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Message in a Bottle

To Sell Pricey Drug, Lilly Fuels a Debate Over Rationing

It Rallies Doctors, Patients To Speak Out for Xigris, Even as Hospitals Balk

Grant to Study ICU 'Ethics'

By Antonio Regalado

In the war over how health care should be allocated in the U.S., one of the big new battlegrounds is an expensive drug called Xigris.

A committee of doctors and academics was convened this year to study "ethics and rationing" in intensive-care units after debate erupted over who should get Xigris. The drug, used to treat severe sepsis, a deadly syndrome associated with severe infections, costs $6,800 per treatment. Some doctors and patients, concerned about reluctance to prescribe the drug, are questioning whether patients are dying because of tight-fisted hospital policies.

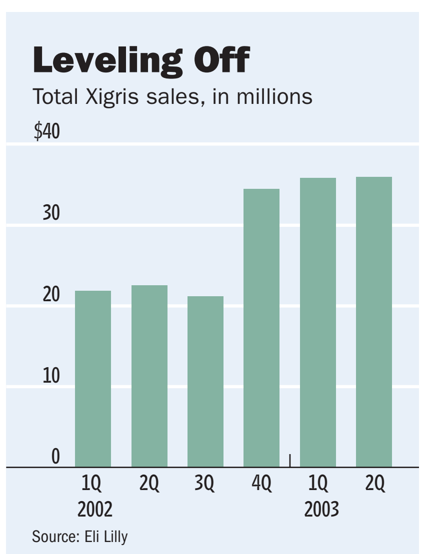
WHO GETS HEALTH CARE? Rationing in an Age of Rising Costs
Third in a Series

"It's amazing. This is a new, lifesaving technology that works," says Jay Steingrub, director of Baystate Medical Center's medical intensive-care unit in Springfield, Mass., who has begun speaking out on the issue. "Yet it's been rationed without the American public being aware of it."

Behind the scenes, an unconventional campaign by Xigris's maker, Eli Lilly & Co., is fueling the debate. With Xigris's sales far below expectations, Lilly is stoking a controversy over who should get expensive treatments in times of limited resources.

It gave a $1.8 million grant for the study of health-care rationing practices. It successfully lobbied for a special reimbursement of half the drug's cost for Medicare patients. It hired public-relations firms that helped the drug maker shape a rationing-debate strategy. And it has rallied patients and doctors who believe in the drug.

Dr. Steingrub, for instance, occasionally travels and speaks on behalf of Lilly,



and is paid per diem consulting fees by the company. He says he began speaking out about rationing after becoming concerned that patients weren't being informed of their options. "I talk about the academic aspects" of the drug's use, he says. "I don't push the product."

Lilly's campaign for Xigris reflects the unique way in which health care is rationed in America. In other countries, for better or worse, government bureaucracies set guidelines for what drugs cost and who gets them. But in the U.S., these decisions are made every day by a vast array of gatekeepers, from doctors, to government employees to insurance officials. And all of these people are targets for a big company that wants to influence the process.

Xigris was approved in late 2001 to treat severe sepsis, which kills about 250,000 people a year. Lilly had counted on Xigris—the first new treatment for sepsis in years—to be a blockbuster, and some ana-

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What's News–

Business and Finance

GRASSO RESIGNED as NYSE chairman after an emergency board meeting, amid an outcry over his $139.5 million retirement package. The exchange offered the post of interim CEO to Larry Sonsini, an exchange director, but he declined. Grasso's ouster could force Big Board governance changes, reducing the power of industry insiders.
(Articles in Column 4 and on Page C1)

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■ **Merrill accepted** responsibility for the role of some employees in the Enron scandal, as part of a deal to avoid prosecution. Three ex-officials were criminally charged.
(Article on Page A3)

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■ **GE will stop granting** stock options to its CEO, instead tying most of his pay to "share units" that require him to meet targets.
(Article on Page B1)

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■ **RJR said it will cut** its work force 40% and slashed its earnings outlook in the face of price wars from discount-cigarette makers.
(Article on Page A3)

