

HEIDRICK & STRUGGLES INTERNATIONAL INC

Form 10-Q

August 06, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008**

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from            to**

Commission File Number 0-25837

**HEIDRICK & STRUGGLES INTERNATIONAL, INC.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or Other Jurisdiction of

**36-2681268**  
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

**233 South Wacker Drive-Suite 4200**

**Chicago, Illinois**

**60606-6303**

(Address of Principal Executive Offices)

**(312) 496-1200**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of August 1, 2008, there were 16,469,414 shares of the Company's common stock outstanding.

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**HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements  
HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share amounts)**

	<b>June 30, 2008 (Unaudited)</b>	<b>December 31, 2007</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 146,074	\$ 260,580
Short-term investments		22,275
Accounts receivable, less allowance for doubtful accounts of \$5,010 and \$4,262 at June 30, 2008 and December 31, 2007, respectively	115,828	82,240
Other receivables	7,072	5,868
Prepaid expenses	21,159	15,026
Other current assets	1,537	1,419
Income taxes recoverable, net	4,039	
Deferred income taxes, net	15,211	15,290
Total current assets	310,920	402,698
<b>Non-current assets:</b>		
Property and equipment, net	19,615	18,730
Restricted cash	9,806	9,826
Assets designated for retirement and pension plans	28,106	26,067
Investments	9,831	7,832
Other non-current assets	6,002	6,296
Goodwill	92,223	84,217
Other intangible assets, net	15,621	15,363
Deferred income taxes, net	40,986	45,855
Total non-current assets	222,190	214,186
<b>Total assets</b>	<b>\$ 533,110</b>	<b>\$ 616,884</b>

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

**Table of Contents****HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share amounts)

	June 30, 2008 (Unaudited)	December 31, 2007
<b>Current liabilities:</b>		
Accounts payable	\$ 8,251	\$ 8,699
Accrued salaries and employee benefits	113,763	197,954
Other current liabilities	43,856	44,376
Current portion of accrued restructuring charges	2,741	2,813
Income taxes payable, net		995
<b>Total current liabilities</b>	<b>168,611</b>	<b>254,837</b>
<b>Non-current liabilities:</b>		
Retirement and pension plans	33,271	28,831
Non-current portion of accrued restructuring charges	5,439	6,735
Other non-current liabilities	24,276	16,681
<b>Total non-current liabilities</b>	<b>62,986</b>	<b>52,247</b>
<b>Total liabilities</b>	<b>231,597</b>	<b>307,084</b>
<b>Commitments and contingencies (Note 14)</b>		
<b>Stockholders equity:</b>		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, no shares issued at June 30, 2008 and December 31, 2007		
Common stock, \$.01 par value, 100,000,000 shares authorized, 19,585,777 shares issued, 16,465,355 and 17,272,005 shares outstanding at June 30, 2008 and December 31, 2007, respectively	196	196
Treasury stock at cost, 3,120,422 and 2,313,772 shares at June 30, 2008 and December 31, 2007, respectively	(108,307)	(88,871)
Additional paid in capital	264,820	273,287
Retained earnings	116,062	100,624
Accumulated other comprehensive income	28,742	24,564
<b>Total stockholders equity</b>	<b>301,513</b>	<b>309,800</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 533,110</b>	<b>\$ 616,884</b>

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

**Table of Contents****HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Revenue:</b>				
Revenue before reimbursements (net revenue)	\$ 169,518	\$ 160,053	\$ 322,657	\$ 303,179
Reimbursements	8,297	7,308	15,099	13,758
Total revenue	177,815	167,361	337,756	316,937
<b>Operating expenses:</b>				
Salaries and employee benefits	117,318	110,686	227,924	209,045
General and administrative expenses	33,533	29,855	65,190	58,295
Reimbursed expenses	8,297	7,308	15,099	13,758
Total operating expenses	159,148	147,849	308,213	281,098
<b>Operating income</b>	<b>18,667</b>	<b>19,512</b>	<b>29,543</b>	<b>35,839</b>
<b>Non-operating income (expense):</b>				
Interest income	942	1,627	3,000	3,503
Interest expense	(37)	(8)	(54)	(46)
Other, net	982	384	(105)	558
Net non-operating income	1,887	2,003	2,841	4,015
<b>Income before income taxes</b>	<b>20,554</b>	<b>21,515</b>	<b>32,384</b>	<b>39,854</b>
Provision for income taxes	7,810	496	12,572	8,759
<b>Net income</b>	<b>\$ 12,744</b>	<b>\$ 21,019</b>	<b>\$ 19,812</b>	<b>\$ 31,095</b>
Basic weighted average common shares outstanding	16,884	18,034	17,090	17,939
Diluted weighted average common shares outstanding	17,672	18,981	18,066	19,002
Basic earnings per common share	\$ 0.75	\$ 1.17	\$ 1.16	\$ 1.73
Diluted earnings per common share	\$ 0.72	\$ 1.11	\$ 1.10	\$ 1.64
Cash dividends paid per share	\$ 0.13	\$	\$ 0.26	\$

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND****COMPREHENSIVE INCOME**

(In thousands)

(Unaudited)

	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
<b>Balance at December 31, 2007</b>	19,586	\$ 196	2,314	\$ (88,871)	\$ 273,287	\$ 100,624	\$ 24,564	\$ 309,800
Net income						19,812		19,812
Other comprehensive income:								
Unrealized loss on available for sale investments							(361)	(361)
Foreign currency translation adjustment							4,539	4,539
Other comprehensive income						19,812	4,178	23,990
Treasury and common stock transactions:								
Issuance of restricted stock units previously classified as liabilities					10,536			10,536
Stock-based compensation					11,793			11,793
Exercise of stock options			(44)	1,643	(1,063)			580
Vesting of restricted stock units, net of tax withholdings			(509)	19,701	(27,952)			(8,251)
Purchases of treasury stock			1,368	(41,088)				(41,088)
Issuance of treasury stock			(9)	308	(70)			238
Cash dividends (\$0.13 per share)						(4,374)		(4,374)
Tax charges related to stock-based compensation					(1,711)			(1,711)
<b>Balance at June 30, 2008</b>	<b>19,586</b>	<b>\$ 196</b>	<b>3,120</b>	<b>\$ (108,307)</b>	<b>\$ 264,820</b>	<b>\$ 116,062</b>	<b>\$ 28,742</b>	<b>\$ 301,513</b>

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

**Table of Contents****HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 19,812	\$ 31,095
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	5,360	5,516
Deferred income taxes	4,975	(8,444)
Net realized and unrealized losses on equity and warrant portfolio	2	123
Stock-based compensation expense, net	12,569	18,047
Cash paid for restructuring charges	(1,405)	(2,047)
Changes in assets and liabilities:		
Trade and other receivables	(33,783)	(33,554)
Accounts payable	361	682
Accrued expenses	(76,963)	(41,888)
Income taxes recoverable, net	(7,093)	(1,847)
Other assets and liabilities, net	(7,493)	(6,097)
<b>Net cash used in operating activities</b>	<b>(83,658)</b>	<b>(38,414)</b>
<b>Cash flows from investing activities:</b>		
Restricted cash	138	(1,236)
Acquisition of businesses, net of cash acquired	(11,045)	(1,261)
Capital expenditures	(5,168)	(3,010)
Proceeds from sales of equity securities	426	305
Payments to consultants related to sales of equity securities	(169)	(124)
Proceeds from sales of short-term investments	22,275	81,325
Purchases of short-term investments		(78,725)
Proceeds from sale of a business	1,559	
Other, net	8	17
<b>Net cash provided by (used in) investing activities</b>	<b>8,024</b>	<b>(2,709)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from stock options exercised	580	16,983
Purchases of treasury stock	(41,987)	(24,887)
Excess tax benefits related to stock-based compensation		7,571
Cash dividends paid	(4,481)	
Other	128	293
<b>Net cash used in financing activities</b>	<b>(45,760)</b>	<b>(40)</b>
<b>Effect of foreign currency exchange rates on cash and cash equivalents</b>	<b>6,888</b>	<b>2,917</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(114,506)</b>	<b>(38,246)</b>
Cash and cash equivalents at beginning of period	260,580	147,440



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Cash and cash equivalents at end of period	\$ 146,074	\$ 109,194
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**Supplemental schedule of noncash financing activities:**

Beginning of period	Accrued treasury stock purchases	\$ 1,605	\$
Treasury stock purchases		41,088	25,907
Cash paid for treasury stock purchases		(41,987)	(24,887)

Accrued treasury stock purchases	\$ 706	\$ 1,020
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The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

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**HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(All tables in thousands, except per share amounts)**

**(Unaudited)**

**1. Basis of Presentation of Interim Financial Information**

The accompanying unaudited condensed consolidated financial statements of Heidrick & Struggles International, Inc., and subsidiaries (the Company), included herein have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates. In the opinion of management, the financial statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly the Company's financial position, results of operations, stockholders' equity and cash flows. These financial statements and notes are to be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC on February 28, 2008.

