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COMPANY INTERVIEW

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CRIST Associates



PETER D. CRIST is the Founder and Chairman of Crist Associates. Mr. Crist is entering his 27th year of executive recruiting. Beginning in 1977 with Russell Reynolds Associates in Chicago, he helped build and run one of the most successful senior level recruiting offices in the country, becoming co-Head of North America and a member of the Executive Committee for the firm by the time he was in his late 30s. While at RRA, he also helped launch the Board Practice. In 1995, after 18 years with Russell Reynolds, he launched Crist Partners in

Chicago. Focusing on CFO and other C-level searches, Crist Partners quickly became a national boutique, with clients such as Eastman Kodak Company, CVS Corporation, Ecolab Incorporated, Whirlpool Corporation, Levi Strauss & Company, The St. Paul Companies, and Wm. Wrigley Jr. Company. Korn/Ferry acquired Crist Partners in 1999, and Mr. Crist was named Vice Chairman of the firm and Chairman of the Global Board Services Practice. In January 2003, Mr. Crist launched Crist Associates to return to the art of search. He was profiled in the 1995 and 1992 editions of Career Makers and the 1998 edition of The Global 200. He is Chairman of the Compensation Committee and a member of the Nominating Committee and Executive Committee of the Board of Directors of Wintrust Financial Corporation (NASDAQ: WTFC). He is a member of the Board of Directors of Northwestern Memorial Corporation and Hinsdale Bank & Trust. He received an AB degree from Brown University in 1974.

SECTOR – STAFFING & OUTSOURCING SERVICES

(WAJ607) TWST: Can we start off with a historical overview of Crist Associates?

Mr. Crist: Crist Associates was launched in January 2003. It is actually my second launch. I spent 18 years with Russell Reynolds, and in 1995 launched Crist Partners in Chicago, which we built up to a national boutique. It was acquired in 1999 by Korn/Ferry, at which point I was named Vice Chairman and head of the Global Board Services Practice. I signed a three-year contract, which concluded a year ago, and then we launched Crist Associates in January.

TWST: Can you tell us about your business model?

Mr. Crist: Our approach is to position ourselves in the market to conduct searches for what we call the “C” practice, which is CEO, COO and CFO searches for mid-cap to large companies, and Board of Director work. We actually have, in our first year, garnered projects with companies in San Francisco, Dallas, Washington, New York, Chicago, Indianapolis, Minneapolis, Dayton and Cincinnati. So we have launched a national program, which actually is more reflective of the market, I think, than anything else. If you think about what we do, we have a minimum fee of \$200,000.

Investors Brief

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Associate with Crist Associates

Our Business Model

- We accept a limited number of engagements, allowing the client to receive 100 percent of our time. By limiting our engagements, we ensure maximum attention to our clients and full market access.
- As large firms continue to expand, their ability to recruit into existing client organizations becomes exponentially more restrictive. The pressure placed on large firms to grow revenue leads to inappropriate strategic decisions.
- We have no internal “reserve” conflicts with candidates. Large search firms continuously struggle with issues centered on which recruiter “owns” which candidates.
- By focusing on only the most senior level searches, we are able to serve as trusted advisors to the most sought after talent. We know and proactively track top diversity prospects. People want to be known to us.
- We only accept outstanding searches for outstanding companies.
- Our research and tracking capabilities are second to none.

Our Services

Our offerings consist of three fundamental services with a number of variations:

- Traditional search is clearly our forte, whether it is CEO, COO, CFO, or Board level work. We include two research-based products as part of our Board search fee: Board Assessment™ and Extended Board Relationships™.
- Our Assessment and Benchmarking product is intended to provide our clients with a clear understanding of how their existing talent measures against other comparable data points (i.e. direct competitors, analogous businesses, Academy companies, etc.). This can be in conjunction with a traditional search (where the preference is to bring in outside talent) or as a standalone product (which can be done on a totally confidential basis). These projects include assessments of all internal prospects, the creation of a vehicle to compare and contrast the qualities of the internal versus external candidates, and, ultimately, the introduction of viable external alternatives.
- Finally, we have already been called into situations where a company has retained a large search firm for a CEO project, but has a concern regarding the “off limits” obstacles presented by the large firm. As a result, our Hedge Product basically offers another cut at the market (discreet, quiet, and effective).

Our Portfolio of Success

Over the past several years, Peter Crist has successfully completed CEO, CFO, COO, or Board of Director engagements for the following clients. He has also completed significant Chief Investment Officer searches.