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■ **AXA agreed to buy** Mony for $1.5 billion, further bolstering the French financial-services group's growing U.S. presence.
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■ **Stocks eased** but remained near recent highs. Treasury bonds jumped, possibly in a delayed reaction to Fed rate news.
(Article on Page C1)

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■ **A judge's sanctions** against PricewaterhouseCoopers are casting a harsh spotlight on the firm and its top U.S. partner.
(Article on Page C1)

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■ **UAL may seek** to raise more financing when it emerges from Chapter 11. Its low-fare airline will begin flights in February.
(Article on Page A2)

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■ **AOL and Bertelsmann continued** efforts to reach a merger deal for their music units, though AOL may also seek other buyers.
(Article on Page B8)

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■ **Boston Scientific's stent study** leaked out in advance of an embargo, apparently letting some investors sell shares in rival J&J.
(Article on Page C3)

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■ **A Senate bill would cut** taxes by 3% for all U.S. manufacturers to replace an export tax credit the WTO has ruled illegal.
(Article on Page B2)

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■ **A manufacturing coalition plans** to file a trade complaint accusing China of manipulating its currency to gain price advantages.
(Article on Page A14)

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■ **Ahold's chairman will resign** and its CEO will take a pay cut, as the Dutch food company bows to pressure from shareholders.
(Article on Page B4)

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■ **Microsoft and IBM agreed** on an industry standard for Web services, a new type of software for doing business over the Internet.
(Article on Page B10)

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■ **Stolt-Nielsen said** it may have violated terms of its pacts with lenders due to losses at a unit.
(Article on Page B6)

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■ **H-P is investing** $750 million in new products targeted at small and midsize businesses.
(Article on Page B9)

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■ **FedEx said** quarterly net slid 19% due to severance and early-retirement costs. Sales rose 4.4%.
(Article on Page D7)

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–Markets–

Stocks: NYSE vol. 1,313,832,640 shares, Nasdaq vol. 1,874,012,909. DJ industrials 9545.65, ▼ -21.69; Nasdaq composite 1883.10, ▼ -4.15; S&P 500 index 1025.97, ▼ -3.35.

Bonds (4 p.m.): 10-yr Treasury ▲ +23/32, yld 4.172%; 30-yr Treasury ▲ +1 11/32, yld 5.095%.

Dollar: 116.16 yen, +0.03; euro $1.1283, +1.05 cents against the dollar.

Commodities: Oil futures $27.03 a barrel, ▼ -$0.53; Dow Jones-AIG futures 117.690, ▼ -0.116; DJ-AIG spot 148.813, ▼ -0.147.

World-Wide

■ **SCHRÖDER OFFERED the U.S. Iraq help, with or without the U.N.; a sketch of an exit plan took shape.** The German leader said that, no matter the fate of a resolution being negotiated, his nation stood ready to help train Iraqi security forces and rebuild infrastructure. But he offered no money. Meanwhile, top U.S. military officials said troops will begin pulling back to edges of Iraqi cities and turning over security functions to local forces in coming months, adding the U.S. contingent could begin to be reduced in May. Bush, echoing statements by top aides, said there is no evidence Saddam Hussein was involved in Sept. 11. Ex-U.N. inspection chief Blix said he now thinks Iraq destroyed its illicit weapons 10 years ago and pretended it hadn't as a deterrent. (Column 5 and Page A3)

A BBC reporter told an Iraq inquiry he made errors in a report accusing Blair of "sexing up" intelligence, including indirectly identifying weapons expert David Kelly as a source.

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■ **Top lawmakers told** Bush Alaska refuge oil drilling may be dropped to ensure an energy bill that can pass. A Senate vote advanced Republicans' push for a late-abortion ban. House-Senate negotiators approved nearly $400 billion in Pentagon and Homeland Security spending, but set no deadline to screen passenger-flight air freight for explosives. (Page A4)

■ **The U.S. comptroller general said** mounting deficits require "serious and sustained attention" as the CBO reported a $76.48 billion shortfall in August, for a total of $400.46 billion in the first 11 months of fiscal 2003.

