

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003**

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  
Incorporation or Organization)

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

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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 an accelerated filer (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.

The number of shares outstanding of the Company's common stock as of August 4, 2003 was 18,263,608.

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

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**HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share amounts)

	June 30, 2003	December 31, 2002
	(Unaudited)	
<b>Current assets:</b>		
Cash and cash equivalents	\$ 95,888	\$ 110,220
Accounts receivable, net of allowance for doubtful accounts	51,829	41,774
Other receivables	4,204	3,552
Prepaid expenses	8,801	11,881
Income taxes recoverable, net	—	6,125
Deferred income taxes, net	24,160	24,924
	<hr/>	<hr/>
Total current assets	184,882	198,476
	<hr/>	<hr/>
<b>Non-current assets:</b>		
Property and equipment, net	35,415	38,230
Assets designated for pension plan	23,938	21,196
Investments	2,250	3,007
Other non-current assets	6,800	9,478
Goodwill	50,587	50,271
Other intangibles, net	9,479	10,230
Deferred income taxes, net	25,514	32,176
	<hr/>	<hr/>
Total non-current assets	153,983	164,588
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 338,865</b>	<b>\$ 363,064</b>

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

## HEIDRICK &amp; STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	June 30, 2003	December 31, 2002
	(Unaudited)	
<b>Current liabilities:</b>		
Current maturities of long-term debt	\$ 980	\$ 1,161
Accounts payable	6,666	8,887
Accrued expenses—		
Salaries and employee benefits	56,813	67,514
Other	20,009	20,704
Current portion of accrued restructuring charges	12,581	20,705
Income taxes payable, net	2,158	—
	<u>99,207</u>	<u>118,971</u>
<b>Non-current liabilities:</b>		
Long-term debt, less current maturities	333	294
Retirement and pension plans	28,853	25,234
Non-current portion of accrued restructuring charges	19,120	18,531
Other non-current liabilities	354	323
	<u>48,660</u>	<u>44,382</u>
<b>Total liabilities</b>	<u>147,867</u>	<u>163,353</u>
<b>Stockholders' equity:</b>		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, no shares issued at June 30, 2003 and December 31, 2002	—	—
Common stock, \$.01 par value, 100,000,000 shares authorized, of which 18,211,954 and 18,152,346 shares were outstanding at June 30, 2003 and December 31, 2002, respectively	196	196
Treasury stock at cost, 1,347,889 and 1,433,431 shares at June 30, 2003 and December 31, 2002, respectively	(24,175)	(27,421)
Additional paid in capital	251,764	260,445
Accumulated deficit	(35,573)	(26,227)
Cumulative foreign currency translation adjustment	2,789	(1,241)
Unrealized gain on available-for-sale investments, net of tax	29	57
Deferred stock-based compensation	(4,032)	(6,098)
	<u>190,998</u>	<u>199,711</u>
<b>Total stockholders' equity</b>	<u>190,998</u>	<u>199,711</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 338,865</u>	<u>\$ 363,064</u>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
<b>Revenue:</b>				
Revenue before reimbursements (net revenue)	\$ 81,674	\$ 93,476	\$ 158,985	\$ 185,199
Reimbursements	6,221	6,834	11,886	13,317
<b>Total revenue</b>	<b>87,895</b>	<b>100,310</b>	<b>170,871</b>	<b>198,516</b>
<b>Operating expenses:</b>				
Salaries and employee benefits	62,917	64,273	117,067	133,170
General and administrative expenses	20,398	28,247	42,960	56,060
Reimbursed expenses	6,221	6,834	11,886	13,317
Restructuring charges	—	—	5,500	23,169
<b>Total operating expenses</b>	<b>89,536</b>	<b>99,354</b>	<b>177,413</b>	<b>225,716</b>
<b>Operating income (loss)</b>	<b>(1,641)</b>	<b>956</b>	<b>(6,542)</b>	<b>(27,200)</b>
<b>Non-operating income (expense):</b>				
Interest income	468	383	960	911
Interest expense	(53)	(37)	(90)	(88)
Net realized and unrealized gains (losses) on equity and warrant portfolio	21	(1,385)	248	(1,242)
Write-down of long-term investment	—	(5,000)	—	(5,000)
Other, net	(315)	(144)	(1,137)	107
<b>Net non-operating income (expense)</b>	<b>121</b>	<b>(6,183)</b>	<b>(19)</b>	<b>(5,312)</b>
<b>Loss before income taxes</b>	<b>(1,520)</b>	<b>(5,227)</b>	<b>(6,561)</b>	<b>(32,512)</b>
Provision for (benefit from) income taxes	1,089	(1,830)	2,785	(11,380)
<b>Net loss</b>	<b>\$ (2,609)</b>	<b>\$ (3,397)</b>	<b>\$ (9,346)</b>	<b>\$ (21,132)</b>
<b>Basic loss per common share</b>	<b>\$ (0.14)</b>	<b>\$ (0.19)</b>	<b>\$ (0.52)</b>	<b>\$ (1.17)</b>
<b>Diluted loss per common share</b>	<b>\$ (0.14)</b>	<b>\$ (0.19)</b>	<b>\$ (0.52)</b>	<b>\$ (1.17)</b>
<b>Weighted average common shares outstanding:</b>				
Basic	18,138	18,098	18,147	18,074
Diluted	18,138	18,098	18,147	18,074

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

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)**

(In thousands)

(Unaudited)

	Common Stock		Treasury Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Deferred Stock-Based Compensation	Total
	Shares	Amount						
<b>Balance at December 31, 2002</b>	<b>18,152</b>	<b>\$ 196</b>	<b>\$ (27,421)</b>	<b>\$ 260,445</b>	<b>\$ (26,227)</b>	<b>\$ (1,184)</b>	<b>\$ (6,098)</b>	<b>\$ 199,711</b>
Net loss	—	—	—	—	(9,346)	—	—	(9,346)
Other comprehensive income (loss):								
Unrealized loss on available-for-sale investments, (pretax \$36)	—	—	—	—	—	(28)	—	(28)
Foreign currency translation adjustment	—	—	—	—	—	4,030	—	4,030
<b>Total comprehensive income (loss)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(9,346)</b>	<b>4,002</b>	<b>—</b>	<b>(5,344)</b>
Treasury and common stock transactions:								
Issuance of restricted stock units	—	—	—	3,116	—	—	(3,116)	—
Amortization of deferred compensation	—	—	—	—	—	—	3,455	3,455
Forfeitures of restricted stock units	—	—	—	(3,592)	—	—	1,727	(1,865)
Exercise of stock options	2	—	26	(5)	—	—	—	21
Purchases of treasury stock	(288)	—	(3,175)	—	—	—	—	(3,175)
Vesting of restricted stock units	346	—	6,395	(8,272)	—	—	—	(1,877)
Increase in accrued compensation under the performance share plan	—	—	—	72	—	—	—	72
<b>Balance at June 30, 2003</b>	<b>18,212</b>	<b>\$ 196</b>	<b>\$ (24,175)</b>	<b>\$ 251,764</b>	<b>\$ (35,573)</b>	<b>\$ 2,818</b>	<b>\$ (4,032)</b>	<b>\$ 190,998</b>

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

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

	Six Months Ended June 30,	
	2003	2002
<b>Cash flows from operating activities:</b>		
Net loss	\$ (9,346)	\$ (21,132)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,099	7,589
Deferred income taxes	1,563	(15,031)
Net realized and unrealized losses (gains) on equity and warrant portfolio	(248)	1,242
Write-down of long-term investment	—	5,000
Stock-based compensation expense, net	1,662	3,789
Restructuring charges	5,500	23,169
Cash paid for restructuring charges	(13,035)	(13,453)
Changes in assets and liabilities:		
Trade and other receivables	(8,992)	(13,306)
Accounts payable	(2,592)	(5,331)
Accrued expenses	(16,552)	(19,733)
Income taxes recoverable, net	14,961	20,107
Other, net	9,148	6,999
Net cash used in operating activities	<u>(10,832)</u>	<u>(20,091)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(2,905)	(3,185)
Proceeds from sales of equity securities, net	531	127
Other, net	223	(203)
Net cash used in investing activities	<u>(2,151)</u>	<u>(3,261)</u>
<b>Cash flows from financing activities:</b>		
Payments on long-term debt	(224)	(913)
Proceeds from stock options exercised	21	484
Purchases of treasury stock	(3,175)	(81)
Net cash used in financing activities	<u>(3,378)</u>	<u>(510)</u>
<b>Effect of foreign currency exchange rates on cash and cash equivalents</b>	<u>2,029</u>	<u>82</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(14,332)</u>	<u>(23,780)</u>
<b>Cash and cash equivalents:</b>		
Beginning of period	<u>110,220</u>	<u>108,732</u>
End of period	<u>\$ 95,888</u>	<u>\$ 84,952</u>

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

**Heidrick & Struggles International, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**  
**(All tables in thousands, except per share amounts)**  
**(Unaudited)**

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

The accompanying unaudited 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 generally accepted accounting principles 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 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 to Shareholders on Form 10-K for the year ended December 31, 2002, as filed with the SEC on March 26, 2003.

**2. Summary of Significant Accounting Policies**

The Company’s significant accounting policies are discussed in Note 1 of the Consolidated Financial Statements and Notes thereto included in the Company’s Annual Report to Shareholders on Form 10-K for the year ended December 31, 2002, as filed with the SEC on March 26, 2003.

*Stock-Based Compensation*

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations including Financial Accounting Standards Board (“FASB”) Interpretation No. 44, “Accounting for Certain Transactions Involving Stock Compensation,” an interpretation of APB Opinion No. 25, issued in March 2000, to account for fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation,” established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS No. 123.

Had compensation expense been determined based upon fair value at the grant date for all awards in accordance with SFAS No. 123, the Company’s pro forma net loss and basic and diluted loss per share would have been as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
<b>Net loss:</b>				
As reported	\$ (2,609)	\$ (3,397)	\$ (9,346)	\$ (21,132)
Add: Stock-based compensation expense already included in net income, net of tax	1,079	1,052	981	2,235
Deduct: Pro forma employee compensation cost related to stock options, restricted stock units and performance share plan, net of tax	(3,470)	(3,757)	(5,322)	(7,479)
<b>Pro forma</b>	<b>\$ (5,000)</b>	<b>\$ (6,102)</b>	<b>\$ (13,687)</b>	<b>\$ (26,376)</b>
<b>Basic loss per share:</b>				
As reported	\$ (0.14)	\$ (0.19)	\$ (0.52)	\$ (1.17)
Pro forma	(0.28)	(0.34)	(0.75)	(1.46)
<b>Diluted loss per share:</b>				
As reported	\$ (0.14)	\$ (0.19)	\$ (0.52)	\$ (1.17)
Pro forma	(0.28)	(0.34)	(0.75)	(1.46)



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**3. Goodwill and Other Intangibles**

*Goodwill*

Changes in the carrying amount of goodwill for the six months ended June 30, 2003 are as follows:

	North America	Europe	Asia Pacific	Total
<b>Balance at December 31, 2002</b>	\$18,362	\$30,406	\$1,503	\$50,271
Exchange rate fluctuations	—	288	28	316
<b>Balance at June 30, 2003</b>	<b>\$18,362</b>	<b>\$30,694</b>	<b>\$1,531</b>	<b>\$50,587</b>

Pursuant to the requirements of SFAS No. 142, "Goodwill and Other Intangible Assets," the Company performed its annual impairment test of goodwill in the fourth quarter of 2002. The fair value of each of the Company's reporting units was determined using a discounted cash flow methodology with the assistance of an independent valuation firm. These impairment tests indicated that the fair value of each reporting unit exceeded its carrying amount. As a result, no impairment charge was recorded.

