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The New Year arrived with all the hope and promise of a brand new day. As the first quarter of 2010 comes to a close, we find ourselves still questioning the economic recovery. The capital markets, while improved, still lack the lending activity we would like to see. However, consumer spending and retail markets are showing signs of life and people are looking for new ways to operate more efficiently.



2010 will be an important year for all of us. At the end of the first quarter, we are excited by the prospects this year continues to hold and are pleased to witness real improvement in not only our domestic offices, but across our European partners' offices as well. We have faith that we truly are on the path to recovery. It may be a slow and bumpy path, but we are moving forward and will likely continue to do so across all sectors.

Due to the ongoing questions about the viability of the capital markets, Pearson Partners International's most recent Spotlight Breakfast Series covered the topic of capital and financing in the current economy. Read the full summary of the discussion in this newsletter to learn what our panel participants shared about opportunities and challenges at play during this critical time.

We remain committed to working with our clients across the globe as we drive this road to recovery together. All of us here at Pearson Partners International wish you the best and hope you continue to find our newsletter valuable and informative.

Respectfully,

A handwritten signature in blue ink that reads "William P. Rowe" with a small superscript "4" to the right.

Bill Rowe





From L to R: Manny Fernandez, Laura Wright, John Dragovits, Victor Schmerbeck, Robert Davis

Capital and Financing: Opportunities and Challenges in the Current Economy

After enduring a brutal recession, America's businesses are eagerly anticipating an economic turnaround. While many indicators are trending toward recovery – including a loosening of the credit markets for many industries – companies are taking things one step at a time, focusing on cost reduction and fortifying their internal infrastructure however they can.

This Spotlight Series event highlighted the current state of the capital markets and their impact on various industries.

Our esteemed panel members include:

- ❑ **Robert D. Davis**, Executive Vice President – Finance, Chief Financial Officer and Treasurer, Rent-A-Center
- ❑ **John F. Dragovits**, Executive Vice President and Chief Financial Officer, Parkland Health & Hospital System
- ❑ **Manny Fernandez**, Managing Partner, Dallas office, KPMG L.L.P.
- ❑ **Victor J. Schmerbeck**, Managing Director, Corporate Finance, FirstSouthwest Company
- ❑ **Laura Wright**, Senior Vice President Finance and Chief Financial Officer, Southwest Airlines Co.

The State of the Union

Pearson Partners International has noted that companies are looking for chief financial officers with treasury and capital management experience, rather than solely experience making deals. This reflects a general focus and flight to quality deals in M&A transactions completed.

While the media is giving more exposure to economic challenges rather than opportunities, the fact is that opportunities are out there. Between 2006 and 2008, about \$800 billion was raised by private equity, but only about 20 percent of that was put to work. That leaves a lot of money and a lot of deals on the table – and more deals are being done now than at the same time last year.

One unknown still lingers in the market as we prepare for some \$1.4 trillion of maturities coming due through 2014 in commercial mortgage obligations. To date there has not been enough velocity in the space to identify trends, so companies are watching and will make note of the desire and capacity to fund the investments.

Access to Capital

While capital is increasingly becoming available, lending standards are high, and so is the cost of capital. The trend is toward people being willing to accept less risk for better credit. Mergers and acquisitions are on the rise, and many companies are working to restructure their debt. Those companies that have performed well despite the recession are the ones most likely to get capital or be part of M&A deals.

For airlines, which rely heavily on the U.S. public markets for capital,

funding is freely available now. For the first six months of 2009, the public markets were paralyzed, leaving airlines to rely on their own cash. By June, the market had opened up again, and an incredible amount of money has since been raised. Many companies across industries found active and willing participants in the sovereign wealth funds and markets, especially in the Asian countries.

For small businesses, access to capital has been extremely limited, creating opportunities for larger and better-funded operations to grow. Large businesses have also benefited from product deflation, as wholesale costs have dropped dramatically over the past year to 18 months.

Build America Bonds that provide a tax credit to non-profits have opened up the bond market and created liquidity to fund infrastructure projects for cities and municipalities.

Looking Inward

While many industry leaders do feel that a turnaround is imminent, some companies are taking a conservative approach to strategic planning by assuming that the recovery will be slow and that employment numbers will not bounce back quickly.