**2. Summary of Significant Accounting Policies**

A complete listing of the Company's significant accounting policies is discussed in Note 2, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC on February 28, 2008.

*Reclassifications*

Certain amounts in previously issued financial statements have been reclassified to conform to the current year presentation.

*Recently Adopted Financial Accounting Standards*

On January 1, 2008, the Company adopted SFAS No. 157 *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. See Note 5, *Fair Value Measurements*, for disclosures required by SFAS No. 157. In February 2008, the FASB released FASB Staff Position (FSP FAS 157-2 *Effective Date of FASB Statement No. 157*), which delayed the effective date of SFAS No. 157 for nonfinancial assets, such as goodwill and long-lived assets, and nonfinancial liabilities, subject to certain exceptions, until January 1, 2009. The adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on the Company's financial condition or results of operations.

On January 1, 2008, the Company adopted SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of SFAS No. 115* (SFAS No. 159). SFAS No. 159 permits entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. The adoption of SFAS No. 159 did not have a material impact on the Company's financial condition or results of operations.

*Recently Issued Financial Accounting Standards*

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) requires that all business combinations be accounted for by applying the acquisition method. Under the acquisition method, the acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, and any contingent consideration and contractual contingencies, as a whole, at their fair values as of the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax



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uncertainties after the measurement period be recorded against income tax expense. The adoption of SFAS No. 141(R) will change the Company's accounting treatment for business combinations on a prospective basis beginning on January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51 (SFAS No. 160)". SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 160 is effective for the Company on a prospective basis for business combinations with an acquisition date beginning as of January 1, 2009. Currently the Company does not have any minority interests.

**3. Stock-Based Compensation**

The Company accounts for stock-based compensation in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123(R)).

A summary of information with respect to share-based compensation is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Total share-based compensation expense included in net income	\$ 5,919	\$ 10,488	\$ 12,569	\$ 18,047
Income tax benefit to share-based compensation included in net income	2,368	4,090	5,027	7,038
<b>Restricted Stock Units</b>				

Restricted stock unit activity for the six months ended June 30, 2008:

	Number of Restricted Stock Units	Weighted- Average Grant-date Fair Value
<b>Outstanding on December 31, 2007</b>	1,634,736	\$ 40.23
Granted	1,165,140	\$ 33.23
Vested and converted to common stock	(736,964)	\$ 39.01
Forfeited	(83,174)	\$ 38.67
<b>Outstanding on June 30, 2008</b>	1,979,738	\$ 36.63

As of June 30, 2008, there was \$34.7 million of pre-tax total restricted stock unit compensation expense related to nonvested awards not yet recognized, which is expected to be recognized over a weighted average period of 2.3 years.

**Table of Contents****Non-qualified Stock Options**

Non-qualified stock option activity for the six months ended June 30, 2008:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
<b>Outstanding on December 31, 2007</b>	714,895	\$ 30.35	2.4	\$ 10,395
Granted	141,952	\$ 33.54		
Exercised	(43,516)	\$ 13.32		
Expired	(8,393)	\$ 35.31		
Forfeited	(19,168)	\$ 42.55		
<b>Outstanding on June 30, 2008</b>	785,770	\$ 31.51	3.2	\$ 11,564
<b>Exercisable on June 30, 2008</b>	582,646	\$ 29.96	1.7	\$ 9,294

As of June 30, 2008, there was \$1.9 million of pre-tax total stock option compensation expense related to nonvested awards not yet recognized, which is expected to be recognized over a weighted average period of 1.3 years.

Additional information pertaining to non-qualified stock options:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Weighted average grant-date fair value of stock options granted	\$ 8.90	\$ 14.00	\$ 10.42	\$ 13.73
Total grant-date fair value of stock options vested	515	1,741	1,501	2,596
Total intrinsic value of stock options exercised	261	9,746	830	16,403

**4. Restricted Cash**

The Company had deposits of \$8.3 million at June 30, 2008 and December 31, 2007, respectively, in a U.S dollar bank account in support of a 5.7 million (equivalent to \$8.9 million at June 30, 2008) bank guarantee related to an ongoing tax audit in a European country. The Company earns a market rate of interest on this cash deposit, which is reviewed quarterly. The bank guarantee is determined based upon the tax audit assessment of 4.3 million (equivalent to \$6.7 million at June 30, 2008) plus post-assessment accrued interest on that assessment amount. See Note 14, *Commitments and Contingencies*, for a discussion of the tax audit.

Based on the restrictions of the use of the pledged cash and the terms of the guarantee, the Company has reported these funds as restricted cash in non-current assets on the Condensed Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007. At this time, the Company is not able to determine when a settlement will be reached.

Restricted cash also includes \$1.5 million at June 30, 2008 and December 31, 2007, respectively, in support of lease guarantees. In accordance with the terms of the lease agreements, the cash balances are restricted through the term of the lease agreements which extend through 2013.

**5. Fair Value Measurements**

On January 1, 2008, the Company adopted SFAS No. 157 for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. Fair value is defined by SFAS 157 as the price that



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would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Substantially all of the Company's financial assets that are measured at fair value on a recurring basis are measured using Level 1 inputs.

## **6. Acquisitions**

### *Advantage Recruitment (Thailand) Ltd.*

During the first quarter of 2008, the Company acquired Advantage Recruitment (Thailand) Ltd. ( Advantage Recruitment ) pursuant to an asset purchase for \$0.2 million, which was funded from existing cash. The Company recorded \$0.2 million of goodwill related to the acquisition. The previous owner, who is now a Heidrick & Struggles employee, is eligible to receive earnout payments up to a total of \$0.2 million.

### *Schwab Enterprise, LLC*

On April 9, 2008, the Company acquired Schwab Enterprise, LLC ( Schwab ), an executive search boutique firm in the United States, specializing in the hedge fund sector. The Company acquired Schwab for \$1.6 million plus \$0.1 million of capitalized acquisition costs pursuant to a stock purchase, which was funded from existing cash. In addition, the Company accrued \$0.2 million related to working capital adjustments that will be paid in the third quarter of 2008. As part of the purchase price, the Company acquired \$1.0 million of assets and assumed \$0.4 million of liabilities. The Company also recorded \$0.3 million of identifiable intangible assets and \$1.0 million of goodwill. The previous owners of Schwab, who are now Heidrick & Struggles employees, will be eligible to receive earnout payments of up to \$4.4 million based on the achievement of certain revenue metrics in 2009, 2010, and 2011 such that total cash consideration paid to the sellers will not exceed \$6.0 million. This acquisition is not considered material to the Company, and, therefore, pro-forma information has not been presented. See Note 7, *Goodwill and Other Intangible Assets*, for a discussion of the acquired assets.

### *IronHill Partners, LLC*

On May 23, 2008, the Company acquired IronHill Partners, LLC ( IronHill ), an executive search boutique firm in the United States, specializing in the venture capital sector with a particular focus on technology companies. The Company acquired IronHill for \$4.5 million plus \$0.2 million of capitalized acquisition costs pursuant to an asset purchase, which was funded from existing cash. In addition, the Company accrued \$0.1 million related to working capital adjustments that will be paid in the third quarter of 2008. As part of the purchase price, the Company acquired \$0.5 million of assets and assumed \$0.1 million of liabilities. The Company also recorded \$0.8 million of identifiable intangible assets and \$3.6 million of goodwill based upon a preliminary third-party valuation. The previous owners of IronHill, who are now Heidrick & Struggles employees, will be eligible to receive earnout payments up to \$4.5 million based on the achievement of certain revenue metrics in 2009, 2010, and 2011 such that total cash consideration paid to the sellers will not exceed \$9.0 million. This acquisition is not considered material to the Company, and, therefore, pro-forma information has not been presented. See Note 7, *Goodwill and Other Intangible Assets*, for a discussion of the acquired assets.





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These acquisitions were accounted for using the purchase method of accounting for business combinations, and the results of operations of these entities have been included in the consolidated financial statements since their respective acquisition dates.

**7. Goodwill and Other Intangible Assets***Goodwill*

Changes in the carrying amount of goodwill by segment for the six months ended June 30, 2008 are as follows:

	Americas	Europe	Asia Pacific	Total
Balance at December 31, 2007	\$ 59,341	\$ 20,409	\$ 4,467	\$ 84,217
Advantage Recruitment acquisition			171	171
Schwab acquisition	1,048			1,048
IronHill acquisition	3,601			3,601
Highland Partners earnout	2,300	8	48	2,356
RentonJames earnout adjustment			(321)	(321)
Exchange rate fluctuations	(77)	1,244	(16)	1,151
Balance at June 30, 2008	\$ 66,213	\$ 21,661	\$ 4,349	\$ 92,223

Refer to Note 6, *Acquisitions*, for a description of the goodwill associated with the acquisitions of Advantage Recruitment, Schwab and IronHill.