*Other Intangible Assets*

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

	Original Weighted Average Life	June 30, 2003			December 31, 2002		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	13.5	\$ 13,157	\$ (3,787)	\$ 9,370	\$ 13,046	\$ (3,290)	\$ 9,756
Other intangibles	3.2	2,124	(2,015)	109	2,211	(1,737)	474
<b>Total</b>		<b>\$ 15,281</b>	<b>\$ (5,802)</b>	<b>\$ 9,479</b>	<b>\$ 15,257</b>	<b>\$ (5,027)</b>	<b>\$ 10,230</b>

Intangible amortization expense for the three months ended June 30, 2003 and 2002 was \$362,000 and \$498,000, respectively. Intangible amortization expense for the six months ended June 30, 2003 and 2002 was \$819,000 and \$1,036,000, respectively. The estimated amortization expense for each of the next five years is as follows:

Year Ended December 31,	
2003	\$1,537
2004	1,237
2005	1,143
2006	1,021
2007	1,021

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### 4. Basic and Diluted Loss Per Common Share

A reconciliation of the basic and diluted loss per share, and the shares used in the computation, are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
<b>Basic loss per common share:</b>				
Net loss	\$ (2,609)	\$ (3,397)	\$ (9,346)	\$ (21,132)
Weighted average common shares outstanding	18,138	18,098	18,147	18,074
Basic loss per common share	\$ (0.14)	\$ (0.19)	\$ (0.52)	\$ (1.17)
<b>Diluted loss per common share:</b>				
Net loss	\$ (2,609)	\$ (3,397)	\$ (9,346)	\$ (21,132)
Weighted average common shares outstanding	18,138	18,098	18,147	18,074
Dilutive common shares	—	—	—	—
Weighted average diluted common shares outstanding	18,138	18,098	18,147	18,074
Diluted loss per common share	\$ (0.14)	\$ (0.19)	\$ (0.52)	\$ (1.17)

For the three months ended June 30, 2003 and 2002, there were approximately 0.6 million and 1.0 million dilutive common shares, respectively, that were not included in the computation of the loss per common share because the effect of their inclusion would have been anti-dilutive. For the six months ended June 30, 2003 and 2002, there were approximately 0.5 million and 0.9 million dilutive common shares, respectively, that were not included in the computation of the loss per common share because the effect of their inclusion would have been anti-dilutive.

### 5. Segment Information

The Company operates its executive search and complementary services in four geographic regions: North America, which includes the United States (except Miami) and Canada; Latin America, which includes Mexico and the rest of Latin America, as well as Miami, which serves as the gateway office to the region; Europe; and Asia Pacific.

In accordance with Emerging Issues Task Force (“EITF”) Issue No. 01-14, “Income Statement Characterization of Reimbursements Received for ‘Out-of-Pocket’ Expenses Incurred,” (EITF No. 01-14) reimbursements of out-of-pocket expenses are classified as revenue. For segment purposes, reimbursements are reported separately and therefore are not included in the net revenue by geographic region. The presentation required by EITF No. 01-14 has no impact on the operating income (loss) of the geographic regions.

The Company believes that analyzing trends in revenue before reimbursements (net revenue) and analyzing operating expenses as a percentage of revenue before reimbursements (net revenue) more appropriately reflects the Company’s core operations.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
<b>Revenue:</b>				
North America	\$ 44,728	\$ 52,226	\$ 86,546	\$ 102,061
Latin America	2,658	2,575	4,936	5,471
Europe	28,179	32,867	56,438	66,295
Asia Pacific	6,109	5,808	11,065	11,372
	<u>81,674</u>	<u>93,476</u>	<u>158,985</u>	<u>185,199</u>
Revenue before reimbursements (net revenue)	81,674	93,476	158,985	185,199
Reimbursements	6,221	6,834	11,886	13,317
	<u>6,221</u>	<u>6,834</u>	<u>11,886</u>	<u>13,317</u>
Total revenue	<u>\$ 87,895</u>	<u>\$ 100,310</u>	<u>\$ 170,871</u>	<u>\$ 198,516</u>
<b>Operating income (loss):</b>				
North America	\$ 10,161	\$ 9,607	\$ 16,042	\$ 12,609
Latin America	103	(1,224)	(20)	(1,577)
Europe	(1,949)	(300)	(1,384)	(1,257)
Asia Pacific	1,090	432	1,529	1,091
	<u>9,405</u>	<u>8,515</u>	<u>16,167</u>	<u>10,866</u>
Total regions	9,405	8,515	16,167	10,866
Corporate	(11,046)	(7,559)	(17,209)	(14,897)
Restructuring charges	—	—	(5,500)	(23,169)
	<u>—</u>	<u>—</u>	<u>(5,500)</u>	<u>(23,169)</u>
Operating income (loss)	<u>\$ (1,641)</u>	<u>\$ 956</u>	<u>\$ (6,542)</u>	<u>\$ (27,200)</u>
<b>Depreciation and amortization:</b>				
North America	\$ 1,474	\$ 1,501	\$ 2,866	\$ 2,890
Latin America	99	115	195	226
Europe	1,486	1,627	3,030	3,552
Asia Pacific	198	211	382	399
	<u>3,257</u>	<u>3,454</u>	<u>6,473</u>	<u>7,067</u>
Total regions	3,257	3,454	6,473	7,067
Corporate	307	281	626	522
	<u>307</u>	<u>281</u>	<u>626</u>	<u>522</u>
Total depreciation and amortization	<u>\$ 3,564</u>	<u>\$ 3,735</u>	<u>\$ 7,099</u>	<u>\$ 7,589</u>
<b>Capital expenditures:</b>				
North America	\$ 790	\$ 534	\$ 1,325	\$ 1,309
Latin America	19	52	32	59
Europe	432	308	542	1,043
Asia Pacific	188	43	390	46
	<u>1,429</u>	<u>937</u>	<u>2,289</u>	<u>2,457</u>
Total regions	1,429	937	2,289	2,457
Corporate	140	611	616	728
	<u>140</u>	<u>611</u>	<u>616</u>	<u>728</u>
Total capital expenditures	<u>\$ 1,569</u>	<u>\$ 1,548</u>	<u>\$ 2,905</u>	<u>\$ 3,185</u>

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

	June 30, 2003	December 31, 2002
<b>Identifiable assets:</b>		
North America	\$ 69,553	\$ 71,670
Latin America	5,119	4,367
Europe	140,273	142,467
Asia Pacific	20,465	21,964
	<hr/>	<hr/>
Total regions	235,410	240,468
Corporate	103,455	122,596
	<hr/>	<hr/>
Total identifiable assets	\$ 338,865	\$ 363,064
	<hr/>	<hr/>
<b>Goodwill and intangible assets, net:</b>		
North America	\$ 22,394	\$ 22,810
Latin America	—	—
Europe	36,141	36,188
Asia Pacific	1,531	1,503
	<hr/>	<hr/>
Total goodwill and intangible assets, net	\$ 60,066	\$ 60,501
	<hr/>	<hr/>

## **6. Restructuring Charges**

In June 2001, October 2001 and October 2002, the Company announced cost reduction initiatives to better align costs with expected net revenue levels. Through December 31, 2001, the Company recorded \$53.2 million of restructuring charges related to reductions in its workforce and the consolidation and closing of offices. During 2002, the Company recorded an additional \$48.5 million of restructuring charges related to additional reductions in its workforce and further office consolidations and closings.

In the first quarter of 2002, the Company recorded restructuring charges of \$23.2 million related to announced cost reduction initiatives. The 2002 first quarter restructuring charges include severance and other employee-related costs of \$10.4 million and \$12.8 million related to the consolidation and closing of offices. By segment, the restructuring charges recorded in the first quarter of 2002 are as follows: North America \$13.3 million; Latin America \$0.1 million; Europe \$7.0 million; Asia Pacific \$0.3 million; Corporate \$2.5 million. Approximately \$15.2 million of the \$23.2 million of restructuring charges recorded in the first quarter of 2002 represented cash charges. No restructuring charges were recorded in the second quarter of 2002.

In the 2003 first quarter, the Company recorded restructuring charges of \$5.5 million to increase previously established accruals associated with unused office space to reflect the expectation that longer vacancy periods will result in costs that are higher than previously anticipated. By segment, the restructuring charges recorded in the first quarter of 2003 are as follows: North America \$0.4 million; Europe \$5.1 million. No restructuring charges were recorded in the second quarter of 2003.

In the Consolidated Statements of Operations, the restructuring charges have been segregated on a separate line titled, "Restructuring charges." For segment reporting, the restructuring charges have been segregated and therefore do not impact the quarter-to-quarter comparisons by geographic region. As the activities related to these restructuring charges were initiated prior to December 31, 2002, the restructuring charges were recorded in accordance with the requirements of EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)," and SEC Staff Accounting Bulletin No. 100, "Restructuring and Impairment Charges."

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The table below outlines the restructuring-related accruals at December 31, 2002 and June 30, 2003 and the restructuring charges and cash payments for the six months ended June 30, 2003:

	Severance And Other Employee- Related Costs	Office Consolidations	Total
<b>Charges unpaid at December 31, 2002</b>	\$ 12,003	\$27,233	\$ 39,236
Charges recorded in 2003	—	5,500	5,500
Cash payments in 2003	(7,792)	(5,243)	(13,035)
<b>Charges unpaid at June 30, 2003</b>	\$ 4,211	\$27,490	\$ 31,701

### 7. Income Taxes

The Company's income tax provision reflects an expense of \$1.2 million and \$4.3 million for the three and six months ended June 30, 2003, respectively, for the reduction of deferred tax assets related to the excess of expense for accounting purposes over the related deduction for tax purposes that occurred upon the vesting of restricted stock units in the first half of 2003. Excluding this expense, the effective tax benefit rate was 22.6% for the six months ended June 30, 2003.

The Company's effective tax benefit rate was 35.0% for the six months ended June 30, 2002. The decline in the effective tax benefit rate in the first half of 2003 (excluding the income tax expense related to the reduction of deferred tax assets) compared to the first half of 2002 is primarily attributable to lower anticipated benefits related to foreign tax credits.

### 8. Realized and Unrealized Gains (Losses) on Equity and Warrant Portfolio

The Company receives warrants for equity securities in its client companies, in addition to its 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. The warrants are recorded at fair value, net of consultants' bonuses. In accordance with SFAS No. 133, changes in the fair value of the derivatives are recorded in the Consolidated Statements of Operations. Each quarter's results of operations are affected by the fluctuations in the fair value of these derivative instruments. Other warrants received which do not meet the definition of a derivative instrument under SFAS No. 133 are regularly reviewed for declines in fair value. Upon a value event such as an initial public offering or an acquisition, any equity securities arising from the exercise of a warrant are accounted for as available-for-sale investments.

The realized and unrealized gains (losses), net of consultants' bonuses and other costs, arising from the equity and warrant portfolio are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Realized gains on investments	\$ 165	\$ 47	\$ 531	\$ 47
Unrealized losses on derivative instruments	(144)	(1,432)	(283)	(1,289)
Net realized and unrealized gains (losses) on equity and warrant portfolio	\$ 21	\$(1,385)	\$ 248	\$(1,242)

## 9. Guarantees

The Company has issued guarantees on the payment of lease commitments for office space for certain subsidiaries in Europe. The guarantees were made to secure the respective lease agreements. The guarantees are for the term of the lease agreements, which extend through 2009. For each guarantee issued, if the subsidiary defaults 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 is approximately \$1.4 million as of June 30, 2003. No amount has been accrued for the Company's obligation under these guaranty arrangements.

In addition, the Company has issued guarantees to a financial institution for loans which the financial institution extended to certain employees of the Company. The loans were established at the time of the Company's initial public offering to enable certain employees to purchase shares of the Company's common stock. The guarantees are for the entire term of the loans, which are being repaid over time and mature on December 31, 2003. The shares of the Company's common stock purchased by employees are held in escrow and act as collateral in the event the employee defaults on their loan. For each guarantee issued, if the employee defaults on a payment, the Company would have to perform under the guarantee. The maximum amount of undiscounted payments the Company would have to make in the event of default is approximately \$0.4 million as of June 30, 2003. No amount has been accrued for the Company's obligation under these guaranty arrangements.

