lower revenue teams to help them meet their player costs – which are the same in raw dollars as those of the highest-revenue clubs in the League — on a basis that does not stretch their economics. The debt ceiling limitations include policies requiring deferred payments to players to be pre-funded, to ensure that player commitments do not get so large as to threaten a club’s financial viability.

We continue to develop new business models in new areas of activity, such as the internet. For the most part, these models involve pooling the assets of the teams and the League and then sharing the revenues. We have an internet network, which has a portal relationship with AOL that generates traffic to our League site and to all the club sites that are linked to it in the NFL Internet Network. Other business models that are in the process of being created or expanded include the use of satellite television and satellite radio to supplement our basic over-the-air media plans; these new satellite opportunities are controlled by the League with all the revenues being shared equally. Through such measures we believe we are staying ahead of the technology that most directly affects our core League and team economics and laying the foundation for a stable future.

## **Challenges and Opportunities**

### **Domestic Perspective**

I often highlight two of our many challenges. First, we need to adapt our electronic media distribution to new technologies, and second, we must maintain the public’s respect for the athletes and for everyone else involved in the game.

Among other challenges are ones that reflect that our society is changing. Prior to World War II, ours was an industrial society, in which individuals did a lot of the heavy lifting in steel mills,

automobile manufacturing plants, coal mines, and construction sites. In that context, football developed and thrived as a form of relaxation and entertainment. In the last half of the 20<sup>th</sup> century, as our economy became more service based, many of these formerly blue collar jobs were done either by machines or robots or some combination of the two. As a result, some of the traditional geographical sources of our playing talent have challenges sustaining participation in football at high school and intercollegiate levels.

Therefore, we need to make our game more attractive to young people to encourage participation. That is a challenge because our changing national values and demographics also include increased participation of women in sports. For these reasons, both collegiate and professional football must now share a broader stage with other men's and women's sports, such as soccer and basketball.

### **Global Perspective**

We need to adapt to the changing role of America in the world. In his recent book, *Soft Power*, Joseph Nye argues that a key source of America's global influence comes not from its military and not necessarily from its economic strength, but from the appeal of its culture, which includes entertainment and sports. Considering the increasing importance of globalization, the NFL is investing in football internationally, including an NFL-owned league in Europe. We have probably invested approximately \$200 million over 10 years, and a significant part of that is being underwritten by our players' union, which recognizes this commitment as a very important investment in both domestic and international talent development.

Expanding the popularity of uniquely national sports on an international basis is a long-term process – culturally, in athletic terms, and in business terms. Professional soccer has been investing for almost 40 years in the United States and is still at its early stages of public appeal, at least at the commercial level. Basketball took 30 or 40 years to develop internationally, beginning in the late 1950s and early 1960s when European national teams started to compete successfully in the Olympics. Their development may have peaked in the 1990s and the result is a number of very talented international players. We too will eventually have a global talent pool and

business opportunity if we are patient and if we understand the global environment, but it will require major long-term investment and a lot of talent development to expand our sport globally. This will probably require several generations.

## **Concluding Observations**

As I discussed, two of the key challenges facing the NFL are maintaining the public's respect for our athletes and adapting to the conundrum that we need both viewers and dollars to be successful on television. Broadcast television delivers the viewers but may not maximize long term revenues; other forms of television may deliver additional revenues because of dual advertiser and subscriber revenue streams, but the audience may eventually be less inclusive and actually shrink over time. Adapting to this changing market will be crucial to the future success of all sports.

Another principal challenge is to maintain and continue the relative cohesiveness of our ownership because we have a very complex business partnership. We are doing business on a global basis. The NFL is a \$5 billion enterprise with 32 team owners, each of whom is entitled to sit as a Board member-owner of the League enterprise. As three-fourths of them have to agree on any decision, building consensus, aligning interests, and maintaining cohesiveness are critical.

We will be tested as we go forward on the television issues as to choices between revenues and viewers – short-term resources versus longer-term investments. Our relationship with the players and the players association will also be tested in a variety of ways.

Ultimately, I think that assuring a bright future for the NFL will require us to maintain an allure and a uniqueness to our product, and this means that sometimes we may need to operate on the premise that less is more so that we will have a successful business for the long term. If you succumb to the short-term pressures to commoditize, you will ultimately become just that: a commodity that may languish in the competition for leisure-time entertainment with other attractions, including computer screens, video games and other technology-based attractions.

Domenico De Sole, a good friend of Georgetown University who was the recipient of the Georgetown Wall Street Alliance

Award this year and was the CEO of Gucci, was recently quoted in *The Washington Post* as saying that Gucci's success depended on acceptance of the notion that sometimes the cash register should ring less often rather than more and that the mere volume of sales is not necessarily the ultimate barometer of the health of your business. He emphasized that the image, quality, and exclusiveness of your product are as important as weekly sales. As one example, in talking about licensing arrangements as a business model, De Sole said, in his own inimitable way, "I do not have anything against licensing," in reference to Yves Saint Laurent, which had granted almost 200 licenses to use its brand on other products, but noted that licensing is a form of brand rental; over-licensing an otherwise attractive product "is not a business, it's a pizza franchise."

The NFL will do everything necessary to maintain its distinctive form of sport, which is uniquely attractive to a mass audience, and we will seek to continue delivering our product as something special to both sports fans and the larger public. We will not depart from our values of intense athletic competition or allow our annual football competition – culminating in the Super Bowl – to become a commodity. And we will continue to nurture the wonderful relationships that currently exist among our owners, players, fans, and audiences. This will be increasingly important as we seek to address the challenges facing us in the future.

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