In connection with the Company's 2006 acquisition of Highland Partners, Hudson Highland Group, Inc. is eligible to receive up to \$15.0 million in earnout payments based on the acquired consultants achieving certain revenue metrics in 2007 and 2008. The Company paid \$3.4 million of the earnout related to 2007 performance in April 2008 and has accrued \$2.4 million related to amounts earned from January 1, 2008 through June 30, 2008, which will be paid in the first quarter of 2009.

In connection with the Company's 2007 acquisition of RentonJames, the previous owners, who are now Heidrick & Struggles employees, are eligible to receive earnout payments up to a total of \$2.8 million based on achievement of certain revenue metrics in 2007, 2008 and 2009. The Company paid \$1.3 million of the earnout related to 2007 performance in June 2008.

The purchase price allocation and the resulting goodwill and identifiable intangible assets recorded at June 30, 2008 could change as a result of the finalization of purchase accounting adjustments and additional earnout amounts that may become payable based on performance within the respective earnout periods. The Company does not believe these changes, if any, would be material.

**Table of Contents***Other Intangible Assets*

The carrying amount of amortizable intangible assets and the related accumulated amortization are as follows:

	Weighted Average Life (in years)	June 30, 2008			December 31, 2007		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		Client relationships	14.2	\$ 24,351	\$ (10,220)	\$ 14,131	\$ 22,924
Candidate database	6.0	1,800	(525)	1,275	1,800	(375)	1,425
Other	3.7	264	(49)	215	175	(31)	144
Total intangible assets		\$ 26,415	\$ (10,794)	\$ 15,621	\$ 24,899	\$ (9,536)	\$ 15,363

During the second quarter of 2008, the Company recorded \$0.3 million of intangible assets in conjunction with the acquisition of Schwab, consisting entirely of client relationships amortized over 11 years. Additionally, the Company recorded \$0.8 million of intangible assets in conjunction with the acquisition of IronHill, consisting of client relationships of \$0.7 million amortized over 11 years, non-compete agreements of \$0.1 million amortized over three years and backlog of less than \$0.1 million amortized over one year.

Intangible amortization expense for the three months ended June 30, 2008 and 2007 was \$0.5 million and \$0.6 million, respectively. Intangible amortization expense for the six months ended June 30, 2008 and 2007 was \$1.1 million and \$1.2 million, respectively. The estimated intangible amortization expense is approximately \$2.2 million for fiscal years 2008 through 2009, \$2.0 million for fiscal year 2010, \$1.8 million for fiscal year 2011, and \$1.6 million for fiscal year 2012. These amounts are based on intangible assets recorded as of June 30, 2008 and actual amortization expense could differ from these estimates as a result of future acquisitions, finalization of purchase accounting adjustments, and other factors.

**8. Components of Net Periodic Benefit Cost**

The Company maintains a pension plan for certain employees in Germany. The pensions are individually fixed euro amounts that vary depending on the function and the eligible years of service of the employee.

The components of net periodic benefit cost are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Service cost	\$ 37	\$ 36	\$ 72	\$ 71
Interest cost	341	274	670	542
Amortization of net gain	(177)	(31)	(347)	(61)
Net periodic benefit cost	\$ 201	\$ 279	\$ 395	\$ 552

The pension benefits are fully reinsured through a group insurance contract with Victoria Lebensversicherung AG. The change in the fair value of these assets approximates the net periodic benefit cost for the three and six months ended June 30, 2008.

**Table of Contents****9. Basic and Diluted Earnings Per Common Share**

A reconciliation of the basic and diluted earnings per common share, and the shares used in the computation, is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	\$ 12,744	\$ 21,019	\$ 19,812	\$ 31,095
Weighted average common shares outstanding	16,884	18,034	17,090	17,939
Dilutive common shares	788	947	976	1,063
Weighted average diluted common shares outstanding	17,672	18,981	18,066	19,002
Basic earnings per common share	\$ 0.75	\$ 1.17	\$ 1.16	\$ 1.73
Diluted earnings per common share	\$ 0.72	\$ 1.11	\$ 1.10	\$ 1.64

Options to purchase 0.6 million shares of common stock that were outstanding at June 30, 2008 were not included in the respective computation of diluted earnings per share as the exercise prices of these options were greater than the average market price of the common shares.

**10. Restructuring Charges**

Changes in the accrual for restructuring charges for the six months ended June 30, 2008 are as follows:

<b>Accrual balance at December 31, 2007</b>	\$ 9,548
Cash payments	(1,405)
Exchange rate fluctuations	37
<b>Accrual balance at June 30, 2008</b>	\$ 8,180

The accrued restructuring charges as of June 30, 2008 relate to real estate leases, which require cash payments through the lease terms, reduced by sublease income, or until such time as lease negotiations with the lessor to terminate the lease are completed. Based on current estimates, the Company expects that cash outlays over the next twelve months related to restructuring charges accrued at June 30, 2008 will be \$2.7 million with the remainder payable over the remaining lease terms of the vacated properties, which extend through 2013.

**11. Income Taxes**

In determining the quarterly provision for income taxes, the Company uses an estimated annual effective tax rate based on expected annual income by jurisdiction, statutory tax rates, and tax planning opportunities available in the various jurisdictions in which the Company operates. The impact of discrete items is separately recognized in the quarter in which they occur.

In the second quarter of 2008, the Company reported income before taxes of \$20.6 million and recorded an income tax provision of \$7.8 million. The Company's effective tax rate for the second quarter of 2008 was 38.0%.

For the first six months of 2008, the Company reported income before taxes of \$32.4 million and recorded an income tax provision of \$12.6 million. The Company's effective tax rate for the six months ended June 30, 2008 was 38.8%.

In the second quarter of 2007, the Company reported income before taxes of \$21.5 million and recorded an income tax provision of \$0.5 million. The Company's effective tax rate for the second quarter of 2007 was 2.3%, which was significantly lower than the annual effective tax rate before discrete items of 41.7% as a result of releasing certain amounts of valuation allowance associated with foreign tax credits and the Company's ability to



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benefit from these credits in the future. The significant improvement in the financial performance of the Company's foreign branches allowed the Company to benefit from these foreign tax credits. These items resulted in a net tax benefit in the quarter of \$8.5 million.

For the first six months of 2007, the Company reported income before taxes of \$39.9 million and recorded an income tax provision of \$8.8 million. The Company's effective tax rate for the six months ended June 30, 2007 was 22.0%. This rate was lower than the annual effective tax rate before discrete items of 41.7% primarily due to the discrete items recorded in the second quarter of 2007 as discussed above.

**12. Segment Information**

The Company operates its executive search and leadership consulting services in three geographic regions: the Americas, which includes the United States, Canada, Mexico and Latin America; Europe, which includes the Middle East and Africa; and Asia Pacific.

For segment purposes, reimbursements of out-of-pocket expenses classified as revenue are reported separately and therefore are not included in the net revenue by geographic region. The Company believes that analyzing trends in revenue before reimbursements (net revenue) and analyzing operating expenses as a percentage of net revenue more appropriately reflects the Company's core operations.

The revenue, operating income, depreciation and amortization, and capital expenditures, by segment, are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Revenue:</b>				
Americas	\$ 87,002	\$ 88,204	\$ 164,339	\$ 171,603
Europe	53,344	52,475	106,210	95,030
Asia Pacific	29,172	19,374	52,108	36,546
Revenue before reimbursements (net revenue)	169,518	160,053	322,657	303,179
Reimbursements	8,297	7,308	15,099	13,758
Total	\$ 177,815	\$ 167,361	\$ 337,756	\$ 316,937
<b>Operating income:</b>				
Americas	\$ 12,558	\$ 19,421	\$ 24,282	\$ 36,089
Europe	7,680	7,385	12,941	11,184
Asia Pacific	6,619	5,199	9,341	9,578
Total regions	26,857	32,005	46,564	56,851
Corporate	(8,190)	(12,493)	(17,021)	(21,012)
Total	\$ 18,667	\$ 19,512	\$ 29,543	\$ 35,839

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
<b>Depreciation and amortization:</b>				
Americas	\$ 1,177	\$ 1,416	\$ 2,503	\$ 2,823
Europe	731	863	1,412	1,710
Asia Pacific	581	341	1,110	605
Total regions	2,489	2,620	5,025	5,138
Corporate	164	196	335	378
Total	\$ 2,653	\$ 2,816	\$ 5,360	\$ 5,516
<b>Capital expenditures:</b>				
Americas	\$ 975	\$ 333	\$ 1,802	\$ 1,133
Europe	292	363	1,303	556
Asia Pacific	349	397	1,916	1,321
Total regions	1,616	1,093	5,021	3,010
Corporate			147	
Total	\$ 1,616	\$ 1,093	\$ 5,168	\$ 3,010

The identifiable assets, and goodwill and other intangible assets, by segment, are as follows:

	June 30, 2008	December 31, 2007
<b>Identifiable assets:</b>		
Americas	\$ 217,148	\$ 199,854
Europe	167,086	188,030
Asia Pacific	75,484	82,059
Total regions	459,718	469,943
Corporate	73,392	146,941
Total	\$ 533,110	\$ 616,884
<b>Goodwill and other intangible assets, net:</b>		
Americas	\$ 77,093	\$ 69,941
Europe	25,684	24,428
Asia Pacific	5,067	5,211
Total	\$ 107,844	\$ 99,580

**13. Guarantees**

The Company has provided a bank guarantee to a European country's tax authority in the amount of the tax authority's audit assessment plus post-assessment interest as required by law. The amount of this bank guarantee is \$5.7 million (equivalent to \$8.9 million at June 30, 2008). The bank guarantee is determined based upon the tax audit assessment plus post-assessment accrued interest. See Note 4, *Restricted Cash*.