## 10. Recently Issued Financial Accounting Standards

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires entities to recognize the fair value of a liability for legal obligations associated with the retirement of tangible long-lived assets in the period incurred, if a reasonable estimate of the fair value can be made. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company adopted SFAS No. 143 on January 1, 2003. The adoption of SFAS No. 143 did not have a material impact on the Company's financial condition or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement requires companies to recognize costs associated with exit or disposal activities when they are incurred and can be measured at fair value rather than at the date of a commitment to an exit or disposal plan. This statement also requires companies to disclose, for each reportable segment, the exit or disposal activity costs incurred in the period and the cumulative amount incurred, net of any changes in the liability, with an explanation of the reasons for the changes. Companies are required to disclose the total amount of costs expected to be incurred in connection with the exit or disposal activity. The new requirements are effective prospectively for exit and disposal activities initiated after December 31, 2002. The Company adopted SFAS No. 146 on January 1, 2003. The adoption of SFAS No. 146 did not have a material impact on the Company's financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 31, 2002. The Company adopted Interpretation No. 45 on January 1, 2003. The adoption of Interpretation No. 45 did not have a material impact on the Company's financial condition or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." This statement provides alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based

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employee compensation and the effect of the method used on reported results. This statement is effective for financial statements for fiscal years ended after December 15, 2002 and for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002. The required disclosures are included in Note 2, *Summary of Significant Accounting Policies*, in these unaudited Notes to Consolidated Financial Statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. This statement is effective for contracts entered into or modified after June 30, 2003. The Company is currently evaluating the provisions of SFAS No. 149, but anticipates that its adoption will not have a material impact on its financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This statement establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company is currently evaluating the provisions of SFAS No. 150, but anticipates that its adoption will not have a material impact on its financial condition or results of operations.

### 11. Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting comprehensive income. Comprehensive income includes net income as currently reported under accounting principles generally accepted in the United States, and also considers the effect of additional economic events that are not required to be reported in determining net income, but rather are reported as a separate component of stockholders' equity. The Company reports foreign currency translation gains and losses and unrealized gains and losses on available-for-sale investments, net of tax, as components of comprehensive income. The components of comprehensive income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net loss	\$ (2,609)	\$ (3,397)	\$ (9,346)	\$ (21,132)
Change in foreign currency translation adjustment	2,710	5,130	4,030	3,906
Change in unrealized gain on available-for-sale investments, net of tax	(18)	22	(28)	18
Comprehensive income (loss)	\$ 83	\$ 1,755	\$ (5,344)	\$ (17,208)

**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 forward-looking statements are based on current expectations, estimates, forecasts and projections, 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," 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; further deterioration of the economies in the United States, Europe, or elsewhere; social or political instability in markets in which we operate; price competition; an inability to achieve the planned cost savings from our cost reduction initiatives; an inability to sublease or assign unused office space; our ability to generate profits in order to ensure that our deferred tax assets are realizable; and delays in the development and/or implementation of new technology and systems. Our reports filed with the U. S. Securities and Exchange Commission also include information on factors that may affect the outcome of forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.*

**General**

We are a premier provider of executive search and leadership consulting services. We help our clients build leadership teams by facilitating the recruitment, development and retention of personnel for their executive management positions. In addition to executive search, we provide other leadership services, including executive assessment, placement of interim executive management and, through an alliance, executive coaching.

During 1999 and 2000, the executive search industry experienced a dramatic increase in demand for its services in virtually all markets based on increased competition for executive talent, the need for executives with diverse and global leadership skills, and the proliferation of Internet and e-commerce businesses. Our rate of growth in net revenue during this period exceeded both the industry trend and our historical average because of the need for management at start-up companies, the creation of new e-commerce positions at more established companies and the growth in the financial services industry. We responded to these trends by increasing the number of consultants and the number of offices from which we served our clients. In 2000, we added more than 100 consultants, including consultants experienced in executive search and employees from other disciplines who were new to the search profession, in anticipation of a continuation of increased demand. Also, in response to the demand for Internet-enhanced mid-level search, in March 1999 we launched our mid-level recruiting business as a separate subsidiary called LeadersOnline.

The slowdown in the United States economy that began early in 2001, especially in the financial services and technology sectors, followed by a slowdown in other geographic markets, created an environment where the previous trends began to reverse. Commencing in June 2001, when we anticipated a decrease in net revenue compared to 2000, we took steps to reduce our cost base by reducing our workforce while retaining capacity to meet additional demand when the economy recovered. In October 2001, we announced further reductions in our workforce and consolidated or eliminated office space. The initiatives related to these announcements, including the integration of LeadersOnline into our Executive Search business, were completed during the 2002 first quarter.

In 2002, the worldwide economies, and the demand for executive search services, continued to weaken. Even after taking into account the workforce reductions and office consolidations and closings that occurred since June 2001, at the then-current and anticipated net revenue levels, we determined that we had substantial excess search team capacity. In addition, the cost structure in Europe continued to be too high for its net revenue level. As a result, in October 2002, we announced further reductions in our workforce and additional office consolidations and closings.



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In the first half of 2003, continued global economic weakness and geopolitical tensions adversely impacted the business environment and, consequently, the demand for our services. The ongoing global economic weakness could have an adverse impact on our net revenue over the balance of the year.

On April 7, 2003, Mr. Piers Marmion resigned as Chief Executive Officer (“CEO”). We recorded a charge of \$3.7 million in the second quarter of 2003 for the separation. On May 15, 2003, Mr. David Anderson, who until February 2003 served as our President and Chief Operating Officer (“COO”), resigned. We recorded a charge of \$1.5 million in the second quarter of 2003 for the separation.

### **Results of Operations**

We operate our executive search and complementary leadership services in four geographic regions: North America, which includes the United States (except Miami) and Canada; Latin America, which includes Mexico and the rest of Latin America, as well as Miami, which serves as our gateway office to the region; Europe; and Asia Pacific.

Total revenue consists of revenue before reimbursements of out-of-pocket expenses (net revenue) and reimbursements of out-of-pocket expenses. Revenue before reimbursements of out-of-pocket expenses (net revenue) consists primarily of retainers and indirect expenses billed to clients. Reimbursements of out-of-pocket expenses are characterized as revenue in accordance with Emerging Issues Task Force (“EITF”) Issue No. 01-14, “Income Statement Characterization of Reimbursements Received for ‘Out-of-Pocket’ Expenses Incurred,” (EITF No. 01-14). Related reimbursable expenses are also shown separately within operating expenses.

For segment purposes, the reimbursements of out-of-pocket expenses are reported on a separate line, and therefore do not affect the analysis of net revenue by geographic region. The presentation required by EITF No. 01-14 has no impact on the consolidated operating income (loss) or on the operating income (loss) of the geographic regions.

We believe that analyzing trends in revenue before reimbursements (net revenue) and analyzing operating expenses as a percentage of revenue before reimbursements (net revenue) more appropriately reflects our core operations.

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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,	
	2003	2002	2003	2002
<b>Revenue:</b>				
Revenue before reimbursements (net revenue)	100.0%	100.0%	100.0%	100.0%
Reimbursements	7.6	7.3	7.5	7.2
Total revenue	107.6	107.3	107.5	107.2
<b>Operating expenses:</b>				
Salaries and employee benefits	77.0	68.8	73.6	71.9
General and administrative expenses	25.0	30.2	27.0	30.3
Reimbursements	7.6	7.3	7.5	7.2
Restructuring charges	—	—	3.5	12.5
Total operating expenses	109.6	106.3	111.6	121.9
<b>Operating income (loss)</b>	<b>(2.0)</b>	<b>1.0</b>	<b>(4.1)</b>	<b>(14.7)</b>
<b>Non-operating income (expense)</b>				
Interest income	0.6	0.4	0.6	0.5
Interest expense	(0.1)	—	(0.1)	—
Net realized and unrealized gains (losses) on equity and warrant portfolio	—	(1.5)	0.2	(0.7)
Write-down of long-term investment	—	(5.3)	—	(2.7)
Other, net	(0.4)	(0.2)	(0.7)	0.1
Net non-operating income (expense)	0.1	(6.6)	—	(2.9)
<b>Loss before income taxes</b>	<b>(1.9)</b>	<b>(5.6)</b>	<b>(4.1)</b>	<b>(17.6)</b>
Provision for (benefit from) income taxes	1.3	(2.0)	1.8	(6.1)
<b>Net loss</b>	<b>(3.2)%</b>	<b>(3.6)%</b>	<b>(5.9)%</b>	<b>(11.4)%</b>

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 (loss) by segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
<b>Revenue:</b>				
North America	\$ 44,728	\$ 52,226	\$ 86,546	\$ 102,061
Latin America	2,658	2,575	4,936	5,471
Europe	28,179	32,867	56,438	66,295
Asia Pacific	6,109	5,808	11,065	11,372
Revenue before reimbursements (net revenue)	81,674	93,476	158,985	185,199
Reimbursements	6,221	6,834	11,886	13,317
<b>Total revenue</b>	<b>\$ 87,895</b>	<b>\$ 100,310</b>	<b>\$ 170,871</b>	<b>\$ 198,516</b>
<b>Operating income (loss):</b>				
North America	\$ 10,161	\$ 9,607	\$ 16,042	\$ 12,609
Latin America	103	(1,224)	(20)	(1,577)
Europe	(1,949)	(300)	(1,384)	(1,257)
Asia Pacific	1,090	432	1,529	1,091
Total regions	9,405	8,515	16,167	10,866
Corporate	(11,046)	(7,559)	(17,209)	(14,897)
Restructuring charges	—	—	(5,500)	(23,169)
<b>Operating income (loss)</b>	<b>\$ (1,641)</b>	<b>\$ 956</b>	<b>\$ (6,542)</b>	<b>\$ (27,200)</b>

### Three Months Ended June 30, 2003 Compared to the Three Months Ended June 30, 2002

*Total revenue.* Consolidated total revenue decreased \$12.4 million, or 12.4%, to \$87.9 million for the three months ended June 30, 2003 from \$100.3 million for the three months ended June 30, 2002. The decline in total revenue was due primarily to the decline in revenue before reimbursements (net revenue).

*Revenue before reimbursements (net revenue).* Consolidated net revenue decreased \$11.8 million, or 12.6%, to \$81.7 million for the three months ended June 30, 2003 from \$93.5 million for the three months ended June 30, 2002. Excluding the positive impact of \$5.0 million due to exchange rate fluctuations, net revenue declined approximately 18%. We believe information regarding changes in net revenue excluding the impact of exchange rate fluctuations is helpful in providing an understanding of the volume of business activity. While most of our industry practices reported net revenue increases, two of our largest practices, Financial Services and Technology, continued to show weakness. The number of confirmed executive searches decreased 18% compared to the second quarter of 2002. We believe this decrease reflects the impact of the continuing low levels of business confidence related to the global economy.

Net revenue in North America was \$44.7 million for the three months ended June 30, 2003, a decrease of \$7.5 million, or 14.4%, from \$52.2 million in the second quarter of 2002. While the Health Care and Professional Services practices showed increases in net revenue, that performance was more than offset by the ongoing weakness in the Financial Services and Technology practices. In Latin America, net revenue was \$2.7 million for the three months ended June 30, 2003, an increase of \$0.1 million, or 3.2%, from \$2.6 million in the second quarter of 2002. The increase in Technology and Leadership Services net revenue offset declines across most of the practices and the loss of net revenue from operations which were sold in 2002. Net revenue in Europe was \$28.2 million for the three months ended June 30, 2003, a decrease of \$4.7 million, or 14.3%, from \$32.9 million in the second quarter of 2002. Excluding a positive impact of \$4.7 million due to exchange rate changes, net revenue was \$23.5 million, a decrease of approximately 29% from the comparable quarter in 2002. The decline in net revenue is due to general economic weakness, particularly in the Financial Services practice, and the loss of net revenue from unprofitable operations that were sold or shut down during 2002. In Asia Pacific, net revenue was

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\$6.1 million for the three months ended June 30, 2003, an increase of \$0.3 million, or 5.2%, from \$5.8 million in the second quarter of 2002. Excluding a positive impact of \$0.3 million due to exchange rate changes, net revenue was unchanged compared to the same quarter in 2002. Increases in most practice groups were offset by a decline in the Technology practice.