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■ **Israeli troops killed** an Islamic Jihad militant in a fierce Gaza battle. Arafat reiterated a truce offer Israel rejects as a sham. The Palestinian said he's ready to be a "martyr" and will fight if Israel moves to oust him.

■ **Treasury chief Snow met** with officials in Saudi Arabia, praising the kingdom's efforts to cut off terrorist funds. An Israeli official said Riyadh provides $14 million a year to Hamas charities in the West Bank and Gaza.

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■ **Ashcroft wrote** a memo saying a Patriot Act provision permitting FBI searches of library records hasn't been used yet. He agreed to declassify the information to fight allegations that the power is being abused.

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■ **The Joint Chiefs chairman said** a stretched-tight military may have to weigh pulling U.S. Bosnia peacekeepers, but vowed not to act unilaterally.

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■ **California recall proponents filed** for a full-court reversal of the decision postponing the Oct. 7 vote, as the Ninth Circuit invited them to do.

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■ **A Tennessee gunman killed** himself and wounded two students he had held hostage at a community college. He claimed he was in al Qaeda.

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■ **NASA officials warn** a post-Columbia rule to confine shuttle launches to daylight so any damage can be photographed will hamper operations.

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■ **American Air reported five slight injuries** when a jetliner flying from Oklahoma City to St. Louis on Tuesday dove to avoid fighter airplanes.

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■ **Quality rose** at managed-health plans, but medical "missed opportunities" still cost 57,000 lives a year in the U.S., a study found. (Page D3)

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■ **The FDA plans to require** a label warning of risks of diabetes on new schizophrenia drugs such as Lilly's and Johnson & Johnson's. (Page D3)

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■ **Bin Laden was indicted,** as were 34 confederates, by the Spanish judge who brought cases against Pinochet and Argentine "dirty war" officials.

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■ **Iran's Montazeri gave** his first public speech after years of house arrest. The dissident ayatollah urged an end to rule by unelected clerics.

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■ **The Interior Department fired** a man who told a court investigator the agency failed to protect Navajos from being cheated on oil and gas leases.

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■ **Congress canceled** votes, Bush left early for Camp David and residents of Virginia and North Carolina drove inland as Hurricane Isabel got near.

—Online Today—

WSJ.com **Fiscally Fit:** Some homeowners have trouble getting insurance because they or their homes are deemed high risk. Terri Cullen explains what your options are if insurers are turning you down.

* * *

■ **Hurricane Watch:** See sites tracking Isabel, from Web cams in North Carolina to NASA satellite photos.

* * *

■ **Go Figure:** Foreign-stock funds have beaten U.S. equities for the past 5 years. We screen for long-term fund choices.

Closing Bell

Grasso Quits NYSE Amid Pay Furor

Behind Chief's Departure, A Profit Squeeze, Governance Questions

Exchange at a Crossroads

The forced resignation of New York Stock Exchange Chairman Dick Grasso could usher in a new age for the world's largest stock market.

Yesterday, Mr. Grasso, 57 years old, was pressured to step down after a public outcry over a $139.5 million retirement-pay package that he had built up over 36 years at the NYSE. Late last night, the exchange's directors were discussing candi-

By Kate Kelly, Susanne Craig and Ianthe Jeanne Dugan

dates for the job of interim successor in a conference call. It remained unclear who would take the post.

The resignation, after an emergency NYSE board meeting yesterday, followed calls for Mr. Grasso to resign in recent days by a growing chorus of Big Board directors, floor traders, institutional investors and politicians. Critics were especially furious over his pay package because the markets are just now recovering from an unprecedented period of corporate scandal that included shockingly high compensation for some executives.

But the furor masked broader, more

Rapid Fall

- **Feb. 6:** New York Stock Exchange sets up committee to improve its governance.
- **March 23:** Big Board nominates Citigroup Chairman Sanford I. Weill to be a "public" representative on its board; nomination is withdrawn after objections from regulators.
- **March 26:** SEC Chairman William Donaldson sends letter to NYSE asking for corporate-governance overhaul.
- **April 28:** Government announces $1.4 billion settlement in dispute over Wall Street analysts' conflicts of interest.
- **May 7:** The Wall Street Journal discloses NYSE Chairman Dick Grasso's pay and retirement package of $80 million to $100 million.
- **June 5:** Grasso is reappointed chairman.
- **Aug. 27:** Board discloses Grasso's $139.5 million retirement package.
- **Sept. 2:** Donaldson asks Big Board for details of Grasso's pay.
- **Sept. 9:** After special board meeting, NYSE discloses additional $48 million in retirement pay, which Grasso forgoes.
- **Sept. 16:** Four top pension funds call on Grasso to resign.
- **Sept. 17:** After emergency board meeting, Grasso resigns.