The Company has issued guarantees supporting the payment of obligations of certain subsidiaries in Europe and Asia Pacific for office leases. The guarantees were made to secure the respective lease agreements and are for the terms of the lease agreements, which extend through 2013.

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For each guarantee issued, should the subsidiary default on a lease payment, the Company would have to perform under the guarantee. The maximum amount of undiscounted payments the Company would be required to make in the event of default on all outstanding guarantees is approximately \$1.8 million as of June 30, 2008. No amount has been accrued for the Company's obligation under these guarantee arrangements as no event of default exists or is expected.

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### **14. Commitments and Contingencies**

#### *Litigation*

The Company has contingent liabilities from various pending claims and litigation matters arising in the ordinary course of the Company's business, some of which involve claims for damages that are substantial in amount. Some of these matters are covered by insurance. Although the Company's ultimate liability in these matters cannot be determined, based upon information currently available, the Company believes the ultimate resolution of such claims and litigation will not have a material adverse effect on its financial condition, results of operations or liquidity.

In September 2007, Whitney Group and Whitney Group Asia (collectively "Whitney Group") filed suit against the Company in the New York Supreme Court, New York County, seeking injunctive relief and damages relating to the resignation, and subsequent hiring by the Company, of certain Whitney Group employees based in Hong Kong. On December 19, 2007, the parties to the suit agreed to a settlement in principle and release of all claims, both asserted and unasserted. The parties are awaiting receipt of fully executed release documents.

#### *Contingencies*

During the fourth quarter of 2005, a European country commenced a tax audit for the years 2001 through 2004, including an examination of the Company's arrangement with professional service companies that provide consulting services to the Company. On November 24, 2006, the examining tax authority issued a final assessment in the amount of 4.3 million (equivalent to \$6.7 million at June 30, 2008). No penalty has been included in this assessment. This final assessment has been appealed by the Company, and the enforcement of the assessment has been suspended until a final determination of the appeal. The Company has provided a bank guarantee to the tax authority in the amount of the final assessment plus post-assessment interest as required by local law. See Note 4, *Restricted Cash* and Note 13, *Guarantees*. At this time, the Company believes that the likelihood of an unfavorable outcome is not probable and that the potential amount of any loss cannot be reasonably estimated. The Company also believes that the amount of a final assessment, if any, would not be material to the Company's financial condition.



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### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This Management's Discussion and Analysis of Financial Condition and Results of Operations as well as other sections of this quarterly report on Form 10-Q contain forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. The forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate, and management's beliefs and assumptions. Forward-looking statements may be identified by the use of words such as expects, anticipates, intends, plans, believes, seeks, estimates, projects, forecasts, and similar expressions. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, forecasted or implied in the forward-looking statements. Factors that may affect the outcome of the forward-looking statements include, among other things: our ability to attract and retain qualified executive search consultants; the condition of the economies in the United States, Europe, or elsewhere; social or political instability in markets where we operate; the impact of foreign currency exchange rate fluctuations; price competition; the ability to forecast, on a quarterly basis, variable compensation accruals that ultimately are determined based on the achievement of annual results; our ability to realize our tax loss carryforwards; the timing of a partial release or full reversal of deferred tax asset valuation allowance; the mix of profit or loss by country; an impairment of our goodwill and other intangible assets; and delays in the development and/or implementation of new technology and systems. For more information on the factors that could affect the outcome of forward-looking statements, refer to our Annual Report on Form 10-K for the year ended December 31, 2007 under Risk Factors in Item 1. We caution the reader that the list of factors may not be exhaustive. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.*

### **Executive Overview**

#### *Our Business*

We are a leading provider of executive search and leadership consulting services. We help our clients build leadership teams by facilitating the recruitment, management and deployment of senior executives for their executive management and board positions. Focusing on top-level services offers us several advantages that include access to, and influence with, key decision makers, increased potential for recurring search consulting engagements, higher fees per search, enhanced brand visibility, and global footprint, which create added barriers to entry for potential competitors. Working at the top of client organizations also allows us to attract and retain high-caliber consultants.

In addition to executive search, we provide a range of leadership consulting services to clients. These services include succession planning, top team effectiveness, executive assessment, talent management, executive development, and M&A human capital effectiveness.

We provide our services to a broad range of clients through the expertise of approximately 408 consultants located in major cities around the world. Our executive search services are provided on a retained basis. Revenue before reimbursements of out-of-pocket expenses ( net revenue ) consists of retainers and indirect expenses billed to clients. Typically, we are paid a retainer for our executive search services equal to approximately one-third of the estimated first year compensation for the position to be filled. In addition, if the actual compensation of a placed candidate exceeds the estimated compensation, we often are authorized to bill the client for one-third of the excess. Indirect expenses are calculated as a percentage of the retainer with certain dollar limits per search.

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### *Key Performance Indicators*

We manage and assess Heidrick & Struggles performance through various means, with the primary financial and operational measures including net revenue growth, operating income, operating margin, consultant headcount, new search confirmation trends, consultant productivity measured as revenue per consultant, and average fee per executive search.

Revenue growth is driven by a combination of additional consultants, an increase in executive search wins, higher consultant productivity and higher average fees per search or service. With the exception of compensation expense, incremental increases in revenue do not necessarily result in proportionate increases in costs, particularly operating and administrative expenses, thus potentially improving operating margins.

The number of consultants, confirmation trends, number of searches completed, productivity levels and the average fee per search will vary from quarter to quarter, affecting revenue growth and operating margin.

### *Our Compensation Model*

Our compensation model closely aligns the interests of our employees, our Company and our shareholders. At the consultant level, individuals are largely rewarded for their performance based on a system that directly ties their compensation to the amount of net revenue for which they are responsible. Credit towards the variable portion of a consultant's compensation is earned by generating net revenue for winning and for executing search work. Each quarter, we review and update the expected annual performance of all consultants and accrue variable compensation accordingly. The amount of variable compensation that is accrued for each consultant is based on a tiered payout model. The more net revenue that is generated by the consultant, the higher the percentage credited towards the consultant's variable compensation and thus accrued by the Company as expense. The mix of individual consultants who generate the revenue can significantly affect the total amount of compensation expense recorded and thus operating margins. This bonus is discretionary and is based on company-wide profitability targets approved by the Human Resources and Compensation Committee of the Board of Directors. As a result, the variable portion of compensation expense may fluctuate significantly from quarter to quarter.

In the first quarter of 2008, we changed the deferral arrangement of bonuses for all consultants and management globally. The portion of the bonus previously deferred into restricted stock units will now be deferred into cash payable ratably over a three-year period. A premium of 10% will continue to be applied to the bonus amount deferred. The portion of the bonus that will be deferred varies between 10% and 15% depending on the employee's level or position. The compensation expense related to the amounts being deferred is recognized on a graded vesting attribution method over the requisite service period, which for 2008, began on January 1, 2008 and continues through the final payment date, which is three years from the date of the original deferral. These amounts are recorded as a component of other non-current liabilities in the condensed consolidated balance sheet. For the time being, we will continue to grant restricted stock units under other existing programs.

### *Recent Developments*

In May 2008, Richard J. Caldera was named Chief Human Resources Officer. Previously, Mr. Caldera was at Royal Philips Electronics N.V., since 2004, where he most recently served as Senior Vice President, Human Resources, Mergers & Acquisitions for the Healthcare Sector. From 2002 to 2004 he was Senior Vice President, Human Resources at Skanska AB, based in New York and Stockholm, and Vice President and Senior Human Resources Officer, Global Operations at CNA Financial Corporation from 1998 to 2002.