*Salaries and employee benefits.* Consolidated salaries and employee benefits expense decreased \$1.4 million, or 2.1%, to \$62.9 million for the three months ended June 30, 2003 from \$64.3 million for the three months ended June 30, 2002. Salary and employee benefits expense for the second quarter of 2003 includes \$5.2 million of expense related to the separation agreements for the former CEO and the former President and COO, as well as approximately \$2.8 million of severance-related expenses, primarily in Europe and North America. Excluding these severance-related expenses, salary and employee benefits decreased \$9.4 million, or 14.6%. The decrease in dollar terms was primarily attributable to lower fixed costs as a result of the elimination of approximately 400 positions since March 2002. As a percentage of net revenue, salaries and employee benefits expense increased to 77.0% in the second quarter of 2003 from 68.8% in the second quarter of 2002. Excluding the impact of the severance-related expenses, which we believe more appropriately reflects our core operations, salary and employee benefits expense as a percentage of net revenue was 67.2% for the second quarter of 2003 compared to 68.8% in the second quarter of 2002. The decrease as a percentage of net revenue was primarily due to lower fixed salaries and employee benefits expense in relation to the net revenue level, partially offset by a greater percentage of net revenue being accrued in the quarter for performance-based compensation for executive search consultants and support staff.

*General and administrative expenses.* Consolidated general and administrative expenses decreased \$7.8 million, or 27.8%, to \$20.4 million for the three months ended June 30, 2003 from \$28.2 million for the three months ended June 30, 2002. This decrease was due to lower discretionary spending, a reduction in bad debt expense of \$1.6 million, and cost savings from the consolidation and closing of offices. As a percentage of net revenue, general and administrative expenses decreased to 25.0% in the second quarter of 2003 from 30.2% in the second quarter of 2002.

*Operating income (loss).* Our consolidated operating loss was \$1.6 million for the three months ended June 30, 2003 compared to operating income of \$1.0 million for the three months ended June 30, 2002. The decrease in the operating income was primarily due to severance-related expenses of \$8.0 million recorded in the second quarter of 2003. Excluding these severance-related expenses in the second quarter of 2003, which we believe more appropriately reflects our core operations, the operating income would have been \$6.4 million, an increase of \$5.4 million compared to the second quarter of 2002. This increase in operating income was driven by a \$9.4 million reduction in salaries and employee benefits expense due primarily to reductions in our workforce, and a \$7.8 million reduction of general and administrative expenses due to reduced spending on discretionary items, a reduction in bad debt expense, and savings from office consolidations and closings. These cost reductions more than offset the \$11.8 million decline in net revenue compared to the 2002 second quarter.

In North America, operating income for the three months ended June 30, 2003 increased \$0.6 million to \$10.2 million from \$9.6 million for the three months ended June 30, 2002. The decline of \$7.5 million in North America's net revenue was offset by lower levels of fixed salaries and employee benefits expense, a reduction in bad debt expense of \$0.7 million reflecting a reduction in the allowance for doubtful accounts due to improved collections on accounts receivable, lower discretionary spending and lower facilities-related expenses. Most of the cost savings are attributable to the reductions in workforce, and the consolidation and closing of offices, which have occurred since the 2002 first quarter. These cost reductions were partially offset by approximately \$0.5 million of severance-related expenses recorded in the second quarter of 2003.

In Latin America, the operating income was \$0.1 million for the three months ended June 30, 2003, compared to an operating loss of \$1.2 million for the three months ended June 30, 2002. The improvement was attributable to lower fixed compensation expense. Also, in the three months ended June 30, 2002, expenses were recorded related to the sale of certain operations.

In Europe, the operating loss was \$1.9 million for the three months ended June 30, 2003, compared to an operating loss of \$0.3 million for the three months ended June 30, 2002. The increase in the operating loss of \$1.6 million was attributable to approximately \$2.0 million of severance-related expenses recorded in the second quarter of 2003. Excluding the severance-related expenses, which we believe more appropriately reflects the Europe region's core operations, the Europe region would have operated at

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approximately break-even for the three months ended June 30, 2003. The decline in net revenue of \$4.7 million was offset by lower fixed salary and employee benefits expense, a reduction in bad debt expense of \$0.9 million and lower discretionary spending, reflecting the reductions in workforce and cost reduction initiatives which were announced in the 2002 fourth quarter.

In Asia Pacific, operating income for the three months ended June 30, 2003 was \$1.1 million compared to operating income of \$0.4 million for the three months ended June 30, 2002. The increase in operating income of \$0.7 million was attributable to lower incentive-based compensation compared to the prior year, partially offset by \$0.2 million of severance-related expenses recorded in the second quarter of 2003.

Unallocated corporate expenses for the three months ended June 30, 2003 were \$11.0 million, an increase of \$3.4 million compared to unallocated corporate expenses of \$7.6 million for the three months ended June 30, 2002. The corporate expenses for the three months ended June 30, 2003 include \$5.2 million related to the separation agreements for the former CEO and the former President and COO, and \$0.1 million of other severance-related expenses. Excluding the severance-related expenses, corporate expenses were \$5.7 million for the three months ended June 30, 2003, a decrease of \$1.9 million, or 24.1%, compared to \$7.6 million for the three months ended June 30, 2002. The decline is due to lower salary and employee benefits expense, and lower systems-related spending.

*Non-operating income (expense).* Consolidated net non-operating income for the three months ended June 30, 2003 was \$0.1 million compared to \$6.2 million of net non-operating expense for the three months ended June 30, 2002. The following table presents the components of our net non-operating income (expense) for the three months ended June 30, 2003 and 2002, respectively:

Non-operating income (expense)	Three Months Ended June 30,		Increase (decrease) in non- operating income
	2003	2002	
		(In millions)	
Interest income	\$ 0.5	\$ 0.4	\$ 0.1
Interest expense	(0.1)	—	(0.1)
Realized and unrealized gains (losses) on equity and warrant portfolio:			
Realized gains on investments	0.2	—	0.2
Unrealized gains (losses) on derivative instruments	(0.1)	(1.4)	1.3
Net realized and unrealized gains (losses)	—	(1.4)	1.4
Write-down of long-term investment	—	(5.0)	5.0
Other, net	(0.3)	(0.1)	(0.2)
Net non-operating income (expense)	\$ 0.1	\$ (6.2)	\$ 6.3

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

Interest income in the second quarter of 2003 increased slightly compared to the second quarter of 2002, due to higher cash balances.

We receive warrants for equity securities in our client companies, in addition to our cash fee, for services rendered on some searches. The warrants are recorded at fair value, net of consultants' bonuses. Some of the warrants in our portfolio meet the definition of derivative instruments under Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its subsequent amendments. In accordance with SFAS No. 133, subsequent changes in the fair value of these derivative instruments are recorded in the Consolidated Statements of Operations rather than as a component of accumulated other comprehensive income. Warrants which do not meet the definition of a derivative instrument are regularly reviewed for declines in value. Upon a value event such as an initial public offering or an acquisition, the equity

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securities arising from the exercise of the warrants are monetized, resulting in a realized gain, net of consultants' bonuses and other costs. During the three months ended June 30, 2003, we recognized \$0.2 million of realized gains and \$0.1 million of unrealized losses, net of consultants' bonuses and other costs, related to our equity and warrant portfolio. During the three months ended June 30, 2002, we recognized \$1.4 million of unrealized losses, net of consultants' bonuses and other costs, related to our equity and warrant portfolio. No realized gains or losses were recognized during the three months ended June 30, 2002.

The write-down of the long-term investment of \$5.0 million in the second quarter of 2002 resulted from the write-down of the remainder of our investment in ETF Group. ETF Group is a Europe-based venture capital firm that helps emerging companies expand into international markets.

Net other non-operating expense was \$0.3 million for the three months ended June 30, 2003, compared to net other non-operating expense of \$0.1 million for the three months ended June 30, 2002. Other non-operating income (expense) consists primarily of exchange gains (losses) on intercompany balances which are denominated in currencies other than the functional currency and are not considered permanent in nature.

*Income taxes.* During the three months ended June 30, 2003, we had a pre-tax loss of \$1.5 million. For the three months ended June 30, 2003, the income tax expense was \$1.1 million. The income tax expense recorded in the second quarter of 2003 includes an expense of \$1.2 million to reduce certain deferred tax assets, representing the excess of expense for accounting purposes over the deduction for tax purposes, that occurred upon the vesting of restricted stock units in the second quarter of 2003. In prior years, a portion of consultant and management compensation was granted in restricted stock units at the then-average market price of approximately \$35 per share. This price served as the basis for the compensation expense and the related tax benefit and deferred tax asset. The restricted stock units vested in the second quarter of 2003 at a market price of approximately \$13 per share. As this share price serves as the basis for the current tax deduction, we will realize a smaller tax benefit than initially recorded. Accordingly, we adjusted the deferred tax asset to reflect the lower tax benefit.

During the three months ended June 30, 2002, we had a pre-tax loss of \$5.2 million and an income tax benefit of \$1.8 million. The effective tax benefit rate for the three months ended June 30, 2002 was 35.0%.

### **Six Months Ended June 30, 2003 Compared to the Three Months Ended June 30, 2002**

*Total revenue.* Consolidated total revenue decreased \$27.6 million, or 13.9%, to \$170.9 million for the six months ended June 30, 2003 from \$198.5 million for the six months ended June 30, 2002. The decline in total revenue was due primarily to the decline in revenue before reimbursements (net revenue).

*Revenue before reimbursements (net revenue).* Consolidated net revenue decreased \$26.2 million, or 14.2%, to \$159.0 million for the six months ended June 30, 2003 from \$185.2 million for the six months ended June 30, 2002. Excluding the positive impact of \$10.0 million due to exchange rate fluctuations, net revenue declined approximately 20% to \$149.0 million. We believe information regarding changes in net revenue excluding the impact of exchange rate fluctuations is helpful in providing an understanding of the volume of business activity. While our Health Care, Industrial and Professional Services practices reported net revenue increases, the Financial Services and Technology practices continued to show weakness. The number of confirmed executive searches decreased 11% compared to the first six months of 2002. We believe this decrease reflects the impact of the continuing low levels of business confidence related to the global economy.

Net revenue in North America was \$86.5 million for the six months ended June 30, 2003, a decrease of \$15.6 million, or 15.2%, from \$102.1 million for the six months ended June 30, 2002. While the Health Care, Industrial and Professional Services practices all showed increases in net revenue, that performance was more than offset by the ongoing weakness in the Financial Services and Technology practices. In Latin America, net revenue was \$4.9 million for the six months ended June 30, 2003, a decrease of \$0.6 million, or 9.8%, from \$5.5 million for the six months ended June 30, 2002, reflecting declines across most of the practices and the loss of net revenue from operations that were sold in 2002. Net revenue in Europe was \$56.4 million for the six months ended June 30, 2003, a decrease of \$9.9 million, or 14.9%, from \$66.3 million for the six months ended June 30, 2002. Excluding a positive impact of \$9.5 million due to exchange rate changes, net revenue was \$46.9 million, a decrease of approximately 29% from the comparable period in 2002. The decline in net revenue is attributable to general economic weakness, particularly in the Financial Services practice, and the loss of net revenue from

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unprofitable operations that were sold or shut down during 2002. In Asia Pacific, net revenue was \$11.1 million for the six months ended June 30, 2003, a decrease of \$0.3 million, or 2.7%, from \$11.4 million for the six months ended June 30, 2002. Excluding a positive impact of \$0.6 million due to exchange rate changes, net revenue was \$10.5 million, a decrease of approximately 8% compared to the same period in 2002. Increases in the Industrial and Professional Services practices were more than offset by declines in the other practices.