Meanwhile, good management teams and good companies are using the downtime from this recession to enhance productivity and growth. Smart companies are examining their overall cost structure and looking for ways to optimize the revenue stream, become more efficient and eliminate waste throughout the entire organization. While that's good for business, companies trying to do more with less aren't yet making room for the unemployed.

Economic recovery hinges on consumer spending and the housing market. As housing starts begin to rise, more consumers will be able to afford homes – and all the expenses that come along with home ownership – creating a lifetime of consumer spending. At the same time, consumers that have been hoarding their money since the recession began are now cautiously saving a little less and spending a little more.

Save the Date – Q2 2010 Spotlight Breakfast Series

Mark your calendars now for our next Spotlight Breakfast Series scheduled for June 8, 2010. Details and invitations will be extended in May.



Expert's Corner – Linda A. Wilkins

Compensation and benefits challenges in the recent economy

Our March 2010 meeting of the DFW HR Roundtable featured a lively and informative discussion of trends in executive compensation and benefits. Our guest speaker was Linda Wilkins, a board certified tax attorney with over 25 years of experience in executive compensation strategies, benefit plans, employment contracts and long-term incentive plans. We later sat down with Linda for an in-depth discussion of some of the trends she and her peers are seeing in executive compensation and benefits.

For more information about the DFW HR Roundtable and how you can participate in upcoming meetings, see the article on page 5 of this newsletter.

PPI: What trends are you seeing in executive compensation and benefit packages? What do you foresee as we climb out of the recession and funds are loosened up?

LW: It has become apparent, especially in the financial services industry, that short-term incentives can definitely increase risk to a company's financial survival so companies are looking more towards long-term incentives. There's a move toward tying executives to owning stock for an extended holding period; often until retirement. Thus the executives have "skin in the game" and can then focus on longer term performance for the company. Furthermore, companies are implementing "clawback" policies which require an executive to repay short-term bonuses that were earned based on financial performance if at a later time financial statements are found to have been erroneous or need to be restated. For example, we had a whole spate of backdating of stock options which resulted in a lot of public companies having to restate their financials; with a lot of additional financial accounting charges. So we are seeing clawbacks now incorporated into compensation programs.

Many of my clients have eliminated their 401(k) matching contributions. I see companies starting to think about a timeline for re-implementing a match. Most have not reached that point yet, but I think in the recovery we will get there.

Increasing costs of group medical plans have led more employers to look at cost containment strategies like wellness programs, encouraging employees to have better management of their chronic health conditions. Companies are starting to put in some corresponding penalties, so if employees don't comply with the recommended medical management, they face higher deductibles and higher premiums.

PPI: How do you boost morale and retain employees when business performance is such that bonuses aren't being paid and stock is at a low point?

LW: You might award stock options. If your share price is really depressed, there's a lot of potential upside there that can be a good retention tool. I think stock appreciation rights are better than stock options because they don't dilute your equity pool in your plan as much.

PPI: What are companies doing today in their severance packages?

LW: Public companies are under pressure to justify every element of post-termination pay because of new SEC disclosure rules. There is a trend toward employment agreements with sunset provisions. Rich severance packages are no longer going to be offered on an evergreen basis.

For a recruited executive, he or she may have limited severance protection for, say, two years but after that the contract would be renegotiated and there would be no guarantee of ongoing severance. By that point, the individual should have begun to accumulate some value through long-term incentives and wouldn't really need the protection of the severance pay.

PPI: How are board members being compensated for the big increase in work and risk today in the face of declining compensation budgets?

LW: Often a significant amount of directors' pay is in the form of restricted stock awards with a very short vesting schedule. Audit and Compensation committee chairs take on considerable additional work and risk, so we are seeing significant cash retainers for them.

PPI: What about CEO compensation and say on pay?

LW: Pending legislation will likely be enacted requiring that companies provide shareholders an annual vote on executive compensation beginning in 2011. Although it is an advisory vote only, we think that it will encourage boards to be even more transparent in disclosing how they make pay decisions. The say on pay vote is generally a vote on the entire compensation program. It is not a specific vote on the CEO's compensation or on a specific element of the program.