In June 2008, Scott Krenz was named Chief Financial Officer. Prior to joining the Company on August 4, 2008, Mr. Krenz was Executive Vice President and Chief Financial Officer of Navigant Consulting, Inc. since 2007. Prior to that, he was Chief Financial Officer at Sapient Corporation since 2004. Prior to Sapient, Mr. Krenz held senior finance positions of increasing responsibility during a 19-year tenure at Electronic Data Systems Corporation (EDS). Mr. Krenz started his career in public accounting with Ernst & Whinney.

**Table of Contents***2008 Outlook*

Based on the current economic conditions in each of our regions and after considering other operating metrics, our 2008 expectations for net revenue are between \$650 and \$660 million, representing growth of between 5% and 7% over 2007 net revenue. We are targeting a 2008 full-year operating margin of approximately 13%. Our ability to achieve our annual operating margin target is based on our performance to date, but is also dependent on achieving anticipated cost savings from certain initiatives we have implemented, effectively deploying our resources, and reacting quickly to any unexpected deterioration in market conditions. Net income and earnings per share in 2008 are expected to reflect a full-year effective tax rate of between 38% and 40%. Quarterly and full-year tax rate estimates can be impacted by country-level results and can also vary significantly by reporting period as a result of discrete items that require immediate recognition in a particular quarter.

**Results of Operations**

We operate our executive search and leadership consulting services in three geographic regions: the Americas, Europe, and Asia Pacific.

For segment purposes, reimbursements of out-of-pocket expenses classified as revenue are reported separately and therefore are not included in the net revenue by geographic region. We believe that analyzing trends in revenue before reimbursements (net revenue) and analyzing operating expenses as a percentage of net revenue more appropriately reflect our core operations.

The following table summarizes, for the periods indicated, the results of our operations as a percentage of revenue before reimbursements (net revenue):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Revenue:</b>				
Revenue before reimbursements (net revenue)	100.0%	100.0%	100.0%	100.0%
Reimbursements	4.9	4.6	4.7	4.5
Total revenue	104.9	104.6	104.7	104.5
<b>Operating expenses:</b>				
Salaries and employee benefits	69.2	69.2	70.6	69.0
General and administrative expenses	19.8	18.7	20.2	19.2
Reimbursed expenses	4.9	4.6	4.7	4.5
Total operating expenses	93.9	92.4	95.5	92.7
<b>Operating income</b>	11.0	12.2	9.2	11.8
<b>Non-operating income:</b>				
Interest income	0.6	1.0	0.9	1.1
Other, net	0.6	0.2		0.2
Net non-operating income	1.1	1.3	0.9	1.3
<b>Income before income taxes</b>	12.1	13.4	10.0	13.1
Provision for income taxes	4.6	0.3	3.9	2.9
<b>Net income</b>	7.5%	13.1%	6.1%	10.3%

*Note: Totals and sub-totals may not equal the sum of individual line items due to rounding.*



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The following table sets forth, for the periods indicated, our revenue and operating income by segment (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Revenue:</b>				
Americas	\$ 87,002	\$ 88,204	\$ 164,339	\$ 171,603
Europe	53,344	52,475	106,210	95,030
Asia Pacific	29,172	19,374	52,108	36,546
Revenue before reimbursements (net revenue)	169,518	160,053	322,657	303,179
Reimbursements	8,297	7,308	15,099	13,758
<b>Total</b>	<b>\$ 177,815</b>	<b>\$ 167,361</b>	<b>\$ 337,756</b>	<b>\$ 316,937</b>
<b>Operating income:</b>				
Americas	\$ 12,558	\$ 19,421	\$ 24,282	\$ 36,089
Europe	7,680	7,385	12,941	11,184
Asia Pacific	6,619	5,199	9,341	9,578
Total regions	26,857	32,005	46,564	56,851
Corporate	(8,190)	(12,493)	(17,021)	(21,012)
<b>Total</b>	<b>\$ 18,667</b>	<b>\$ 19,512</b>	<b>\$ 29,543</b>	<b>\$ 35,839</b>

**Three Months Ended June 30, 2008 Compared to the Three Months Ended June 30, 2007**

*Total revenue.* Consolidated total revenue increased \$10.5 million, or 6.2%, to \$177.8 million in 2008 from \$167.4 million in 2007. The increase in total revenue was due primarily to the increase in revenue before reimbursements (net revenue).

*Revenue before reimbursements (net revenue).* Consolidated net revenue increased \$9.5 million, or 5.9%, to \$169.5 million for the three months ended June 30, 2008 from \$160.1 million for the three months ended June 30, 2007. The Life Sciences, Business and Professional Services, and Education/Nonprofit industry groups each achieved record revenue quarters, which along with growth in the Technology and Industrial industry groups, offset weakness in the Financial Services and Consumer industry groups. The number of confirmed executive searches decreased 2.1% compared to the second quarter of 2007. The number of executive search consultants increased to 408 as of June 30, 2008, compared to 386 as of December 31, 2007 and 398 as of June 30, 2007. Productivity, as measured by annualized revenue per executive search consultant, increased to \$1.6 million in the second quarter of 2008 from \$1.5 million in the 2007 second quarter, and the average fee per executive search was \$122,200 in the 2008 second quarter compared to \$111,000 in the 2007 second quarter. The positive impact of exchange rate fluctuations, primarily in Europe, resulted in an increase in net revenue of approximately 4 percentage points in the second quarter of 2008 compared to the second quarter of 2007.

Net revenue in the Americas was \$87.0 million for the three months ended June 30, 2008, a decrease of \$1.2 million, or 1.4%, from \$88.2 million in the second quarter of 2007. The Technology, Industrial, and Education/Nonprofit industry groups delivered strong year-over-year net revenue growth, but this growth was offset by weakness in the Consumer and Financial Services industry groups. The positive impact of exchange rate fluctuations contributed approximately one percentage point of revenue growth in the 2008 second quarter. Net revenue in Europe was \$53.3 million for the three months ended June 30, 2008, an increase of \$0.9 million, or 1.7%, from \$52.5 million in the second quarter of 2007. All of the industry practice groups achieved double-digit net revenue growth compared to the second quarter 2007, except Financial Services, which declined. The positive impact of exchange rate fluctuations resulted in an increase in net revenue of approximately 9 percentage points in the second quarter of 2008. In Asia Pacific, net revenue was \$29.2 million for the three months ended June 30,

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2008, an increase of \$9.8 million, or 50.6 %, from \$19.4 million in the second quarter of 2007. The positive impact of exchange rate fluctuations resulted in an increase in net revenue of approximately 10 percentage points in the 2008 second quarter. The Financial Services, Industrial, Technology, and Business and Professional Services industry groups were the primary drivers of growth in the second quarter 2008.

*Salaries and employee benefits.* Consolidated salaries and employee benefits expense increased \$6.6 million, or 6.0%, to \$117.3 million for the three months ended June 30, 2008 from \$110.7 million for the three months ended June 30, 2007. This increase primarily reflects higher fixed salary expense and higher bonus expense associated with higher expected net revenue levels. Fixed salaries and employee benefits expense increased \$4.7 million due to a 9.4% increase in employee headcount since the 2007 second quarter. Performance-related compensation expense increased \$1.9 million in the second quarter of 2008 compared to the second quarter of 2007 related to higher bonus expense due to higher revenue levels throughout the last six months. Excluding the negative impact of \$3.7 million due to exchange rate fluctuations, which management believes provides a better comparison of operational performance, consolidated salaries and employee benefits increased approximately 3% compared to the same quarter in 2007.

As a percentage of net revenue, salaries and employee benefits expense remained consistent at 69.2% in the second quarter of 2008, compared to the second quarter of 2007.

*General and administrative expenses.* Consolidated general and administrative expenses increased \$3.7 million, or 12.3%, to \$33.5 million for the three months ended June 30, 2008 from \$29.9 million for the three months ended June 30, 2007. The year-over-year increase is primarily related to a \$2.9 million increase in premise-related costs for new offices and lease renewals for existing offices. The remaining increase includes \$1.0 million related to the European regional meeting held in the second quarter of 2008, higher operating expenses of \$1.4 million associated with higher net revenue levels and \$0.9 million of higher infrastructure and bad debt expense offset by \$2.5 million related to our worldwide consultants meeting held in the second quarter of 2007. Excluding a negative impact of \$1.2 million due to exchange rate fluctuations, which management believes provides a better comparison of operational performance, consolidated general and administrative expenses increased approximately 8% compared to the same quarter in 2007.

As a percentage of net revenue, general and administrative expenses were 19.8% in the second quarter of 2008, compared to 18.7% in the second quarter of 2007.

*Operating income.* Our consolidated operating income was \$18.7 million for the three months ended June 30, 2008 compared to operating income of \$19.5 million for the three months ended June 30, 2007.

The decrease in operating income of \$0.8 million was primarily due to an increase in salaries and employee benefits expense of \$6.6 million and an increase in general and administrative expenses of \$3.7 million, offset by an increase in revenue of \$9.5 million.