Dick Grasso
Getty Images

A Host of Challenges

■ **Weakened NYSE goes on without a ferocious, familiar advocate... C1**
■ **How much more money will Dick Grasso walk away with?.......... C1**

fundamental issues facing the exchange. Mr. Grasso was a forceful proponent of the Big Board's 211-year-old auction system—where every trade still passes through at least one live trader on the NYSE floor—despite a host of technological improvements. He has favored the Big Board's position as a secretive club run by Wall Street insiders—and has had his pay set by directors whose firms Mr. Grasso regulates. In 1999, he scotched plans for the exchange to go public, which some traders say could help the NYSE better compete with rivals. And Mr. Grasso has argued that the Big Board, to operate effectively, needs to remain both a market and a regulator. Skeptics see conflicts inherent in that arrangement.

Now all those issues are in play. Indeed, Mr. Grasso's ouster could force historic governance changes on the Big Board, reducing the power of industry insiders to rule the NYSE. And it could even put more pressure on the NYSE—and Wall Street, more broadly—to dilute or give up its self-regulatory powers. That would be a

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Catch My Drift? Driving Daredevils Now Skate on Rubber

Hitting the Skids Is the Point In Sport for Car Crazy; A Star Without a License

By Norihiko Shirouzu And Sholnn Freeman

IRWINDALE, Calif.—Things weren't looking so good for drifter Ken Gushi. He had just smacked a wall, damaging his Nissan 240SX. His father was tired of all the crashing.

Trying to shake a case of nerves, the 16-year-old Mr. Gushi forced a smile for the cameras and the crowd. "I'm cool," he said. "It's all good." He still had another heat to drive in an event that on Aug. 31 officially brought big-time drifting to the U.S.

Mr. Gushi doesn't even have his driver's license yet. But he's a rising star in

Wesley Allison

A drifter *in action*

drifting, a sport in which drivers intentionally put their cars into sideways skids on curves. "My friends all talk about girls all the time," Mr. Gushi says. "All I dream about is drifting."

Drifting, which got its start on the twisty mountain roads of back-country Japan, hopped the Pacific and over the years has found a following among car-crazy teenagers in Southern California. Today, the sport attracts tens of thousands of fans to its competitions both in Japan and the U.S. Some car makers even think the sport might lead to a resurgence of the small rear-wheel-drive cars the drifters prefer.

Drifting began in the early 1980s with a Japanese race-car driver named Keiichi Tsuchiya. Mr. Tsuchiya, who was in his 20s, started experimenting with drifting and practiced it on curvy roads deep in the mountains near his hometown. He says he was perfecting his ability to not spin out on curves in car races. And when he did start winning races, in 1983 and 1984, rivals took notice and copied his drifting moves.

Away from the circuits, Mr. Tsuchiya, known in Japan—and now in

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Tight-Knit Culture Will Help Shape Big Board's Future

By Ianthe Jeanne Dugan

Just past 3:30 on a frenetic Friday at the New York Stock Exchange, 3,000 brokers and clerks received a signal to convene the "33333 Club."

"Whoop!" a trader called as he rushed across the floor. "Whoop! Whoop!"

Thousands of pairs of eyes watched the synchronized clocks on their computer screens. At exactly 3:33 and 33 seconds, the entire floor cried out in unison: "Whoooooooo!"

This weekly routine is part of an extraordinary culture that has been evolving since the Big Board's founding by 24 blue-blooded brokers under a buttonwood tree on Wall Street in 1792. The brotherhood—a tightly knit, aggressive group of traders—has stuck together through wars, market downturns and crashes.