- ACE Limited
- Allstate Corporation
- American Express Company
- Archipelago, LLC
- Arthur J. Gallagher & Co.
- Ball Corporation
- Boeing Company
- Cardinal Health, Inc.
- Centex Corporation
- Chicago Board of Trade
- CNA Financial Corporation
- CVS Corporation
- Duke University
- Eastman Kodak Company
- Ecolab Inc.
- Federal Reserve Bank of Chicago
- George K. Baum & Company
- Hanover Compressor Company
- Hartford Financial Services Group, Inc.
- Honeywell International, Inc.
- Household International, Inc.
- Imation Corporation
- Insurance Auto Auctions, Inc.
- John Nuveen Company
- Kimball International, Inc.
- McDonald’s Corporation
- McKesson Corporation
- Motorola, Inc.
- Northwestern University
- Playboy Enterprises, Inc.
- Praxair, Inc.
- Robert W. Baird & Company, Inc.
- ServiceMaster Company
- Shell Oil Products US
- St. Paul Companies, Inc.
- Toronto-Dominion Bank
- University of Chicago
- Whirlpool Corporation

So a search handled by us is usually for at least a \$600,000 position. The standard pricing in my business is a third of something. So it's for a \$600,000 or up role, and our searches have averaged about \$1 million per position, some of those coming in above that line. Honestly, our whole business model is to be viewed as an alternative to the three or four largest search firms out there, Spencer Stuart, Heidrick & Struggles, Russell Reynolds, Korn/Ferry. That puts us in a zone of competition, if you will, with the big firms, but as an alternative, we have the ability to be more nimble and we have the ability to access a greater pool of talent, which clients like a lot.

"Our approach is to position ourselves in the market to conduct searches for what we call the 'C' practice, which is CEO, COO and CFO searches for mid-cap to large companies, and Board of Director work"

TWST: Do you have a big competitive advantage over the other firms in the sector?

Mr. Crist: Yes. In that regard, we do.

TWST: In any other ways, how do you compete with them?

Mr. Crist: The greatest is, when you think of our business model, it is a recruiter-centric business model. The resources of the firm are devoted to having a person on the case, if you will. If clients want to know who is going to do the work, who is going to be the point on the search. They want to make sure it's not flipped to some young associate. So large service firms compete against boutiques, whether it's my space or someone else's space, on the same venue. They have great resources and they are large and global. Our competitive edge is the fact that we are small and nimble, and we devote all of our resources to every

search we do. Clients get full attention by the principals of the firm.

TWST: You recently completed a report on the volatility of movement at the CEO, COO and CFO levels. Would you tell us about it?

Mr. Crist: Every summer, we've had several associates from great universities come and work with us. I just think it is a wonderful exposure for the young people and it's great fun for us, to tell you the truth. This year, we had an associate from Northwestern and an associate from Notre Dame join us to work on a study we developed. During the spring, we noticed that a number of companies were not operating with Chief Operating Officers. In fact, we were doing a big search and were bumping into mid-cap to large-cap companies and noticing that many of them did not have COOs. Companies had recently promoted people into the CEO chair and didn't backfill into the COO chair. In companies like Procter & Gamble, General Motors, and other large ones, it was easy to see. Well, that prompted the study, which was basically a three-fold study in the Fortune 500 and S&P 500. Go back six or seven years and determine how many companies used to run with COOs and don't today. Number two: try to establish a volatility figure for the number of changes that have occurred in the CEO and CFO chair. And then number three, if there was change, did companies promote from within or go outside? Well, these young associates really worked on this and they were really terrific young associates. They really delved into this.

The most telling issue is number one, the COO position is diminished now in terms of the numbers of companies that have it. Whether they want to have it or not, we can't determine, but there are fewer companies today with the COO chair. And then number two, very high volatility

for the CFO chair over that seven-year time frame for the Fortune 500 and S&P 500. And when all those CFOs were changing out, companies tended to go to the outside versus promote within. Those two elements, we call it the vanishing COO and the highly volatile CFO chair, those two aspects of the study were what really resonated with many people. The former, because they could see where the COO was disappearing, and many companies acknowledged this. And number two, with the CFO, lots of people felt the reasons companies went outside during the volatile times were because the CFO chair has changed and the role has become more important. We believe companies use the CFO role as a bench strength position. In other words, they can rationalize going outside to look for good talent in that category. Also, the CFO chair is becoming much more of a succession play now. You actually see more and more CEOs today who have come up through the CFO chair. So we think all of that combines to not only create volatility, but also get companies into this mindset of, gosh, if we're going to change out our CFO, why don't we look outside and see if we can acquire better talent? And the final thing we think is happening is nature abhors a vacuum. Where classically it was a CEO flanked by a COO and a CFO, when you remove the COO from that setup, that little pyramid, then what happens, the CFO becomes even stronger in a sense of filling the vacuum of the COO which has gone away. So now, all of a sudden, the CFO is getting even more significant in the eyes of many companies.

TWST: What do you see as some of the challenges facing Crist Associates at the moment?

Mr. Crist: The long-term challenge is, how much do you bulk up in response to client requests? We have done in 2003 the CEO of American Express' insurance business. Right now, we're

working on the CEO of the ICI in Washington, the mutual fund group, which is a very visible project. We just completed the CFO of McKesson in San Francisco. We're working on a Board project with Centex in Texas. So you can see, we get into very eclectic, broad leadership roles. The issue honestly is when a client comes and says, "You just did a great job on that project, we want you to do more." Our ability to juggle our resources and respond to client requests, basically what it does, it forces you to think about bulking up your firm. And you bulk up the service firm either by adding more people, more partners, or you bulk it up by creating ventures or joint ventures or partnerships with other firms. So, 2004 will be a strategic time for us. If we choose to bulk up, it would be in response to, what is, honestly at times, overwhelming client requests.