(Expert's Corner, continued on page 4)

(Expert's Corner, continued from page 3)

We don't believe that Congress will pass laws to cap executive pay, but do expect significantly higher tax rates imposed upon "excessive" pay, such as over \$400,000. Then we'll probably see more compensation in the form of equity awards or deferred compensation.

PPI: What trends do you see with private companies?

LW: There's a significant difference in equity opportunities in private companies. A lot of private companies will compensate based on appreciation in business value, which is like synthetic equity. Frequently these arrangements are tied to an exit strategy for the company where the payments are triggered on a liquidity event. Often the top executives are given significant equity and are asked to invest their own funds in an acquisition, so private equity firms are really a different animal when it comes to equity participation. Often a percentage, say 4-10%, of the business is allocated to key management executives. This gives them a huge performance incentive and golden handcuffs as well.

I think many private companies do not recognize the need for good corporate governance and formalized documentation of their executive compensation

programs. For example, private companies frequently recruit key people through offer letters, which are often the only written document to describe the individual's compensation and equity sharing arrangement. When stock options are not properly documented and formally granted, there is significant risk of tax liabilities and unrecognized compensation expense. There should be a stronger focus on governance and thorough documentation just like there has been in public companies.

PPI: How do human resources executives stay current on all of these issues, in the face of so many economic, political and legislation changes, and protect themselves and their organization?

LW: Staying current is a huge challenge. The HR function oversees so many areas that are not only highly technical and costly, but fraught with potential liability. HR executives should have outside advisors, participate in trade associations and staff adequately with individuals who have expertise in recruiting, compensation and employee benefits. In today's world you have to take advantage of all kinds of opportunities for learning experiences. Attending educational events such as this DFW HR Roundtable and other trade association meetings is a great way to stay on top of all of that. You can focus on current trends and be alert to areas where you're going to incur risks and liabilities for your organization.

PPI: How would you advise individual executives on negotiating employment and severance agreements?

LW: If it's a public company, they should ask to see current executive contracts, which are publicly available, to see what is in the realm of possibility. They should tally what they're walking away from with their current employer. The new employer needs to compensate for the loss of that package.

Many companies do not have employment agreements but have severance or change of control agreements.

Executives should review the terms regarding termination "for cause" and "not for cause." There should be a clear definition of cause so the executive can't be terminated based on some subjective performance issue. There should be no section 409A rules violations with regard to the design of severance pay. If an employment is for a fixed term with renewal clauses, it should specify whether the company's non-renewal of the contract allows the executive to terminate for good reason and be paid severance. First and foremost, executives should get good legal advice. It's important to work with counsel that knows what's typical in these agreements.

"...short-term incentives can definitely increase risk to a company's financial survival so companies are looking more towards long-term incentives..."

Coaching Service Helps Executive Explore New Career Paths

When John Lefferts accepted a buyout package from his role as divisional president of AXA Advisors L.L.C., the financial planning firm where he had worked in various executive roles, including President and CEO, for 26 years, he wasn't certain what lay ahead. In a year that was challenging for the economy and particularly the financial services business, Lefferts began a sabbatical of sorts and observed the wreckage from the sidelines.

"It was a frightening prospect," he says. "I had been working nonstop my whole life, and for the first time in my life, I was off the hamster wheel."

As part of his buyout package, Lefferts was given a budget to secure coaching services to assist with his career transition. He interviewed several executive coaching firms and chose Executive Career Consultants (ECC), a Pearson Partners International company.

"What caused me to choose Executive Career Consultants was their CEO Bob Pearson, who was focused and very driven and committed to executive career coaching," Lefferts says. "Lisa Thompson, their Director of Professional Services, took a personal interest in me. I did not see that with the other companies. Lisa had what I needed – the interest, the time and the expertise – and Bob had the background."

Because Lefferts' job search began at a time when the economy was frozen, companies were downsizing, the stock market had dropped and executive-level job openings were few and far between, he didn't see many options.

"At first, I was focused on finding a role similar to the one I had left," he says. "Lisa had me rewrite my resume, do lots of drills, and really rethink what I wanted. She had me recraft my thinking entirely. We did a whole new bio, history, future plan, and more. I started to think maybe my future would be at a startup, not the previous paradigm."