*Salaries and employee benefits.* Consolidated salaries and employee benefits expense decreased \$16.1 million, or 12.1%, to \$117.1 million for the six months ended June 30, 2003 from \$133.2 million for the six months ended June 30, 2002. Excluding the severance-related expenses of \$8.0 million recorded in the second quarter of 2003, the consolidated salaries and employee benefits expense would have been \$109.1, a decrease of \$24.1 million, or 18.1%, compared to the salary and benefits expense recorded in the six months ended June 30, 2002. The decrease in dollar terms was primarily attributable to lower fixed costs as a result of the elimination of approximately 400 positions since March 2002, a \$1.9 million benefit resulting from the forfeiture of certain restricted stock units which occurred primarily in the first quarter of 2003, and lower accruals for performance-based compensation. As a percentage of net revenue, salaries and employee benefits expense increased to 73.6% for the six months ended June 30, 2003 from 71.9% for the six months ended June 30, 2002. Excluding the \$8.0 million of severance-related expenses, which we believe more appropriately reflects our core operations, salary and employee benefits expense as a percentage of net revenue would have been 68.6% for the six months ended June 30, 2003 compared to 71.9% for the six months ended June 30, 2002. The decrease as a percentage of net revenue is primarily due to lower fixed salaries and employee benefits expense in relation to the net revenue level.

*General and administrative expenses.* Consolidated general and administrative expenses decreased \$13.1 million, or 23.4%, to \$43.0 million for the six months ended June 30, 2003 from \$56.1 million for the six months ended June 30, 2002. This decrease was due to lower discretionary spending, a reduction in bad debt expense of \$3.3 million, and cost savings from the consolidation and closing of offices. As a percentage of net revenue, general and administrative expenses decreased to 27.0% in the six months ended June 30, 2003 from 30.3% in the six months ended June 30, 2002.

*Restructuring charges.* In the first quarter of 2003, we recorded restructuring charges of \$5.5 million to increase accruals for leased properties that had been identified as excess in previous office consolidation charges. The accruals were increased to reflect the expectation of longer vacancy periods due in part to weakness in the real estate markets in which the leased properties are located. By segment, North America recorded charges of \$0.4 million and Europe recorded \$5.1 million of charges. No restructuring charges were recorded in the second quarter of 2003.

In October 2001, we announced company-wide cost reduction initiatives to better align costs with the expected net revenue levels. During the 2002 first quarter, we recorded \$23.2 million of restructuring charges related to these announced initiatives. The actions, which occurred during the first quarter of 2002, affected 166 people, including 51 executive search and management search consultants. The remainder was search and corporate support staff. Over two-thirds of the layoffs were in North America, 20% were in Europe, and the rest were in Latin America and Asia Pacific. The 2002 first quarter restructuring charges include severance and other employee-related costs of \$10.4 million and costs related to the consolidation and closing of offices of \$12.8 million. By segment, the restructuring charges recorded in the first quarter of 2002 are as follows: North America \$13.3 million; Latin America \$0.1 million; Europe \$7.0 million; Asia Pacific \$0.3 million; Corporate \$2.5 million. Approximately \$15.2 million of the \$23.2 million of the restructuring charges recorded in the 2002 first quarter represents cash charges. No restructuring charges were recorded in the second quarter of 2002.

*Operating loss.* Our consolidated operating loss was \$6.5 million for the six months ended June 30, 2003, a decrease of \$20.7 million compared to an operating loss of \$27.2 million for the six months ended June 30, 2002. The decrease in the operating loss was primarily due to lower restructuring charges and improved profitability in the geographic regions, offset by severance-related expenses of \$8.0 million recorded in the second quarter of 2003.

In North America, operating income for the six months ended June 30, 2003 increased \$3.4 million to \$16.0 million from \$12.6 million for the six months ended June 30, 2002. The decline of \$15.6 million in North America's net revenue was offset by lower levels of fixed salaries and employee benefits expense, including a benefit resulting from the forfeiture of certain restricted stock units, a reduction in bad debt expense of \$1.4 million,

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lower discretionary spending and lower facilities-related expenses. Most of the cost savings are attributable to the reductions in workforce, and the consolidation and closing of offices, which have occurred since the 2002 first quarter.

In Latin America, the operating loss was less than \$0.1 million for the six months ended June 30, 2003 compared to an operating loss of \$1.6 million for the six months ended June 30, 2002. The decrease in the operating loss was attributable to lower performance-based and fixed compensation expense. Also, in the six months ended June 30, 2002, expenses were recorded related to the sale of certain operations. The reductions in salary and employee benefits expense and general and administrative expenses more than offset the \$0.6 million decline in net revenue.

In Europe, the operating loss was \$1.4 million for the six months ended June 30, 2003, compared to an operating loss of \$1.3 million for the six months ended June 30, 2002. The operating loss for the six months ended June 30, 2003 includes approximately \$2.0 million of severance-related expenses. Excluding the severance-related expenses, Europe's operating income for the first half of 2003 would have been \$0.6 million. Lower fixed salary and employee benefits expense, a reduction in bad debt expense of \$1.8 million, and lower discretionary spending reflecting the reductions in workforce and cost reduction initiatives that were announced in the 2002 fourth quarter offset the \$9.9 million decline in Europe's net revenue.

In Asia Pacific, operating income for the six months ended June 30, 2003 was \$1.5 million compared to operating income of \$1.1 million for the six months ended June 30, 2002. The increase in operating income of \$0.4 million was attributable to lower salaries and employee benefits expense, and lower general and administrative expenses, partially offset by a \$0.3 million decline in net revenue.

Unallocated corporate expenses increased \$2.3 million, or 15.5%, to \$17.2 million for the six months ended June 30, 2003 from \$14.9 million for the six months ended June 30, 2002. Corporate expenses for the first half of 2003 include \$5.2 million of severance-related expenses for the separation agreements of former executives. Excluding these expenses, unallocated corporate expenses declined \$2.9 million due to lower corporate staffing and lower discretionary spending.

The restructuring charges were \$5.5 million for the six months ended June 30, 2003 compared to \$23.2 million for the six months ended June 30, 2002. The restructuring charges are explained in the preceding section captioned "Restructuring charges."

*Non-operating income (expense)*. The following table presents the components of our net non-operating income (expense) for the six months ended June 30, 2003 and 2002, respectively:

Non-operating income (expense)	Six Months Ended June 30,		Increase (decrease) in non- operating income
	2003	2002	
		(In millions)	
Interest income	\$ 1.0	\$ 0.9	\$ 0.1
Interest expense	(0.1)	(0.1)	—
Realized and unrealized gains (losses) on equity and warrant portfolio:			
Realized gains on investments	0.5	—	0.5
Unrealized gains (losses) on derivative instruments	(0.3)	(1.3)	1.0
Net realized and unrealized gains (losses)	0.2	(1.2)	1.5
Write-down of long-term investment	—	(5.0)	5.0
Other, net	(1.1)	0.1	(1.2)
Net non-operating income (expense)	\$ —	\$ (5.3)	\$ 5.3

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



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Interest income for the six months ended June 30, 2003 was approximately \$1.0 million compared to \$0.9 million for the six months ended June 30, 2002.

During the six months ended June 30, 2003, we recognized \$0.5 million of realized gains and \$0.3 million of unrealized losses, net of consultants' bonuses and other costs, related to our equity and warrant portfolio. During the six months ended June 30, 2002, we recognized \$1.3 million of unrealized losses, net of consultants' bonuses and other costs, related to our equity and warrant portfolio. No realized gains or losses were recognized during the six months ended June 30, 2002.

Net other non-operating expense was \$1.1 million for the six months ended June 30, 2003 compared to net other non-operating income of \$0.1 million for the six months ended June 30, 2002. Other non-operating income (expense) consists primarily of exchange gains (losses) on intercompany balances which are denominated in currencies other than the functional currency and which are not considered permanent in nature.

*Income taxes.* During the six months ended June 30, 2003, we had a pre-tax loss of \$6.6 million. For the six months ended June 30, 2003, the income tax expense was \$2.8 million. The income tax expense recorded in the first six months of 2003 includes an expense of \$4.3 million to reduce certain deferred tax assets, representing the excess of expense for accounting purposes over the deduction for tax purposes, that occurred upon the vesting of restricted stock units in the first half of 2003. In prior years, a portion of consultant and management compensation was granted in restricted stock units at the then-average market price of approximately \$39 per share. This price served as the basis for the compensation expense and the related tax benefit and deferred tax asset. The restricted stock units vested in 2003 at an average market price of approximately \$12 per share. As this share price serves as the basis for the current tax deduction, we will realize a smaller tax benefit than initially recorded. Accordingly, we adjusted the deferred tax asset to reflect the lower tax benefit. Excluding the tax expense related to the reduction of deferred tax assets, the effective tax benefit rate for the six months ended June 30, 2003 was 22.6%, reflecting the U.S. benefit offset by foreign income taxes. We believe excluding the impact of the expense related to the reduction in the deferred tax assets more accurately reflects the effective tax benefit rate on our operations.

During the six months ended June 30, 2002, we had a pre-tax loss of \$32.5 million and an income tax benefit of \$11.4 million. The effective tax benefit rate for the six months ended June 30, 2002 was 35.0%. The decline in the effective tax benefit rate for the six months ended June 30, 2003 (excluding the income tax expense related to the adjustment of deferred tax assets) compared to the effective tax benefit rate for the six months ended June 30, 2002 is primarily attributable to lower anticipated benefits related to foreign tax credits.

Over the remainder of 2003, we do not anticipate recording any additional adjustments to deferred tax assets related to the vesting of restricted stock units. Based on our current stock price, we may expect an additional \$2.5 million to \$3.0 million of expense to reduce deferred tax assets as restricted stock units vest in the first quarter of 2004.

## **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 cash balances together with the funds expected to be generated from operations and funds available under our lines of credit will be sufficient to finance our operations for the foreseeable future, as well as to finance the cash payments associated with our restructuring charges. We historically have paid a portion of our bonuses in December and the remainder in March. Employee bonuses are accrued throughout the year and are based on our Company performance and the performance of the individual employee.

We do not have material off-balance sheet arrangements, special purpose entities or trading activities in non-exchange traded contracts.

Some deferred compensation arrangements with certain employees, which were executed prior to July 30, 2002, are structured as forgivable loans. The forgivable loans are accounted for as deferred compensation, and are therefore amortized to compensation expense over the forgiveness period. At June 30, 2003, we had \$1.1 million of deferred compensation structured as forgivable loans. The terms of deferred compensation arrangements

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structured as forgivable loans and granted to executive officers are included in these employees' employment agreements as filed with the U. S. Securities and Exchange Commission.

*Lines of credit.* We have a \$50.0 million committed revolving credit facility (the "Facility"). The Facility was amended on March 25, 2002, November 27, 2002, and April 29, 2003 and will expire on December 28, 2004. Under the Facility we may borrow U.S. dollars, euros, or other major currencies, as agreed with the banks. Borrowings under the Facility bear interest at the existing ABR (Alternate Base Rate) or LIBOR, plus a margin as determined by tests of our financial condition. The Facility has financial covenants we must meet relating to consolidated EBITDA (defined as earnings before interest expense, taxes, depreciation and amortization, and designated charges); fixed charge coverage (defined as the ratio of EBITDA to interest expense and capital expenditures); leverage (defined as the ratio of total indebtedness to EBITDA); tangible net worth; working capital; minimum cash position of \$50.0 million; capital expenditures; and a maximum amount of designated charges. The Facility prohibits us from declaring and paying cash dividends on our common stock without the consent of our lenders. In addition, the Facility limits our ability to make acquisitions and incur additional debt. We must pay a facility fee even if no portion of the line of credit is used. The amendment dated April 29, 2003 reduced the EBITDA requirements for the quarters ended March 31, 2003, June 30, 2003 and September 30, 2003 and increased the maximum allowable limit on designated charges.

There were no borrowings outstanding under the existing line of credit at June 30, 2003 or December 31, 2002. At June 30, 2003 and December 31, 2002, we were in compliance with the financial covenants of the Facility and no event of default existed.