With yesterday's resignation of Big Board chief Dick Grasso, the exchange faces a sweeping debate over its future. But the brotherhood amounts to a formidable force that any successor will be hard-pressed to budge.

"The New York Stock Exchange is a city within a city, with its own rules and bylaws," says Gail Pankey, who gave up her seat—one of the few ever held by an African-American woman—in 2001 after 30 years. "The boys pull together and protect them-

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In a Shift, Schröder Says Germany Is Ready to Help U.S. Rebuild Iraq

By Frederick Kempe And Marc Champion

BERLIN—German Chancellor Gerhard Schröder said his nation is ready to assist American-led efforts to rebuild and democratize Iraq no matter what happens with a United Nations resolution now being negotiated. The chancellor's comments could mark a turning point in U.S.-German relations, which have been strained by his opposition to the war to oust Saddam Hussein.

While Mr. Schröder said Berlin wouldn't provide any funding, he said that Germany was prepared to help train Iraqi police and military personnel and to work on various infrastructure projects.

"Those who favored the war—and that doesn't mean just the U.S. but also Great Britain and other European countries—as well as those who for considerable reasons opposed it, must now all accept their common responsibility," Mr. Schröder said in an interview with The Wall Street Journal and the German financial daily Handelsblatt. Berlin's willingness to help "exists totally independently of the resolution," which the U.S. has proposed to encourage other countries to contribute funds and troops. Any country staying on the sidelines, he added, "is making a mistake."

In the interview in his Berlin office, which lasted more than an hour, Mr. Schröder was combative and confident. While he chose words carefully, he was unapologetic about his opposition to the Iraq war. "Nobody disputes that there have been differences over Iraq ... but we should look ahead now," he said.

The chancellor's remarks come as the shape of the occupation in Iraq appears to be changing swiftly. U.S. military officials are now saying they plan to gradually pull U.S. troops out of Iraq's major cities over the next three months and turn over much of the day-to-day policing to Iraqis (see related article on page A3).

His words also mark a potential breakthrough in trans-Atlantic relations after a troubled year that began with Mr. Schröder's narrow re-election last September, when he campaigned against U.S. plans for a military "adventure" in Iraq. He subsequently said Germany wouldn't support military action, regardless of whether the U.N. approved it. A low point came when one of his cabinet ministers compared President Bush's tactics with those of Adolf Hitler.

The two men have spoken rarely since. One German diplomat sees Mr. Schröder's comments now as part of a carefully orchestrated "mating dance" between the two leaders that will culminate in a meeting Tuesday in New York.

U.S. and German officials say things could easily get off track again. U.S. officials are watching today's Franco-German summit for any comments Mr. Schröder may make or agree to on Iraq as he stands alongside French President Jacques Chirac.

U.S. and German diplomats agree that

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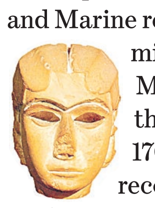
INSIDE TODAY'S JOURNAL

The Truth on Iraqi Treasures



An ex-prosecutor, classical scholar and Marine reservist puts the relics missing from the Iraq Museum at 10,000 (not the widely reported 170,000), reports many recoveries and finds evidence of an inside job. Leisure & Arts, Page D6

Jumping Out of Windows

Recent virus and worm attacks against Microsoft programs may prompt companies to move some PCs to other operating systems. B1

Clark and the Business Of Battling Terror

The new presidential hopeful calls himself the candidate best qualified to fight terrorism. As a business-man, he has applied his expertise to help high-tech companies profit from the battle. A4

The Tax Clock Is Ticking

The new law is changing many year-end tax strategies, so waiting for winter could freeze you out of gains, Tom Herman says. Tax Report, D1

Burning Issue: Piracy Lite

Hollywood's new villain runs a one-man illegal show, with a stack of DVD burners in his back room and a cell-phone for new orders. And he's hard to stop. B1

Bringing Down the Spouse

Living with an Atkins dieter has its perils: The low-carb but calorie-rich foods can bump up your cholesterol and send your partner's bad breath to EPA-alert levels. D1

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Grasso Quits Big Board Amid Furor Over Pay

Continued From First Page

big blow for the securities business.