Throughout his search, ECC has helped him stay focused on finding his next business role. With Thompson's help, Lefferts began exploring opportunities in the private equity realm while continuing to seek opportunities at other large financial services firms, spending about 80 percent of a normal work day on the job hunt.

"When you're unemployed, the day is totally open-ended," Lefferts notes. "It's very helpful to have someone help you to stay on task, with deadlines and objectives, and to stay motivated and accountable, and Executive Career Consultants fills that role for me."

But even more important, he says, ECC helped him discover himself and become open to career possibilities he had never explored.

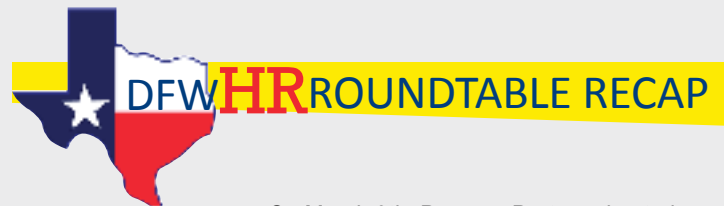
"It isn't so much that they did things for me, rather that Executive Career Consultants empowered me, made me focus, and gave me clarity," he says. "They helped me to figure out for myself my own answer to what is next. They gave me the motivation and the power to evaluate what I want to do, what I don't want, where I fit, what my timeline is, and what my goals are. They enabled me to look at myself in the mirror; to take off the blinders. I still carry my own ball and do my own thing, but Bob and Lisa keep me accountable to myself."

We appreciate your feedback.
Please let us know how we
may improve the quarterly
Searchlight newsletter
or our service to you.

2010 Bright Spot: Smart Grid

Smart Grid is lighting up the market this year. Broadly defined, Smart Grid describes an advanced electricity transmission and distribution network that uses digital information and control technology to improve performance. Smart Meters are the devices that collect and transmit usage information. New start-ups and established players are developing applications and solutions to drive business value and ROI leveraging Smart Grid technology. The federal government is actively creating standards organization and investing in pilot projects.

Pearson Partners is just concluding a market study and executive search in the Smart Grid area. Led by Pearson Partners Vice President Renee Baker Arrington, we talked to top players from the leading companies in this emerging market. We developed a solid understanding of the different categories of companies in this space and the unique profiles needed for senior level talent.



On March 9th, Pearson Partners hosted the bi-monthly meeting of the DFW HR Roundtable, a Dallas-area group of senior corporate HR executives that meet in person and online to discuss challenges and opportunities in the human resources discipline. In past meetings the group has discussed a variety of topics ranging from technology in recruiting to board issues to impending legislation. This month the group explored the human resources issues that can exist in a financial crisis. The discussion featured guest speaker Linda Wilkins, an attorney who specializes in compensation and benefits issues for corporations and individual executives. For a more in-depth look at what we discussed, please see our interview with Linda on page 3 of this newsletter. The next meeting is scheduled for May 11th, 2010. To join the DFW HR Roundtable and receive an invitation to upcoming events, email info@dfwhr.org.

Pearson Partners' Profile:

Sandy Boyce, Principal

What was your first job, and what was it like?

My first job out of college was owning and managing a retail lacrosse store in Columbus, Ohio. Having been involved in the game since I was little, it was a great transition to the business world, while still being involved every day with kids that were learning the game. Learning the retail world and the challenges of owning a business taught me a lot.

How and when did you get started in the executive search business?

I started in the executive search business in 2005 with Pearson Partners International. Our managing partner, Bill Rowe, grew up in Baltimore, and we attended the same school. Our paths crossed when I moved to Dallas and just reached out to network. A few weeks later, I was working for PPI.

Why did you feel this was the right field for you?

The most important thing to me was the people I was working with. PPI gave me the opportunity to learn the business and really show me what it was like. I really enjoy figuring out the puzzle that can help an individual and an organization, so this gives me the opportunity to do that every day.

What are some highlights of your career so far? Tell us about your best days or proudest moments.

My biggest day was about six months into my career, when I landed my first search. I was really still learning the business and had no expectations of getting search work, but got three searches in quick order. It gave me a tremendous amount of confidence. The proudest moment was probably completing my first assignment on my own.