In February 2003, we entered into an uncommitted line of credit for \$5.0 million. This unsecured line of credit expires on February 24, 2004. There are no financial covenants or fees related to this unsecured line of credit. As of June 30, 2003, there were no borrowings under this unsecured line of credit.

*Cash and cash equivalents.* Cash and cash equivalents at June 30, 2003 and 2002 were \$95.9 million and \$85.0 million, respectively. The amount of cash and cash equivalents at December 31, 2002 was \$110.2 million.

*Cash from operating activities.* For the six months ended June 30, 2003, cash used in operating activities was \$10.8 million, reflecting our net loss, payments related to our restructuring charges, an increase in our trade receivables and payments of bonuses in March 2003, offset by the refund of approximately \$14.7 million of U.S. income taxes paid in prior years arising from net operating losses carried back to prior years.

For the six months ended June 30, 2002, cash used in operating activities was \$20.1 million, reflecting our net loss, the payment of bonuses in March 2002 and payments related to our restructuring charges, offset by the refund of approximately \$20.0 million of estimated U.S. income taxes paid during 2001 and refunds of income taxes paid in prior years arising from net operating losses carried back to prior years.

Approximately \$31.7 million of the restructuring charges recorded in 2003 and 2002 remained unpaid as of June 30, 2003. The majority of the amounts remaining to be paid relate to real estate leases. Based on current estimates, approximately \$12.6 million is expected to be paid in the twelve months ended June 30, 2004 with the remaining \$19.1 million paid thereafter.

*Cash from investing activities.* Cash used in investing activities was \$2.2 million for the six months ended June 30, 2003 and \$3.3 million for the six months ended June 30, 2002. Capital expenditures were \$2.9 million and \$3.2 million for the six months ended June 30, 2003 and 2002, respectively.

*Cash from financing activities.* Cash used in financing activities for the six months ended June 30, 2003 and 2002 was \$3.4 million and \$0.5 million, respectively.

On March 6, 2001, our Board of Directors authorized management to repurchase up to an aggregate of 2 million shares of our common stock with an aggregate purchase price up to \$100 million through March 5, 2003. From February 25, 2003 through March 5, 2003, we repurchased 288,000 shares of common stock for \$3.2 million. During the six months ended June 30, 2002, we repurchased 4,032 shares of common stock for approximately \$0.1 million.

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On May 22, 2003, our Board of Directors authorized management to repurchase up to an aggregate of 1 million shares of our common stock with an aggregate purchase price up to \$20 million through May 21, 2005. No purchases of our common stock have been made under this authorization.

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

The preparation of our consolidated financial statements requires us to make certain estimates and assumptions required under generally accepted accounting principles which may differ from the actual results. The more significant areas requiring estimates include revenue recognition, allowance for doubtful accounts, accruals related to the consolidation and closing of offices, and allowances for deferred tax assets. In addition, we make certain estimates and assumptions for accruals of performance-based compensation for executive search consultants, management and support staff. These accruals reflect our best estimate of the intended payout for the year and are subject to both individual employee and our Company's performance. See *Application of Critical Accounting Policies and Estimates* in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2002, as filed with the U.S. Securities and Exchange Commission on March 26, 2003.

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

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires entities to recognize the fair value of a liability for legal obligations associated with the retirement of tangible long-lived assets in the period incurred, if a reasonable estimate of the fair value can be made. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. We adopted SFAS No. 143 on January 1, 2003. The adoption of SFAS No. 143 did not have a material impact on our financial condition or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement requires companies to recognize costs associated with exit or disposal activities when they are incurred and can be measured at fair value rather than at the date of a commitment to an exit or disposal plan. This statement also requires companies to disclose, for each reportable segment, the exit or disposal activity costs incurred in the period and the cumulative amount incurred, net of any changes in the liability, with an explanation of the reasons for the changes. Companies are required to disclose the total amount of costs expected to be incurred in connection with the exit or disposal activity. The new requirements are effective prospectively for exit and disposal activities initiated after December 31, 2002. We adopted SFAS No. 146 on January 1, 2003. The adoption of SFAS No. 146 did not have a material impact on our financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 31, 2002. We adopted FASB Interpretation No. 45 on January 1, 2003. The adoption of Interpretation No. 45 did not have a material impact on our financial condition or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." This statement provides alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. This statement is effective for financial statements for fiscal years ended after December 15, 2002 and for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002. The disclosures required by SFAS No.

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148 for interim financial statements are included in Note 2, *Summary of Significant Accounting Policies*, in the unaudited Notes to Consolidated Financial Statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. This statement is effective for contracts entered into or modified after June 30, 2003. We are currently evaluating the provisions of SFAS No. 149, but anticipate that its adoption will not have a material impact on our financial condition and results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This statement establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We are currently evaluating the provisions of SFAS No. 150, but anticipate that its adoption will not have a material impact on our financial condition and results of operations.

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

*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 derivative instruments under Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and its subsequent amendments. The warrants are recorded at fair value, net of consultants’ bonuses. In accordance with SFAS No. 133, changes in the fair value of the derivatives are recorded in the Consolidated Statements of Operations. Each quarter’s results of operations may be affected by the fluctuations in the fair value of these derivative instruments.

*Currency market risk.* With our operations primarily in North America, Latin America, 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 been designated as the functional currency, we are affected by the translation of foreign currency financial statements into U.S. dollars. Outside of North America, Europe is our largest region in terms of net revenue. Based on our net loss of \$9.3 million for the six months ended June 30, 2003, a 1% change in the average exchange rate of the British pound and the euro would have increased or decreased our net loss by less than \$0.1 million. For financial information by geographic segment, see Note 5, *Segment Information*, in the unaudited Notes to Consolidated Financial Statements.

**ITEM 4. CONTROLS AND PROCEDURES**

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

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of June 30, 2003, the Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based upon and as of the date of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

**(b) Changes in Internal Controls**

There were no changes in the Company’s internal controls or in other factors that could significantly affect those controls subsequent to the date of the Company’s most recent evaluation.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

From time to time we have been involved in litigation that is incidental to our business. We currently are not a party to any litigation, the adverse resolution of which, in management's opinion, would be likely to have a material adverse effect on our business, financial condition or results of operations.

**Item 4. Submission of Matters to a Vote of Securities**

At our Annual Meeting of Stockholders held on May 21, 2003 in New York, New York, our stockholders voted on the following matter:

The election of two directors, Douglas C. Yearley and Carlene M. Ziegler, 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.

<u>Name of Nominee</u>	<u>Number of Votes For</u>	<u>Number of Votes Withheld</u>
Douglas C. Yearley	14,188,177	494,198
Carlene M. Ziegler	13,476,092	1,206,283

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
2.01	Agreement and Plan of Merger of Heidrick & Struggles, Inc. and Heidrick & Struggles International, Inc. (Incorporated by reference to Exhibit 2.01 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023))
3.01	Form of Amended and Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.02 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023))
3.02	Form of Amended and Restated By-laws of the Registrant (Incorporated by reference to Exhibit 3.03 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023))
4.01	Specimen Stock Certificate (Incorporated by reference to Exhibit 4.01 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023))
*10.01	Employment Agreement of Thomas J. Friel
*10.02	Separation Agreement of Piers Marmion
*10.03	Separation Agreement of David C. Anderson
*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 Chief Financial 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 Chief Financial 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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(b) Reports on Form 8-K

On April 2, 2003, we filed a report under Item 5 and Item 7 announcing the resignation of Philip A. Laskawy from the Board of Directors.

On April 8, 2003, we filed a report under Item 5 and Item 7 announcing the resignation of Piers Marmion as Chief Executive Officer.

On April 30, 2003, we filed a report under Item 7 and Item 9 regarding a news release reporting our 2003 first quarter financial results.

On May 15, 2003, we filed a report under Item 7 and Item 9 regarding our May 2003 Investor Relations Presentation.

On June 20, 2003, we filed a report under Item 5 and Item 7 announcing the resignation of Carlene M. Ziegler from the Board of Directors.

On June 25, 2003, we filed a report under Item 5 and Item 7 announcing that Thomas J. Friel has been named Chief Executive Officer, Chairman of the Board and a Director.

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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 13, 2003

Heidrick & Struggles International, Inc.  
(Registrant)

By: /s/ Kevin J. Smith

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Kevin J. Smith  
Chief Financial Officer



June 24, 2003

PERSONAL & CONFIDENTIAL  
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Mr. Thomas J. Friel  
983 Baileyana Road  
Hillsborough, CA 94010

Dear Tom:

On behalf of Heidrick & Struggles International, Inc., I am pleased to confirm the terms of your new employment arrangement.

**Title and Duties.** You will serve as Chief Executive Officer of Heidrick & Struggles International, Inc. (the "Company"), effective as of June 24, 2003 (the "Effective Date"), reporting to the Board of Directors of the Company. You will also have the role of Chairman of the Board of Directors of the Company.

**Base Salary.** Your base salary will be \$600,000 annually, subject to review by the Board of Directors at no more than 24 month intervals.

**Target Bonus.** Your bonus target for 2003 is 100% of base salary (in accordance with Tier I of the Management Incentive Plan) to be paid when bonuses are paid to executive officers in March of 2004. For 2003, your bonus will be guaranteed at target level on a pro rata basis for the period of time following the Effective Date. Additionally, your 2004 bonus will be guaranteed at target level on a pro rata basis for the period from January 1, 2004 through the first anniversary of the Effective Date. The bonuses (other than the 2003/2004 guaranteed amounts) are discretionary and are not earned until approved by the Compensation Committee and/or the Board of Directors of the Company. The annual bonus (other than the 2003/2004 guaranteed amounts) will be payable only if you are in the Company's employ on the regular bonus payment date.

**Incentive Compensation and Other Plans.** You will be eligible to participate in the incentive and other executive compensation plans applicable from time to time for executive officers, including at present, without limitation, the performance share plan, the annual bonus plan (described above) and the management stock option plan, copies of which have been provided to you. With respect to the performance share plan, you will participate on a pro rata basis in Cycle II (covering 2003 through 2005). You shall also be eligible to participate in the Change In Control Severance Plan in Tier One. In addition, you will be covered by the Company's Severance Plan in the tier for Top Management; provided (i) the terms "Cause" and "Good Reason" shall have the meanings defined below and any resignation by you for Good Reason shall be deemed a termination by the Company without Cause under the Severance Plan and (ii) any reduction in your base salary or bonus opportunity that constitutes Good Reason shall be disregarded in determining the severance payment due to you.

**Sign-On Arrangements.**

**Options.** On the Effective Date, you will receive a stock option grant to purchase 100,000 shares of Heidrick & Struggles International, Inc. common stock. The options will be granted

at the closing price of the common stock as reported on NASDAQ on the date of grant, will vest 33.3% per year over a three year period, and will have a five year term.

Restricted Stock Units. On the Effective Date, you will receive a grant of 50,000 restricted stock units ("RSUs"). The RSUs will vest 33.3% per year over a three year period.

Benefits. You will be eligible to participate in the Company's benefit programs at the same level as the other senior executives of the Company. The Company's benefit programs include group health and life/AD&D insurance, long-term disability, short-term disability salary continuation, time-off benefits (vacation, paid holidays, paid sick time), the Flexible Spending Account and the Heidrick & Struggles, Inc. 401(k) Profit-Sharing and Retirement Plan. The Company's benefit programs, bonus programs and policies are reviewed from time to time by Company management and may be modified, amended, or terminated at any time.

Expenses. The Company's Physical Examinations Policy will continue to apply to you. The Financial Planning Program for Senior Partners will also continue to apply to you. The Company will reimburse you for all of your reasonably incurred business expenses in accordance with its policies, including first class air travel and reimbursement of travel expenses by your spouse when appropriate for business purposes or, when appropriate, as an alternative to having you travel.