In his eight years as chairman and chief executive, Mr. Grasso steered the exchange through the rise of competition from Nasdaq and electronic-communications networks. He did that by grafting new technology onto the old system, while maintaining one of the last human-dominated exchanges in the world. Mr. Grasso also has brought in new stock listings, kept NYSE market share high and marketed the exchange effectively.

But he became a casualty of the public's revulsion over 1990s-style corporate excess. He was paid like a big-time Wall Street chief executive, rather than a regulator. The National Association of Securities Dealers, by contrast, pays its CEO about $2 million a year. And Securities and Exchange Commission Chairman William Donaldson—whose total annual pay when he served as Big Board chairman in the early 1990s was about $1.5 million—now makes $142,500 a year.

Mr. Grasso's pay package—he received more than $30 million in 2001 alone—also became a flash point because it came amid a weak market that squeezed many NYSE members. Mr. Grasso pushed the exchange to computerize some of its operations, so that some orders could be routed around brokers. That resulted in slashed commissions at a time when broker paychecks were already being hurt by the market slump.

Some floor traders were livid when Mr. Grasso's pay was disclosed because they had been asked to pay a total of more than $80 million in new fees since 2001 for technological improvements and regulation at the exchange. And the pay disclosures came on the heels of a continuing NYSE investigation into the practices of the floor's elite "specialists," which match buyers and sellers of stocks. The exchange is examining whether some specialists stepped between valid buyers and sellers of stock to make trading profiting for themselves, rather than for investors. The specialists say they have done nothing wrong.

Special Meeting

Yesterday, at a two-hour special board meeting, NYSE directors voted 13 to 7 in favor of Mr. Grasso's resignation, according to a director. Among those who voted for Mr. Grasso to leave were several powerful Wall Street chiefs, including Henry Paulson Jr. of Goldman Sachs, Philip Purcell of Morgan Stanley and William Harrison of J.P. Morgan Chase, according to the director. Mr. Harrison kicked off the conference call, arguing that the integrity of the exchange was damaged and couldn't recover. Several of Mr. Grasso's supporters rallied around him. One director argued that the entire NYSE board should quit, and that Mr. Grasso should stay (see related articles on page C1).

"For the past 36 years I have had the honor and privilege of working for what I believe is the greatest equities market in the world," Mr. Grasso said in a statement issued late yesterday. "Today, I shared with the board of directors in a conference call that, with the deepest reluctance and if the board so desired, I would submit my resignation."

Even before Mr. Grasso's ouster, some NYSE insiders were pressing for change. Some Big Board directors, under pressure from regulators, now are preparing to propose changes to how the exchange's board operates. These include barring the chairman from having input into the nomination of new directors. The preliminary proposals are scheduled to be discussed by the NYSE's special committee on governance at a meeting set for Sept. 29 and are expected to be presented to the full board three days later.

Some NYSE seat owners, frustrated over disclosure and governance at the exchange, are pushing for the Big Board to consider an initial public offering of its own shares. That would resurrect a popular idea that Mr. Grasso killed four years ago without ever publicly making his reasons clear.

The Big Board IPO plan will be aired at a special exchange-member meeting scheduled for today. The NYSE is owned by 1,366 people and institutions that hold "seats," at the exchange. The members, or their representatives, work on the exchange floor in one of two capacities: Traders buy and sell stock for themselves or for customers. Specialists also may trade for themselves, but they have an obligation to ensure the market's smooth functioning by buying stock when others want to sell, and buyers aren't stepping forward.

It was the governance issues raised by Mr. Grasso's pay package that took center stage in recent weeks. Critics from a number of the Big Board's constituencies were aghast that a regulator could be paid so much—and have his pay set by those whom he regulates.

On the NYSE floor, traders were circulating petitions, agitating for new blood in the exchange's boardroom and calling for Mr. Grasso to step down. They were angry that their fees had risen in the years Mr. Grasso received his lofty pay. Some NYSE directors, upset at not knowing the full size of his retirement nest egg, were quietly discussing whether to ask him to leave.