In the Americas, operating income for the three months ended June 30, 2008 decreased \$6.8 million to \$12.6 million from \$19.4 million for the three months ended June 30, 2007. The decrease is due to lower net revenue of \$1.2 million and an increase in salaries and employee benefits expense of \$4.0 million and general and administrative expenses of \$1.6 million. The increase in salaries and employee benefits expense is primarily related to approximately \$1.8 million of discretionary compensation associated with the mix of revenue generated by individual consultants, \$1.5 million related to increased associate leverage and support staff headcount, approximately \$0.9 million of expense associated with the amortization of new long-term incentive awards that did not exist in 2007, and \$0.4 million of severance. The increase in general and administrative expenses is primarily related to a \$1.4 million increase in premise-related costs and lease renewals for existing offices primarily in New York.

In Europe, operating income for the three months ended June 30, 2008 increased \$0.3 million to \$7.7 million from \$7.4 million for the three months ended June 30, 2007. The increase in net revenue of \$0.9 million and a decrease in salaries and employee benefits expense of \$1.6 million were offset by an increase in general and administrative expenses of \$2.2 million. The decrease in salaries and employee benefits expense is primarily due to

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a decrease in consultant headcount of 8.4% since the second quarter of 2007. The increase in general and administrative expenses primarily reflects \$0.8 million related to the European regional meeting held in the second quarter of 2008, \$0.4 million increase in premise-related costs and \$1.0 million related to other operating and infrastructure expenses.

In Asia Pacific, operating income for the three months ended June 30, 2008 increased \$1.4 million to \$6.6 million from \$5.2 million for the three months ended June 30, 2007. The increase in net revenue of \$9.8 million was partially offset by increases in salaries and employee benefits expense of \$6.4 million and general and administrative expenses of \$2.0 million. The increase in salaries and employee benefits expense represents planned investments to grow the region and reflects a 36% increase in consultant headcount. The increase in general and administrative expenses is due to increased infrastructure costs related to new and existing offices.

Unallocated corporate expenses for the three months ended June 30, 2008 were \$8.2 million compared to \$12.5 million for the three months ended June 30, 2007. The decrease of \$4.3 million was the result of a \$2.2 million decrease in general and administrative expenses and a \$2.1 decrease in salaries and employee benefits expense. The decrease in salaries and employee benefits expense primarily reflects a \$1.2 million charge in the second quarter of 2007 associated with the continued vesting of all outstanding unvested equity awards for Thomas J. Friel, who retired as chairman in May 2007. The decrease in general and administrative expenses is a result of \$2.5 million related to the worldwide consultants meeting that was held in the second quarter of 2007 offset by an increase in other operating and infrastructure expenses of \$0.3 million in the second quarter of 2008.

*Net non-operating income.* Net non-operating income was \$1.9 million for the three months ended June 30, 2008, compared to \$2.0 million for the three months ended June 30, 2007.

Net interest income in the second quarter of 2008 was \$0.9 million compared to \$1.6 million for the three months ended June 30, 2007. Net interest income is lower than the prior year quarter due to lower short-term investment balances and lower interest rates.

Net other non-operating income was \$1.0 million for the three months ended June 30, 2008, compared to net other non-operating income of \$0.4 million for the three months ended June 30, 2007. As a result of the sale of our Portugal business during the second quarter, we recognized previously capitalized exchange gains, which resulted in other non-operating income of \$1.0 million. Other non-operating income consists primarily of exchange gains and losses on cash and intercompany balances, which are denominated in currencies other than the functional currency and are not considered permanent in nature.

*Income taxes.* In determining the quarterly provision for income taxes, we use an estimated annual effective tax rate based on expected annual income by jurisdiction, statutory tax rates, and tax planning opportunities available in the various jurisdictions in which we operate. The impact of discrete items is separately recognized in the quarter in which they occur.

In the second quarter of 2008, we reported income before taxes of \$20.6 million and recorded an income tax provision of \$7.8 million, which resulted in an effective tax rate of 38.0% for the second quarter of 2008.

In the second quarter of 2007, we reported income before taxes of \$21.5 million and recorded an income tax provision of \$0.5 million. Our effective tax rate for the second quarter of 2007 was 2.3%, which was significantly lower than the annual effective tax rate before discrete items of 41.7% as a result of releasing the valuation allowance associated with certain foreign tax credits, and our ability to benefit from these credits in the future.

**Six Months Ended June 30, 2008 Compared to the Six Months Ended June 30, 2007**

*Total revenue.* Consolidated total revenue increased \$20.8 million, or 6.6%, to \$337.8 million in 2008 from \$316.9 million in 2007. The increase in total revenue was due primarily to the increase in revenue before reimbursements (net revenue).

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*Revenue before reimbursements (net revenue).* Consolidated net revenue increased \$19.5 million, or 6.4%, to \$322.7 million for the six months ended June 30, 2008 from \$303.2 million for the six months ended June 30, 2007. The Industrial, Technology, Life Sciences and Business and Professional Services industry groups delivered strong year-over-year revenue growth offset by softness in the Financial Services industry group during the six months ended June 30, 2008. The number of confirmed executive searches decreased 2.4% compared to the six months ended June 30, 2007. The number of executive search consultants increased to 408 as of June 30, 2008, compared to 386 as of December 31, 2007 and 398 as of June 30, 2007. Productivity, as measured by annualized revenue per executive search consultant, increased to \$1.5 million for the six months ended June 30, 2008 from \$1.4 million for the six months ended June 30, 2007, and the average fee per executive search increased to \$114,400 compared to \$103,500 for the six months ended June 30, 2007. The positive impact of exchange rate fluctuations, primarily in Europe, resulted in an increase in net revenue of approximately 5 percentage points in the first six months of 2008 compared to the first six months of 2007.

Net revenue in the Americas was \$164.3 million for the six months ended June 30, 2008, a decrease of \$7.3 million, or 4.2%, from \$171.6 million for the six months ended June 30, 2007. The Technology, Industrial, and Life Sciences industry groups delivered strong year-over-year net revenue growth, but this growth was offset by weakness in the Consumer and Financial Services industry groups during the six months ended June 30, 2008. The positive impact of exchange rate fluctuations contributed to approximately one percentage point of revenue growth in the first six months of 2008. Net revenue in Europe was \$106.2 million for the six months ended June 30, 2008, an increase of \$11.2 million, or 11.8%, from \$95.0 million for the six months ended June 30, 2007. All of the industry practice groups achieved double-digit net revenue growth compared to the first six months of 2007, except Financial Services, which declined. The positive impact of exchange rate fluctuations resulted in an increase in net revenue of approximately 9 percentage points in the first six months of 2008. In Asia Pacific, net revenue was \$52.1 million for the six months ended June 30, 2008, an increase of \$15.6 million, or 42.6%, from \$36.5 million for the six months ended June 30, 2007. The positive impact of exchange rate fluctuations resulted in an increase in net revenue of approximately 11 percentage points in the first six months of 2008. The Financial Services, Industrial, Business and Professional Services, and Technology industry groups were the primary drivers of growth for the six months ended June 30, 2008.

*Salaries and employee benefits.* Consolidated salaries and employee benefits expense increased \$18.9 million, or 9.0%, to \$227.9 million for the six months ended June 30, 2008 from \$209.0 million for the six months ended June 30, 2007. This increase primarily reflects higher fixed salary expense and higher bonus expense associated with higher expected revenue levels. Fixed salaries and employee benefits expense increased \$12.5 million due to a 9.4% year-over-year increase in employee headcount. Performance-related compensation expense increased \$6.4 million in the first six months of 2008 compared to the first six months of 2007 as a result of higher net revenue levels throughout the last six months. Excluding a negative impact of \$9.2 million due to exchange rate fluctuations, which management believes provides a better comparison of operational performance, consolidated salaries and employee benefits increased approximately 5% compared to the same period in 2007.

As a percentage of net revenue, salaries and employee benefits expense was 70.6% in the first six months of 2008, compared to 69.0% in the first six months of 2007.

*General and administrative expenses.* Consolidated general and administrative expenses increased \$6.9 million, or 11.8%, to \$65.2 million for the six months ended June 30, 2008 from \$58.3 million for the six months ended June 30, 2007. The increase is primarily related to a \$5.4 million increase in premise-related costs for new offices and lease renewals for existing offices. The remaining increase of \$1.5 million primarily consists of \$1.0 million related to the European regional meeting held in the second quarter of 2008, higher operating expenses of \$1.6 million associated with higher net revenue levels and \$1.4 million of higher infrastructure and bad debt expense offset by \$2.5 million related to our worldwide consultants meeting held in the second quarter of 2007. Excluding a negative impact of \$2.4 million due to exchange rate fluctuations, which management believes provides a better comparison of operational performance, consolidated general and administrative expenses increased approximately 8% compared to the same period in 2007.

As a percentage of net revenue, general and administrative expenses were 20.2% in the first six months of 2008, compared to 19.2% in the first six months of 2007.