Confidentiality. Your employment with the Company under this Agreement necessarily involves your access to and understanding of certain trade secrets and confidential information pertaining to the business of the Company and its affiliates. During the term of your employment with the Company and thereafter, you will not, directly or indirectly, without the prior written consent of the Company, disclose or use for the benefit of any person, corporation or other entity, or for yourself any and all files, trade secrets or other confidential information concerning the internal affairs of the Company and its affiliates, including, but not limited to, information pertaining to its clients, services, products, earnings, finances, operations, methods or other activities; provided, however, that the foregoing shall not apply to information which is of public record or is generally known, disclosed or available to the general public or the industry generally (other than as a result of your breach of this covenant). Notwithstanding the foregoing, you may disclose such information as is required by law during any legal proceeding or to your personal representatives and professional advisers and, with respect to such personal representatives and professional advisers, you shall inform them of your obligations hereunder and take all reasonable steps to ensure that such professional advisers do not disclose the existence or substance thereof. Further, you shall not, directly or indirectly, remove or retain, and upon termination of employment for any reason you shall return to the Company, any records, computer disks, computer printouts, business plans or any copies or reproductions thereof, or any information or instruments derived therefrom, arising out of or relating to the business of the Company and its affiliates or obtained as a result of your employment by the Company.

Non-Solicitation/Non-Competition. During the term of your employment with the Company and for a period of six-months after the termination of your employment with the Company, you shall not (i) become an employee of, consultant to, or otherwise provide services to, any principal competitor of the Company and its affiliates, (ii) directly or indirectly solicit or hire, or assist any other person in

soliciting or hiring, any employee of the Company or its affiliates (as of your termination of employment with the Company) or any person who, as of such date, was in the process of being recruited by the Company or its affiliates, or induce any such employee to terminate his or her employment with the Company or its affiliates, (iii) work on the account of any client of the Company or any of its affiliates with whom you have had a direct relationship or supervisory responsibility in the 24 months preceding such termination, or (iv) hire, solicit for hire, or assist any other person in soliciting or hiring any employment candidate with whom you had contact during the 24 months preceding such termination.

#### Definitions.

The term "Good Reason" shall mean (i) a diminution of the amount of your base salary or target bonus or benefits or level of eligibility for stock options or other incentive programs unless such diminution is consistent with other senior executives of the Company, or (ii) the elimination of your position or a diminution of responsibilities associated with your position. Notwithstanding the foregoing, an action by the Company which is cured within 30 days after receipt of written notice of such occurrence shall not constitute Good Reason.

The term "Cause" shall mean (a) fraud, or the embezzlement or misappropriation of funds or property of the Company or any of its affiliates by you, (b) the conviction of, or the entrance of a plea of guilty or nolo contendere by you, to a felony or a crime involving moral turpitude; (c) neglect, misconduct or willful malfeasance which is materially injurious to the Company or any of its affiliates; or (d) willful failure or refusal to perform your duties, or a willful, material breach of contract.

#### Other Legal Matters.

You will be an "employee at will" unless or until you and the Company otherwise agree in writing. The purpose of this arrangement is to permit either of us to terminate employment and compensation at any time with or without Cause or Good Reason, except for such period of notice as may be expressly provided in writing under written Company employment policies in effect at the time of such termination. Your initial and continuing employment will be subject to your having the ability to work legally in the United States.

You have advised the Company that your execution and performance of the terms of this Agreement do not and will not violate any other agreement binding on you or the rights of any third parties and you understand that in the event this advice is not accurate the Company will not have any obligation to you under this Agreement.

This letter agreement contains our entire understanding and can be amended only in writing and signed by you and the General Counsel or Chief Human Resources Officer. This letter supercedes all prior arrangements or agreements pertaining to your employment with the Company. You specifically acknowledge that no promises or commitments have been made to you that are not set forth in this letter.

Any controversy or claim arising out of or relating to this agreement or for the breach thereof, or your employment, including without limitation any statutory claims (for example, claims for discrimination including but not limited to discrimination based on race, sex, sexual orientation, religion, national origin, age, marital status, handicap or disability; and claims relating to leaves of absence mandated by state or federal law), breach of any contract or covenant (express or implied), tort claims, violation of public policy or any other alleged violation of statutory, contractual or common law rights (and including claims against the Company's officers, directors, employees or agents) if not otherwise settled between the parties, shall be conclusively settled by arbitration to be held in Chicago, Illinois, in accordance with the American Arbitration Association's Employment Dispute Resolution Rules (the "Rules"). Arbitration shall be the parties' exclusive remedy for any such controversies, claims or breaches. The parties agree they shall not seek any award for punitive damages for any claims they may have under this Agreement. The parties also consent to personal jurisdiction in Chicago, Illinois with respect to such arbitration. The award resulting from such arbitration shall be final and binding upon both parties. Judgment upon said award may be entered in any court having jurisdiction. This Agreement will be governed by the laws of the State of Illinois, without regards to the conflict of laws provisions of any jurisdiction.

You and the Company hereby waive the right to pursue any claims, including but not limited to employment termination - related claims, through civil litigation outside the arbitration procedures of this provision, unless otherwise required by law. You and the Company each have the right to be represented by counsel with respect to arbitration of any dispute pursuant to this paragraph. The arbitrator shall be selected by agreement between the parties, but if they do not agree on the selection of an arbitrator within 30 days after the date of the request for arbitration, the arbitrator shall be selected pursuant to the Rules.

In the event of any arbitration hereunder, the parties agree each shall bear its or his own attorneys' fees and costs associated with or arising from such arbitration or other proceeding.

Yours sincerely,

/s/ Fritz E. Freidinger

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Fritz E. Freidinger  
General Counsel and Corporate Secretary

I hereby accept the terms and conditions of employment as outlined above:

/s/ Thomas J. Friel

08/12/2003

-----  
Thomas J. Friel

-----  
Date

JOHN PIERS MARMION  
SEPARATION AND SETTLEMENT AGREEMENT  
AND GENERAL RELEASE

This Separation and Settlement Agreement and General Release (this "Agreement") is made as of the 12th day of June 2003 (the "Effective Date"), by and between John Piers Marmion (the "Employee") and Heidrick & Struggles International, Inc., a Delaware corporation (the "Company") concerning the Employee's termination of employment with the Company.

WHEREAS, the Company and the Employee entered into that certain Employment Agreement dated as of January 1, 2002, (the "Employment Agreement");

WHEREAS, on April 7, 2002, the Employee tendered his resignation as Chief Executive Officer of the Company, which the Company accepted;

WHEREAS, the Employee's employment with the Company will terminate effective as of June 30, 2003 pursuant to the terms set forth in this Agreement (the "Termination Date"); and

WHEREAS, the Company and the Employee intend that this Agreement shall be in complete settlement of all rights of both the Employee and the Company under the Employment Agreement or otherwise relating to his employment by the Company.

NOW THEREFORE, in consideration of the mutual promises and agreements set forth below, the Company and the Employee agree as follows:

1. Termination. The Employee's employment with the Company will terminate by mutual consent effective as of the close of business on the Termination Date and the Employee will continue to be paid his current salary (at an annual rate of \$650,000.00 per year), expense reimbursements and employee benefits through the Termination Date.

2. Resignation. The Employee hereby resigns as an officer of the Company and all of its affiliates as of the Effective Date and hereby resigns from employment and all other positions with the Company and all of its affiliates effective as of the close of business on the Termination Date. Employee agrees to execute a letter of resignation, effective as of the Termination Date, in the form attached hereto as Exhibit A, and shall execute any additional resignation letters as may be reasonably requested by the Company.

3. 2003 Bonus. The Employee shall receive a pro rata 2003 Bonus payment ("2003 Bonus") from the Company in the gross amount of THREE HUNDRED TWENTY-FIVE THOUSAND DOLLARS (\$325,000.00) to be paid on the first business day following the date on which this agreement becomes final and binding pursuant to paragraph 13 below (the "Initial Payment Date").

4. Other Payments.

(a) Employee shall receive a series of severance payments from the Company in the aggregate gross amount of ONE MILLION THREE HUNDRED THOUSAND DOLLARS (\$1,300,000.00), to be paid in twelve equal monthly installments in the gross amount of ONE HUNDRED AND EIGHT THOUSAND THREE HUNDRED THIRTY-THREE DOLLARS AND THIRTY-THREE CENTS (\$108,333.33) (the "Severance Payments") as of each one-month anniversary of the Termination Date. The Company's obligation to pay the Severance Payments is conditioned upon the execution of this Agreement, including the execution of the General Release and Waiver, provided in Exhibit B to this Agreement (the "Release"), receipt by the Company of the English Advisor's Certificate in Exhibit C to this Agreement ("the Certificate") and the continued compliance by the Employee of all of the terms and conditions of this Agreement. The first Severance Payment shall be made on the Initial Payment Date; provided, however, that in the event that the cash payments to be made to the Employee as of the Initial Payment Date are not adequate to provide for the required tax withholding on such cash payments together with the withholding requirements associated with any non-cash benefits provided hereunder, the Company may accelerate a portion of the Severance Payment installments (starting with the earliest installments due) to the Initial Payment Date in order to satisfy such withholding obligations. In the event that Severance Payment installments are accelerated pursuant to the immediately preceding sentence, the balance of the Severance Payment installments will be paid on the dates originally anticipated for such installments, absent the acceleration of any other installment.

(b) Employee shall receive a one time lump sum payment in the amount of THREE HUNDRED SEVENTY-ONE THOUSAND SIX HUNDRED TWENTY-FIVE DOLLARS (\$371,625.00) as of the Initial Payment Date.

5. Sign-On Loan. The Company shall forgive the outstanding aggregate principal (in the amount of ONE MILLION FIFTY-THREE THOUSAND EIGHT HUNDRED EIGHTY ONE POUNDS STERLING ((pound)1,053,881)) of the loan made to the Employee pursuant to the Employer's employment agreement, dated July 7, 2000, with such forgiveness to be effective as of the Initial Payment Date. With respect to the income arising from the loan forgiveness, Employee shall be required to pay (or have offset against other payments provided herein) the Employer's National Insurance Contribution as may be due, in addition to any withholding required under Section 18, with such amount paid or offset as of the date of forgiveness.

6. Restricted Stock Units. Effective as of the Termination Payment Date, the Employee shall become fully vested in the 50,000 restricted stock units granted August 25, 2000, which, per the terms of the award, would otherwise become vested as of August 25, 2003. Effective as of the Termination Date, the Employee shall vest in 50,000 restricted stock units granted December 31, 2001, which are part of 150,000 total restricted stock units granted on such date, 50,000 of which vested January 2, 2003. This vesting is to be permitted by the Company on an ex gratia basis only and the Employee acknowledges that he has no pre-existing contractual entitlement to this vesting, under the terms on which the relevant restricted stock units were granted or otherwise. The remaining balance of 50,000 restricted stock units granted on December 31, 2001 shall be forfeited and cancelled as of the Initial Payment Date. The

Employee acknowledges and agrees that he does not possess, nor is entitled to, any other restricted stock unit awards under any plan or program of the Company or any of its affiliates. The Company shall withhold from the restricted stock units vesting pursuant to this Section 6 that number of shares equal to the minimum statutory required withholding, based on the closing share price on the Termination Date. The net shares, after withholding, shall be delivered or otherwise made available to the Employee as soon as practicable following the Initial Payment Date.

7. Stock Options. Effective as of the Initial Payment Date, the Employee shall forfeit and/or relinquish any and all interests and rights in and under all vested or unvested outstanding stock options awarded under any plan or program maintained by the Company or any of its affiliates. The Employee acknowledges and agrees that he does not possess, nor is entitled to, any other stock option awards under any plan or program of the Company or any of its affiliates

8. Performance Share Program. Effective as of the Initial Payment Date, the Employee shall forfeit and/or relinquish any and all interests and rights under the Company's Performance Share Program, for any and all performance periods. Employee acknowledges that he is not entitled to any future participation or payouts with respect to the Performance Share Program.

9. Accrued Vacation. The Employee shall receive payment for all accrued and unused vacation, if any, as of the Termination Date, to the extent provided in accordance with the Company's standard policies. Such payment shall be paid not later than the Initial Payment Date.