In Washington, the SEC's Mr. Donaldson, a former Big Board colleague, was crying foul over the exchange's governance. The pair are old rivals, dating back to 1990, when Mr. Grasso was passed over for the NYSE's top job, which went to Mr. Donaldson instead. For the next four years, Mr. Grasso privately campaigned to succeed Mr. Donaldson, according to a director who was there at the time. In 1995, Mr. Grasso persuaded the exchange's board that he should take over. Now, Mr. Donaldson was in a position to criticize the man who helped maneuver him out of a cherished Big Board role.

Yesterday, Joe Lieberman, the Democratic presidential contender and senator from Connecticut, called on Mr. Grasso to leave. "Instead of setting an example of ethical leadership for the market he oversees, Mr. Grasso's behavior has shaken the faith of investors and the foundation of the stock exchange," the senator said. Another Democratic presidential hopeful, Sen. John Edwards of North Carolina, also said Mr. Grasso should resign.

For weeks, Mr. Grasso, who has declined repeated interview requests, hung tough. And until earlier this week, some at the Big Board believed he would be able to survive the storm. An adept politician, Mr. Grasso wielded significant influence on the NYSE floor, as well as at major securities firms, which he regulated. Despite its aches and pains, the NYSE remains the most prestigious exchange around.

In recent years, however, dissent has mounted on the trading floor, as some smaller firms got pinched by the bear market and saw technological changes eat into flow of orders. These firms also saw their profits squeezed when the exchange switched to decimalization, or trading in penny increments, instead of 12.5-cent increments. At the same time, members had no idea how much money Mr. Grasso was accumulating in his own pay package.

His highest point as exchange chief came after the horror of Sept. 11, which tore a hole in lower Manhattan's financial district. Markets were shuttered. Sleeping nights on the couch in his office, Mr. Grasso worked to ensure that his trading floor and the brokerage firms connected to it could begin trading again on Sept. 17. Joined by Sen. Hillary Clinton and New York Governor George Pataki that morning, Mr. Grasso recast himself in a more political light. He adopted a patriotic tone in exchange advertising, displaying an enormous American flag over the NYSE's Broad Street entrance and on the Big Board's 2002 annual report.

But as the months went by, attitudes toward Mr. Grasso shifted. Many exchange members were outraged to learn that he accepted a $5 million bonus for his work in the wake of Sept. 11. It was that special award that lifted his pay for 2001 to more than $30 million, nearly equaling the net income of the entire exchange.

This year, things got more rocky. The exchange was embarrassed late in March when an attempt to nominate Citigroup Inc. Chairman Sanford I. Weill as a director representing public shareholders on the board was foiled. Critics said it was preposterous to appoint Mr. Weill after his company had just paid $400 million to settle government allegations that its stock analysts issued misleading research to investors. Mr. Weill withdrew his name.

Soon after, Mr. Donaldson, the SEC chairman, asked the Big Board to begin a review of its own corporate-governance practices. Then the Wall Street Journal disclosed that the NYSE had launched its investigation of specialist firms.

Mr. Grasso went on the defensive. In an interview on CNBC, he said any such trading infractions were akin to "jaywalking," not "mass murder." But investors and some board members were concerned. And when the Journal disclosed in May the existence of Mr. Grasso's pay-and-retirement package, some floor traders and directors became more restive.

In a compensation-committee meeting around this time, new members Henry Paulson of Goldman Sachs and James Cayne, chairman and CEO of Bear Stearns Cos., gathered with the group's other directors to review Mr. Grasso's contract. The two directors were privately incredulous at the size of Mr. Grasso's retirement package, according to people familiar with their thinking. But his 1999 contract guaranteed him the $139.5 million, which he will get to keep.

But the board was split on whether to draw up a new pay pact—Mr. Grasso recently had been re-elected to another term as NYSE chief—and whether to disclose the details of the old one. In an August board meeting, Mr. Grasso argued that he didn't think "it was wise" to proceed with a new pay agreement, according to minutes. But director Laurence Fink, chairman and CEO of BlackRock Inc. argued that the NYSE should provide Mr. Grasso with a new pay pact and release it to the public, according to minutes. The board decided to wait.