"Our business model really works very well in either an up or down cycle. We are busy in an up cycle with growth companies. We are busy in a down cycle with companies in trouble. Change occurs at the CEO, COO and CFO level at both times."

TWST: Are you are looking for some joint ventures?

Mr. Crist: Looking at joint ventures, looking at other partnering arrangements, and then the last thing is, how do you take this brand up higher? In other words, if we acknowledge in the first year we've been successful beyond our expectations, which we have, how do you then work the brand to an even more positive level, and that gets you into this conversation about bulking up.

TWST: How has the sluggish economy affected the company?

Mr. Crist: As counterintuitive as this may sound, at the high end, when you are doing searches in the C space, you are very busy in down

cycles. In a down cycle at the high end there is lots of volatility. That's one of the reasons why we launched that study in the summer, to validate the fact that there is lots of change at the high end in a down cycle compared to an up cycle. We went back to 1995 and came forward, so you went through both an up cycle and a down cycle in that study. Well, if you looked at the charts, the volatility actually increased in the down cycle. So as counterintuitive as that may be, our business model really works very well in either an up or down cycle. We are busy in an up cycle with growth companies. We are busy in a down cycle with companies in trouble. Change occurs at the CEO, COO and CFO level at both times. Going forward, I have yet to see any indicator that would suggest we are not in the most inefficient market in the world. In other words, this identifying, attracting and retaining senior talent, not the middle, not the low end, but the senior talent, human capital, it's the most inefficient market in the world, and that's why we are always busy.

TWST: What about the strategic direction of Crist Associates? What do you see in the next two to four years?

Mr. Crist: It's a great question, because 2004 is going to be devoted to figuring out the strategy in both bulking up and market positioning. We talked about the former, but in the latter, in my world, you either work a horizontal axis, which means you're prepared to recruit for any kind of company, whether it's financial services, technology, operating businesses, consumer companies on a horizontal axis at the top, or you work a very deep vertical and you become, for instance, the best healthcare recruiter in the world or the best consumer recruiter in the world. I don't care for the vertical silos. I want to work along the horizontal axis at the top, which means our business model is

reflective of what I want personally in terms of intellectual stimulation, which is working with all kinds of companies, seeing all kinds of leaders, seeing all kinds of terrific business models at the highest level across the top.

So what we do, our whole business model is positioned to track the top 10 people of the Fortune 500 and the S&P 500. We have profiles on everyone in those companies, so that if a retail company came to me and said, we want to go outside our space and find someone in a services business to be the COO or CFO, we can tell them where to go. McKesson, the San Francisco-based \$40 billion healthcare company, came and said, we'd like to go outside our space to find our next CFO. We recruited the CFO of American Airlines, a terrific player who brings terrific skills to an industry that, again, on the surface, you might say, "What's healthcare got to do with airlines?" But when you look at their business model, tight margins, technology driven company, services orientation, it all matched exceedingly well. Being creative is where I think the market is going to be.

TWST: Can you give us some background about yourself and some of the key people at Crist Associates?

Mr. Crist: This is my 27th year of doing this. I'm from a very small town in Ohio, second of nine children, parents did not go to college, received a full scholarship to go to Brown University in Rhode Island, came out of there and joined Russell Reynolds in 1977 when I was 24 as a researcher. Went on to be one of the youngest partners, ran the Midwest, became co-Head of North America when I was 39. And then when I was 43, I launched Crist Partners in Chicago in 1995. At that point, Jackie Boyd, who is a Partner, started Crist Partners with me and later on in that cycle of Crist Partners, Scott Simmons, Partner in charge of

all of our research activities, came on stream as well. And then we went through the acquisition of Korn/Ferry; we all stayed together. Michelle Szoldatits joined us from Russell Reynolds in 2003. So we are a small team that's been together a long time and has a long history of search work.

TWST: What is the company doing at the moment to get its message out to the rest of corporate America?

Mr. Crist: In my world, the message to corporate America tends to come via the searches I do. In other words, great recruiters are known by great projects, and you're known by your client base. So, if you look at the great recruiters in my space like Tom Neff at Spencer Stuart and Gerry Roche at Heidrick & Struggles, they are known by the searches they do. That's what we are trying to do as well.

TWST: What would you say is the key issue at the moment affecting the recruiting industry?

Mr. Crist: In fact, there's an overcapacity in the industry and the overcapacity within the industry tends to be in the mid-market and low end of the recruiting world. If you are looking at my world, there are three tiers. One is the high end, which is very inefficient; we talked about that. The

middle is that \$150,000 to \$300,000 position, the division VP of Marketing, things of that nature. The large firms receive a great deal of revenue from the middle. It's the bottom that's being cannibalized right now by the Monster boards of the world that really impact the historic recruiting world. Now, companies are much more prone to either have their own hiring Website or to use the Monster board or analogous kinds of offerings, and that's basically cannibalizing from the bottom up into the middle of the market. Because the large firms' business models are being cannibalized at both the high-end game, where the boutiques can be so effective, and the middle, where they have the bulk of their resources, challenges exist going forward.

TWST: Thank you (JM)

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