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*Operating income.* Our consolidated operating income was \$29.5 million for the six months ended June 30, 2008 compared to operating income of \$35.8 million for the six months ended June 30, 2007.

The decrease in operating income of \$6.3 million was primarily due to an increase in salaries and employee benefits expense of \$18.9 million and an increase in general and administrative expenses of \$6.9 million, offset by an increase in net revenue of \$19.5 million.

In the Americas, operating income for the six months ended June 30, 2008 decreased \$11.8 million to \$24.3 million from \$36.1 million for the six months ended June 30, 2007. The decrease is due to lower net revenue of \$7.3 million, and an increase in salaries and employee benefits expense of \$1.9 million and general and administrative expenses of \$2.6 million. The increase in salaries and employee benefits expense is primarily related to increased discretionary compensation associated with the mix of revenue generated by individual consultants, approximately \$1.1 million of expense associated with the amortization of new long-term incentive awards that did not exist in 2007, \$0.4 million of severance, and increased associate leverage and support staff headcount. The increase in general and administrative expenses primarily related to a \$2.8 million increase in premise-related expenses and lease renewals for existing offices primarily in New York.

In Europe, operating income for the six months ended June 30, 2008 increased \$1.7 million to \$12.9 million from \$11.2 million for the six months ended June 30, 2007. The increase in net revenue of \$11.2 million was offset by an increase in salaries and employee benefits expense of \$5.9 million and general and administrative expenses of \$3.6 million. The increase in salaries and employee benefits expense is due to higher fixed salary expense associated with higher net revenue levels and headcount in the first six months of 2008. The increase in general and administrative expenses primarily reflects \$0.8 million related to the European regional meeting held in the second quarter of 2008 and a \$0.8 million increase in premise-related costs. The remaining increase is due to increased operating and infrastructure expenses.

In Asia Pacific, operating income for the six months ended June 30, 2008 decreased \$0.2 million to \$9.4 million from \$9.6 million for the six months ended June 30, 2007. The decrease is due to increases in salaries and employee benefits expense of \$12.2 million and general and administrative expenses of \$3.6 million offset by increases in net revenue of \$15.6 million. The increase in salaries and employee benefits expense represents planned investments to grow the region and reflects a 36% increase in consultant headcount. The increase in general and administrative expenses is primarily due to increased infrastructure costs related to new and existing offices of \$2.0 million and increased fees for professional services of \$0.4 million. The remaining increase is due to other increased operating and infrastructure expenses.

Unallocated corporate expenses for the six months ended June 30, 2008 were \$17.0 million compared to \$21.0 million for the six months ended June 30, 2007. The decrease of \$4.0 million was primarily the result of a \$3.0 million decrease in general and administrative expenses and a \$1.0 million decrease in salaries and employee benefits expense. The decrease in general and administrative expenses is due to \$2.5 million related to the worldwide consultants meeting that was held in the second quarter of 2007 and lower fees for professional services.

*Net non-operating income.* Net non-operating income was \$2.8 million for the six months ended June 30, 2008, compared to \$4.0 million for the six months ended June 30, 2007.

Net interest income in the first six months of 2008 was \$2.9 million, compared to \$3.5 million for the six months ended June 30, 2007. Net interest income is lower than the first six months of 2007 due to lower short-term investment balances and lower interest rates.

Net other non-operating expense was \$0.1 million for the six months ended June 30, 2008, compared to net non-operating income of \$0.6 million for the six months ended June 30, 2007. As a result of the sale of our Portugal business during the second quarter, we recognized previously capitalized exchange gains, which resulted in other non-operating income of \$1.0 million. The remaining non-operating expense of \$1.1 million primarily consists of exchange gains and losses on cash and intercompany balances, which are denominated in currencies other than the functional currency and are not considered permanent in nature.

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*Income taxes.* In determining the quarterly provision for income taxes, we use an estimated annual effective tax rate based on expected annual income by jurisdiction, statutory tax rates, and tax planning opportunities available in the various jurisdictions in which we operate. The impact of discrete items is separately recognized in the quarter in which they occur.

For the first six months of 2008, we reported income before taxes of \$32.4 million and recorded an income tax provision of \$12.6 million. Our effective tax rate for the six months ended June 30, 2008 was 38.8%.

For the first six months of 2007, we reported income before taxes of \$39.9 million and recorded an income tax provision of \$8.8 million. Our effective tax rate for the six months ended June 30, 2007 was 22.0%. This rate was lower than the annual effective tax rate before discrete items of 41.7% as a result of releasing certain amounts of the valuation allowance associated with foreign tax credits, and our ability to benefit from these credits in the future. The significant improvement in the financial performance of our foreign branches allowed us to benefit from these foreign tax credits.

## **Liquidity and Capital Resources**

*General.* We continually evaluate our liquidity requirements, capital needs and availability of capital resources based on our operating needs. We believe that our existing cash balances together with the funds expected to be generated from operations and funds available under our committed revolving credit facility will be sufficient to finance our operations for the foreseeable future, as well as to finance the cash payments associated with our restructuring charges, stock repurchase program, cash dividends and acquisitions.

We pay the majority of bonuses in the first quarter following the year in which they were earned. Employee bonuses are accrued throughout the year and are based on our performance and the performance of the individual employee.

We do not have material off-balance sheet arrangements, special purpose entities, trading activities of non-exchange traded contracts or transactions with related parties.

*Lines of credit.* Since October 2006, we have had a \$100 million committed unsecured revolving facility (the Facility). Under the Facility, we may borrow U.S. dollars, euros, or other major traded currencies as agreed by the banks. Borrowings under the Facility bear interest at the existing Alternate Base Rate or LIBOR plus a spread as determined by our leverage ratio. A facility fee is charged even if no portion of the Facility is used. The Facility expires in October 2011.

There were no borrowings during the quarters ended June 30, 2008 or 2007, or outstanding under the Facility at either June 30, 2008 or December 31, 2007. During the quarters ended June 30, 2008 and 2007, we were in compliance with the financial covenants of the Facility and no event of default existed.

*Cash, cash equivalents and short-term investments.* Cash and cash equivalents were \$146.1 million at June 30, 2008. The amount of cash, cash equivalents and short-term investments at December 31, 2007 and June 30, 2007 was \$282.9 million and \$180.0 million, respectively.

*Cash flows from operating activities.* For the six months ended June 30, 2008, cash used in operating activities was \$83.7 million, principally reflecting our net income less the payment of cash bonuses of approximately \$135 million in March 2008 and an increase in trade receivables related to higher year-to-date revenues.

For the six months ended June 30, 2007, cash used in operating activities was \$38.4 million, principally reflecting our net income less the payment of cash bonuses of approximately \$98 million in March 2007, and an increase in trade receivables related to higher year-to-date revenues.

*Cash flows from investing activities.* Cash provided by investing activities was \$8.0 million for the six months ended June 30, 2008 primarily as a result of the net proceeds from sales of short-term investments of \$22.3 million offset by cash paid for acquisitions of \$11.0 million, capital expenditures of \$5.2 million and proceeds from the sale of a business of \$1.6 million.

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Cash used in investing activities was \$2.7 million for the six months ended June 30, 2007 primarily as a result of capital expenditures of \$3.0 million, \$1.3 million paid in connection with the acquisition of RentonJames and a decrease in restricted cash of \$1.2 million offset by the net proceeds from sales and purchases of short-term investments of \$2.6 million.

*Cash flows from financing activities.* Cash used in financing activities for the six months ended June 30, 2008 was \$45.8 million primarily as a result of repurchasing \$42.0 million of our common stock and quarterly cash dividend payments of \$4.5 million, offset by \$0.6 million of proceeds from stock options exercised during the period.

Cash used in financing activities for the six months ended June 30, 2007 was less than \$0.1 million primarily as a result of the repurchase of \$24.9 million of our common stock offset by \$17.0 million of proceeds from stock options exercised during the period and \$7.6 million of tax benefits associated with the exercise or vesting of equity awards.

In September 2007, our Board of Directors approved the initiation of a quarterly cash dividend payment in the amount of \$0.13 per share. On an annual basis, the cash dividend is expected to be \$0.52 per share. On February 15, 2008, we paid \$2.2 million to shareholders of record as of February 1, 2008. On May 16, 2008, we paid \$2.2 million to shareholders of record as of May 2, 2008. A cash dividend payable of \$2.1 million has been reported as an other current liability on the Condensed Consolidated Balance Sheet as of June 30, 2008 related to the third quarter 2008 quarterly cash dividend payment.

On May 24, 2006, our Board of Directors authorized management to repurchase shares of our common stock with an aggregate total amount up to \$50 million. We purchased 1,132,073 shares of our common stock for \$50 million under the May 2006 authorization, which was completed during the third quarter of 2007.