Regulators in Washington soon stepped in. On Sept. 2, Mr. Donaldson wrote a strongly worded letter to H. Carl McCall, the former New York State Comptroller who had been appointed compensation-committee chairman in June. In the letter, Mr. Donaldson demanded that the NYSE provide a detailed accounting of its decision to approve Mr. Grasso's pay package, saying it "raises serious questions regarding the effectiveness of the NYSE's current governance structure." A week later, NYSE directors dialed into a conference call to discuss when and how Mr. McCall should respond to the SEC's information request.

Bombshell

Then, a bombshell: Mr. McCall told directors that in addition to the $139.5 million, Mr. Grasso was entitled to another $48 million in deferred pay over the next four years.

A number of directors were taken aback. One director urged Mr. Grasso to give back the $140 million, a person familiar with the matter says. Mr. Grasso argued that to return the money would invalidate the process by which it had been awarded. Several directors countered that they were willing to call a vote to keep Mr. Grasso from receiving the $48 million, even though they knew the move would be disruptive, directors say.

Mr. Grasso stepped off the call, telling directors he needed some time to confer with his advisers, including well known Wall Street lawyer Martin Lipton, a partner at Wachtell Lipton Rosen & Katz, according to those who were on the call.

Ten minutes later, according to several directors with knowledge of the call, Mr. Grasso returned to say he thought he should give up the money. The directors voted unanimously to support him.

The NYSE announced the additional $48 million on Sept. 9, and Mr. Grasso's decision to forgo it. But divisions in the board persisted. An exchange spokesman asked NYSE compensation-committee members to stand behind Mr. Grasso in the news conference that day. But several balked, leaving Mr. Grasso and Mr. McCall to face the media alone.

Meanwhile, critics erupted. Several floor traders who own NYSE membership seats put together a petition calling for new management, a highly unusual move. One trader, Patrick J. Collins III, made an unusual appearance before a Sept. 5 meeting of the NYSE's special committee on governance. According to a transcript of his remarks, he told directors that many brokers on the floor were "shocked" when they heard about Mr. Grasso's pay and retirement package. "One board member thought it was a typo," Mr. Collins told them. "I think the trust of the membership has been damaged. I think the public trust has been shattered. You men held very important jobs. Did you ever make this amount of money?"

The exchange, in a statement, said, "Every member of course is entitled to express his or her viewpoint, and the special committee on governance invited members and a variety of other constituents to offer their views" during the governance-committee meeting.

The pressure kept mounting. The Journal disclosed this week that several NYSE directors—including Mr. Paulson, Morgan Stanley's Mr. Purcell, Credit Suisse Group Co-Chairman John Mack, and J.P. Morgan Chase's Mr. Harrison—privately were discussing options to quell the furor, including calling for Mr. Grasso's resignation.

In Sacramento, Calif., state treasurer Philip Angelides says he began agitating to take action. On Friday, he called Sean Harrigan, president of the California Public Employees' Retirement System. "Sean, I want to speak up on this issue," he said. "I'm inclined to write a letter, and I want to know if you'll join me." Mr. Harrigan agreed.

Two days later, Mr. Angelides drafted a letter to Mr. Grasso and the board. The pay disclosures, he wrote, had "set back critical efforts to restore the public's faith in our financial system." On Tuesday, Messrs. Angelides and Harrigan, along with Jack Ehnes, CEO of the California State Teachers' Retirement System, publicly asked for Mr. Grasso's resignation. They were joined in short order by officials in New York, North Carolina and Iowa.

Until yesterday, Mr. Grasso tried to put on a brave face. He still made public appearances, including ringing the opening bell, a tradition he has popularized since becoming chairman. On Tuesday morning, he was flanked on the balcony overlooking the trading floor by senior executives of Shinhan Financial, Korea's largest financial-services company. A smiling Mr. Grasso then joined the group on the floor, where they observed the day's first trade.

Question of the Day: *Do you agree with the NYSE board's decision to seek Dick Grasso's resignation? Visit* **WSJ.com/Question** *to vote.*