What is your philosophy or approach when it comes to client relationships?

I like to get to know my client on a personal level, as well as getting to know the internal workings of the organization. A lot of time is spent on trying to figure out what fits and doesn't, and getting to know a successful senior executive in the organization helps gauge what will be the right fit.

How have you seen Pearson Partners grow and change over your tenure?

When I started, we were a very small firm of eight to nine people that were very generalist in our approach. We have almost doubled in size and have really adapted to the environment we are in today. We have seen many firms cut people or go out of business, and we have been able to adapt to our clients' needs and keep our team intact.

How has today's challenging job market affected PPI's business? How has the company adapted?

PPI has really done a good job of adjusting to the job market and working in different niches. In our expansion of the team, we have brought on associates with very specific lines of business. That has given us great expertise in markets that have been very relevant, while still maintaining a generalist background in order to serve a broad range of clients.

What do you think is the key to PPI's repeat business with top companies?

Getting to know the company is what sets us apart. We understand the needs of our clients and work to know who they are. Because we have fewer clients than our big competitors, each client really impacts our business. So our clients understand that we have their best interests in mind and that we want to develop long-term relationships that will help build the organization from the board level down into key contributor roles.

What do you like to do outside of the office?

A lot of my time is spent working with the sport of lacrosse. I currently officiate from the youth level to the college level, and have coached in the past. I am on a board for an organization called BRIDGE Lacrosse Dallas, which starts lacrosse programs in under-privileged areas of South Dallas, as well as a few other boards for my alma mater in Baltimore. Personally, I play tennis and golf.

What motto do you live by?

Unless you're the lead dog, the view never changes.

If you had to make a career change tomorrow, what job would you choose, and why?

I would probably be an athletic director at a major university or a general manager of a pro sports team.



Announcements & News

Pearson Partners Sponsors Life Sciences Roundtable in Philadelphia

What are the factors driving innovation in the life sciences forward, and what are those holding it back? On February 2nd, four panelists tackled these topics during an Innovation Spotlight breakfast sponsored by Pearson Partners, Health Leaders InterStudy/ Decision Resources and the University Science Center. Panelists included Dave Holveck, CEO of Endo Pharmaceuticals, Dr. Steven Romano, MD, Vice President, Medical Affairs Head, Global Primary Care Business Unit at Pfizer, Inc. and Paul Keckley, Executive Director of Deloitte Center of Health Solutions. Held at the University Science Center in Philadelphia, the discussion was moderated by Chris Satullo, Executive Director of News and Civic Dialogue at WHYY-Philadelphia. The panel concluded that while there are several factors in play for life sciences companies, including the current focus on the healthcare system and the approach to risk, the common theme was economics. In fact, the major element underpinning innovation is a fiscal one, said David Holveck. Read a full summary of the discussion at www.sciencecenter.org to learn more about innovation and commercialization models for life sciences.

Featured Open Position

We are currently conducting a search for:
Chief Operating Officer for Pegasus
Logistics Group

Remembering Mike Gleason

Pearson Partners expresses our deepest condolences to the family of H. Michael Gleason, who passed away on January 4th. Mike was a longtime friend to many of us at Pearson Partners, and was a valuable member of our Board of Directors. Mike's career was in management consulting, with executive positions at Coopers & Lybrand, EDS, Behrman Capital, and most recently his own firm, Greater Yield. Over the last twenty years Mike has given so much to us personally and professionally. We will miss him greatly.



Search Spotlight

We're pleased to announce a few of our recent placements:

- COO, Health & Wellness, Hooper Holmes Inc.
- Managing Director, UHY Advisors TX, LLC
- Audit Manager, Sproles Woodard LLP
- Director of Marketing, Salad Creations
- Partner, Ernst & Young LLP

About Pearson Partners International

Find, Retain & Develop Top Notch Talent

Pearson Partners International helps clients build world-class management teams. As a full service retained executive search firm, we secure top talent for some of the most challenging positions in the marketplace. Our track record of success has made us a trusted resource for loyal clients including Fortune 1000 companies, private equity firms and emerging businesses. Our search capabilities are complemented by a professional development, assessment and coaching practice to ensure executives reach their highest possible performance.

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