On May 24, 2007, our Board of Directors authorized management to repurchase shares of our common stock with an aggregate total amount up to \$50 million. We purchased 1,403,738 shares of our common stock for \$50 million under the May 2007 authorization, which was completed on March 31, 2008.

On February 8, 2008, our Board of Directors authorized management to repurchase shares of our common stock with an aggregate total amount up to \$50 million. We intend from time to time and as business conditions warrant, to purchase shares of our common stock on the open market or in negotiated or block trades. No time limit has been set for completion of this program. As of June 30, 2008, we have purchased 773,414 shares of our common stock for a total of \$21.8 million, and \$28.2 million remains available under the February 2008 authorization.

## **Application of Critical Accounting Policies and Estimates**

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our Condensed Consolidated Financial Statements, which have been prepared using accounting principles generally accepted in the United States (GAAP). Our significant accounting policies are discussed in Note 2, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the U.S. Securities and Exchange Commission on February 28, 2008 and in Note 2, *Summary of Significant Accounting Policies*, in the Notes to Condensed Consolidated Financial Statements included in Item 1. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. If actual amounts are ultimately different from previous estimates, the revisions are included in our results of operations for the period in which the actual amounts become known.

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An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. Management believes its critical accounting policies that reflect its more significant estimates and assumptions relate to revenue recognition, stock-based compensation, accruals related to the consolidation and closing of offices recorded as part of our restructuring charges, income taxes, goodwill and other intangible assets and the allowance for doubtful accounts. See *Application of Critical Accounting Policies and Estimates* in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the U.S. Securities and Exchange Commission on February 28, 2008.

### **Recently Adopted Financial Accounting Standards**

On January 1, 2008, we adopted SFAS No. 157 *Fair Value Measurements* ( SFAS No. 157 ). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. See Note 5, *Fair Value Measurements*, for disclosures required by SFAS No. 157. In February 2008, the FASB released FASB Staff Position (FSP FAS 157-2 *Effective Date of FASB Statement No. 157*), which delayed the effective date of SFAS No. 157 for nonfinancial assets, such as goodwill and long-lived assets, and nonfinancial liabilities, subject to certain exceptions until January 1, 2009. The adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on our financial condition or results of operations.

On January 1, 2008, we adopted SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of SFAS No. 115* ( SFAS No. 159 ). SFAS No. 159 permits entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. The adoption of SFAS No. 159 did not have a material impact on our financial condition or results of operations.

### **Recently Issued Financial Accounting Standards**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS No. 141(R) ). SFAS No. 141(R) requires that all business combinations be accounted for by applying the acquisition method. Under the acquisition method, the acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, and any contingent consideration and contractual contingencies, as a whole, at their fair values as of the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recorded against income tax expense. The adoption of SFAS No. 141(R) will change our accounting treatment for business combinations on a prospective basis beginning on January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of ARB No. 51 ( SFAS No. 160 ). SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 160 is effective for us on a prospective basis for business combinations with an acquisition date beginning as of January 1, 2009. Currently we do not have any minority interests.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

*Currency market risk.* With our operations primarily in the Americas, Europe and Asia Pacific, we conduct business using various currencies. Revenue earned in each country is generally matched with the associated expenses incurred, thereby reducing currency risk to earnings. However, because certain assets and liabilities are denominated in currencies other than the U.S. dollar, changes in currency rates may cause fluctuations in the valuation of such assets and liabilities. As the local currency of our subsidiaries has generally been designated as the functional currency, we are affected by the translation of foreign currency financial statements into U.S. dollars. For the six months ended June 30, 2008, a 1% change in the average exchange rate for currencies of all foreign countries in which we operate would have increased or decreased our net income by less than \$0.2 million. For financial information by geographic segment, see Note 12, *Segment Information*, in the Notes to Condensed Consolidated Financial Statements.

*Derivative instruments.* We receive warrants for equity securities in our client companies, in addition to our cash fee, for services rendered on some searches. Some of the warrants meet the definition of a derivative instrument under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its subsequent amendments. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. These derivative instruments are initially recorded at their fair value using a Black-Scholes model, in the Condensed Consolidated Balance Sheets, with a corresponding amount recorded as net revenue in the Condensed Consolidated Statements of Operations. Bonus expense related to this net revenue is also recorded. Subsequent changes in the fair value of these derivative instruments are recorded in the Condensed Consolidated Statements of Operations as unrealized gains (losses), net of the consultants' share of the gains (losses). Upon a value event such as an initial public offering or an acquisition, the warrants are monetized, resulting in a realized gain (loss), net of the consultants' share of the gain (loss) and other costs.

**ITEM 4. CONTROLS AND PROCEDURES**

**(a) Evaluation of Disclosure Controls and Procedures**

An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Principal Accounting Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Principal Accounting Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (2) is accumulated and communicated to our management, including the Chief Executive Officer and Principal Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure.

**(b) Changes in Internal Controls Over Financial Reporting**

There has been no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

We have contingent liabilities from various pending claims and litigation matters arising in the course of our business, some of which involve claims for damages that are substantial in amount. Some of these matters are covered by insurance. Although our ultimate liability in these matters cannot be determined, based upon information currently available, we believe the ultimate resolution of such claims and litigation will not have a material adverse effect on our financial condition, results of operations or liquidity.

In September 2007, Whitney Group and Whitney Group Asia (collectively Whitney Group) filed suit against us in the New York Supreme Court, New York County, seeking injunctive relief and damages relating to the resignation, and subsequent hiring by us, of certain Whitney Group employees based in Hong Kong. On December 19, 2007, the parties to the suit agreed to a settlement in principle and release of all claims, both asserted and unasserted. The parties are awaiting receipt of fully executed release documents.

*Contingencies*

During the fourth quarter of 2005, a European country commenced a tax audit for the years 2001 through 2004, including an examination of our arrangement with professional service companies that provide consulting services to us. On November 24, 2006, the examining tax authority issued a final assessment in the amount of 4.3 million (equivalent to \$6.7 million at June 30, 2008). No penalty has been included in this assessment. This final assessment has been appealed by us and the enforcement of the assessment has been suspended until a final determination of the appeal. We have provided a bank guarantee to the tax authority in the amount of the final assessment plus post-assessment interest as required by local law. See Note 4, *Restricted Cash*, and Note 13, *Guarantees*, in the Notes to Condensed Consolidated Financial Statements. At this time, we believe that the likelihood of an unfavorable outcome is not probable and that the potential amount of any loss cannot be reasonably estimated. We also believe that the amount of a final assessment, if any, would not be material to our financial condition.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***Issuer Purchases of Equity Securities*

The following table provides information related to the Company's purchase of common shares for the quarter ended June 30, 2008. For further information of the Company's share repurchase activity, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs
April 1, 2008 - April 30, 2008		\$		\$
May 1, 2008 - May 31, 2008	516,500	28.46	516,500	35,298,275
June 1, 2008 - June 30, 2008	256,914	27.76	256,914	28,167,179
Total	773,414		773,414	

On February 8, 2008, our Board of Directors authorized management to repurchase shares of our common stock with an aggregate total amount up to \$50 million. As of June 30, 2008, \$28.2 million remains authorized under this program.



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**Item 4. Submission of Matters to a Vote of Security Holders**

At our Annual Meeting of Stockholders held on May 22, 2008 in New York, New York, our stockholders voted on the following matters:

I. The election of four directors, L. Kevin Kelly, Robert E. Knowling, Jr., Gerard R. Roche, and V. Paul Unruh, to serve for a term of three years or until their successors have been elected and qualified.

The nominees to the Board of Directors were elected.

Name of Nominee	Number of Votes For	Number of Votes Withheld	Number of Broker Non-Votes
L. Kevin Kelly	15,271,425	689,532	
Robert E. Knowling, Jr.	15,241,479	719,478	
Gerard R. Roche	15,237,889	723,068	
V. Paul Unruh	15,240,404	720,553	

In addition, the terms of office of the following directors continued after the meeting: Richard I. Beattie, Antonio Borges, John A. Fazio, Jill Kanin-Lovers, and Gary E. Knell.

II. The ratification of the Company's selection of KPMG LLP as the Company's independent registered public accounting firm.

The Company's selection of KPMG LLP as the Company's independent registered public accounting firm was ratified.

	Number of Votes For	Number of Votes Against	Number of Votes Abstained	Number of Broker Non-Votes
	15,938,477	18,345	4,135	



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**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
*10.01	Amended and Restated Heidrick & Struggles International, Inc., Change in Control and Severance Plan
*10.02	Relocation Agreement between Gerry Davis and Heidrick & Struggles International, Inc., dated December 6, 2007
*31.1	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of the Company's Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification of the Company's Principal Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed herewith

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**SIGNATURE**

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 6, 2008

Heidrick & Struggles International, Inc.  
(Registrant)

By: /s/ James Andrejko  
James Andrejko  
Vice President, Corporate Controller &  
Principal Accounting Officer