10. Termination of Benefits. Except as specifically provided in this Agreement with respect to plans or arrangements specifically identified in this Agreement, the Employee's continued participation in all employee benefit (pension and welfare) and compensation plans will cease as of the Termination Date. Any payments made to the Employee pursuant to this Agreement, other than with respect to the continued payment of salary through the Termination Date, shall be disregarded for purposes of determining the amount of benefits to be accrued on behalf of the Employee under any pension or other benefit plan maintained by the Company or its affiliates. Nothing contained herein shall limit or otherwise impair Employee's right to receive pension or similar benefit payments which are vested as of the Termination Date under any applicable tax qualified pension or other tax qualified benefit plan.

11. Medical Benefits. Employee's entitlement to continue family medical coverage under the benefit plans of the Company operated in the United States will be determined in accordance with the provisions of section 4980B of the Internal Revenue Code and section 601 of the Employee Retirement Income Security Act (sometimes referred to as "COBRA coverage"). Employee's entitlement to medical insurance coverage in the UK will cease on The Termination Date.

12. Other Payments. The Employee agrees and acknowledges that, other than as specifically provided for in this Agreement, no additional payments are due from the Company or any affiliate on any basis whatsoever other than reimbursements in accordance with the

Company's policies for ordinary and reasonable expenses incurred on or before the Termination Date.

13. Employee Release and Company Release. As part of this Agreement, and in consideration of the additional payments provided to Employee in accordance with this Agreement, the Employee is required to execute the Release and deliver the Release following the Termination Date and to deliver the signed Certificate, at the same time. As part of this Agreement, and in consideration of Employee's covenants contained in this Agreement, not less than five days prior to the Initial Payment Date the Company shall execute the General Release and Waiver in the form attached as Exhibit D (the "Company Release"). This Agreement (including all Exhibits to this Agreement), and the commitments and obligations of all parties hereunder:

(a) shall become final and binding immediately following the expiration of the Employee's right to revoke the execution of this Agreement in accordance with paragraph 4(d) of the Release, attached as Exhibit B;

(b) shall not become final and binding until the expiration of such right to revoke and may not be revoked or rescinded by the Company prior to or after expiration of such right to revoke; and

(c) shall not become final and binding if Employee revokes such execution.

The parties to this Agreement are aware that they may hereafter discover claims or facts in addition to or different from those such party now knows or believes to be true with respect to the matters related herein. Nevertheless, it is the intention of the parties to fully, finally and forever settle such matters, and all claims, demands, and causes of action relative thereto, whether known or unknown, which may exist, or previously have existed, between Employee and the Company in connection with such matters, including, without limitation, the termination of Employee's employment with the Company. In furtherance of such intention, the waiver and releases given herein shall be and remain in effect as a full and complete release of all such matters, notwithstanding the discovery or existence of any additional or different claims or facts relative thereto.

14. Assistance with Claims. The Employee agrees to cooperate with the Company or any affiliate in the defense, prosecution or evaluation of any pending or potential claims or proceedings involving or effecting the Company or any affiliate during the period of Employee's employment with the Company (the "Employment Period") or relating to any decisions in which Employee participated or any matter of which Employee had knowledge. Employee agrees, unless precluded by law, to promptly inform the Company if he is asked to participate (or otherwise become involved) in any claims that may be filed against the Company or any affiliate relating to the Employment Period. Employee also agrees, unless precluded by law, to promptly inform the Company if he is asked to assist in any investigation (whether governmental or private) of the Company or any affiliate (or their actions) relating to any matter occurring during the Employment Period, regardless of whether a lawsuit has then been filed against the Company or any affiliate with respect to such investigation. Specifically and without limitation, Employee will attend and participate in meetings and interviews conducted by Company personnel, and/or



attorneys appointed by the Company, and execute written affidavits confirming Employee's statements in such meetings in respect of any such matters. Employee will make himself available for the foregoing at mutually convenient times during business hours from time to time as reasonably requested by the Company. Promptly upon the receipt of the Employee's written request, the Company agrees to reimburse the Employee for all reasonable out-of-pocket expenses associated with such cooperation, including travel expenses. This paragraph 14 shall not preclude the Employee from responding to an inquiry in an honest manner.

15. Non-Disparagement. The Employee agrees that on and after the date of this Agreement, he will not make any disparaging, critical or derogatory statement about the Company or any affiliate or their shareholders or any of their officers, directors or employees or otherwise make disparaging comment on any aspects of Employee's employment with the Company, and the Company agrees not to make any disparaging, critical or derogatory statement about the Employee or Employee's employment with the Company; provided that the provisions of this paragraph 15 shall not apply to testimony as a witness, any disclosure required by law to be made by the Company or the Employee, the assertion of or defense against any claim of breach of this Agreement and shall not require either party to make false statements or disclosures.

16. Restrictive Covenants. Except as may be modified by the following provisions of this paragraph 16, Employee expressly acknowledges and agrees that the Employee will continue to remain subject to the Covenant provisions of Section 7 of the Employment Agreement, and further agrees that obligations under such provisions are not limited in any way by this Agreement or termination from employment with the Company:

(a) Employee shall return all documents, records and property of the Company and any affiliate of the Company as of the Termination Date. The Employee shall return to the Company no later than the Termination Date any and all original and duplicate copies of all the Employee's work product and of files, calendars, books, records, notes, notebooks, customer lists and proposals to customers, manuals, computer equipment (including any desktop and/or laptop computers, handheld computing devices, home systems, computer disks and diskettes), mobile telephones (including SIM cards and the like), personal data assistants (PDAs), fax machines, and any other magnetic and other media materials the Employee has in his possession or under his control that belong to the Company or any of its affiliates that contain confidential or proprietary information concerning the Company or any of its affiliates or their clients or operations. The Employee also must return and/or agree to immediately return to the Company any keys, credit cards and I.D. cards that belong to the Company or any of its affiliates but are in the Employee's possession or within the Employee's control.

(b) Employee agrees not to instigate or participate in any administrative or judicial proceeding against the Company or any affiliate (except for proceedings to enforce this Agreement) unless requested by the Company or otherwise required by law.

(c) Subject to the foregoing provisions of this paragraph 16, the Company will continue to have the right to enforce such obligations of Section 7 of the Employment Agreement as provided in the Employment Agreement.

(d) The Company agrees that the Employee shall be permitted from time to time to seek a written exception from the Company to the non-solicitation provision of Section 7(c)(iii) of the Employment Agreement with respect to specifically identified individuals; provided, however, it is specifically acknowledged by the Employee that the Company shall have absolute discretion whether to agree to such request for exception.

17. Non-Disclosure. Employee acknowledges that the benefits provided by the Company under this Agreement are not generally available to other employees of the Company, and agrees that, except as may be required by the lawful order of a court or agency of competent jurisdiction, Employee will keep the terms of this Agreement secret and confidential indefinitely. Notwithstanding the foregoing provisions of this paragraph 17, Employee may disclose the contents of this Agreement to his attorneys, accountants and financial advisors and his immediate family, provided that Employee takes steps that are reasonably calculated to assure that such persons do not further disclose the terms of this Agreement. The Employee further agrees that, prior to the commencement of any new employment, if prior to the end of the expiration of the restrictive provisions of Section 7 of the Employment Agreement, he will furnish the prospective new employer with a copy of the provisions of this Agreement (and as needed, relevant provisions of the Employment Agreement) relating to competition, confidentiality, and solicitation. Employee also agrees that, during such period, the Company may advise any new employer or prospective new employer of the provisions of this Agreement relating to competition, confidentiality, and solicitation and furnish the new employer or prospective new employer with a copy of such provisions.

18. Withholding for Taxes. All benefits and payments provided to the Employee pursuant to this Agreement which are required to be treated as compensation shall be subject to all applicable withholding and reporting requirements.

19. Settlement of Disputes. The Settlement of Disputes provisions set forth in Section 8 of the Employment Agreement are hereby incorporated by reference and are made part of this Agreement and shall be applicable for all disputes as may arise hereunder, regardless of whether the Employment Agreement is, or may be deemed to be, in full force and effect.

20. Attorneys Fees. In the event of any dispute with respect to a breach or asserted breach of this Agreement, the prevailing party as determined by the presiding judge or arbitration panel in said proceeding shall be entitled to recover such party's reasonable attorneys fees and expenses from the other party.

21. Miscellaneous.

(a) Binding Effect. This Agreement shall be binding upon each of the parties and upon their respective heirs, administrators, representatives, executors, successors and assigns, and shall inure to the benefit of each party and to their heirs, administrators, representatives, executors, successors, and assigns.

(b) Applicable Law. This Agreement shall be construed in accordance with the laws of the State of New York, without regard to the conflict of law provisions of any

jurisdiction, save in relation to paragraph 2 of Exhibit B and Exhibit C which shall be construed in accordance with English law.

(c) Entire Agreement. This Agreement reflects the entire agreement between the Employee and the Company and, except as specifically provided herein, supersedes all prior agreements and understandings, written or oral relating to the subject matter hereof, it being acknowledged, however, that the Employee shall continue to be subject to the restrictive covenants of Section 7 of the Employment Agreement. To the extent that the terms of this Agreement (including Exhibits to this Agreement) are to be determined under, or are to be subject to, the terms or provisions of any other document, this Agreement (including Exhibits to this Agreement) shall be deemed to incorporate by reference such terms or provisions of such other documents.

(d) Notices. Any notice pertaining to this Agreement shall be in writing and shall be deemed to have been effectively given on the earliest of (a) when received, (b) upon personal delivery to the party notified, (c) one business day after delivery via facsimile with electronic confirmation of successful transmission, (d) one business day after delivery via an overnight courier service or (e) five days after deposit with the United Postal Service, and addressed as follows:

to the Employee at:

John Piers Marmion  
Copse Stile House  
Spring Lane, Aston Tirrold  
Didcot, Oxon OX11 9EJ  
United Kingdom  
Or such other address as Employee duly notifies the Company.

With a copy to:

Samuel B. Fortenbaugh, III, Esq.  
1211 Avenue of the Americas, 24/th/ Floor  
New York, NY 10036  
Fax: (212) 596-3391

to the Company at:

Heidrick & Struggles International, Inc.  
233 South Wacker Drive  
Suite 4200  
Chicago, IL 60606-6303  
Attn: Fritz E. Freidinger - General Counsel and  
Corporate Secretary  
Fax: (312) 496-1297

with a copy to:

Donald L. Norman, Jr., Esq.

Mayer, Brown, Rowe & Maw  
190 S. LaSalle Street  
Chicago, IL 60603  
Fax: (312) 706-9179

(e) Waiver of Breach. The waiver by either party to this Agreement of a breach of any provision of this Agreement shall not operate as or be deemed a waiver of any subsequent breach by such party. Continuation of benefits hereunder by the Company following a breach by the Employee of any provision of this Agreement shall not preclude the Company from thereafter exercising any right that it may otherwise independently have to terminate said benefits based upon the same violation.

(f) Amendment. This Agreement may not be modified or amended except by a writing signed by the parties to this Agreement.

(g) Counterparts. This Agreement may be signed in multiple counterparts, each of which shall be deemed an original. Any executed counterpart returned by facsimile shall be deemed an original executed counterpart.

(h) Agreement Expenses. The Company shall reimburse the Employee for reasonable legal fees incurred incident to the negotiation, preparation and execution of this Agreement subject to a cap of \$12,500.

(i) No Third Party Beneficiaries. Unless specifically provided herein, the provisions of this Agreement are for the sole benefit of the parties to this Agreement and are not intended to confer upon any person not a party to this Agreement any rights hereunder.

(j) Terms and Construction. Each party has cooperated in the drafting and preparation of this Agreement. The language in all parts of this Agreement shall be in all cases construed according to its fair meaning and not strictly for or against either party.

(k) Admissions. Nothing in this Agreement is intended to be, or will be deemed to be, an admission of liability by Employee or the Company to each other, or an admission that they or any of their agents, affiliates, or employees have violated any state, federal or local statute, regulation or ordinance or any principle of common law of any jurisdiction, or that they have engaged in any wrongdoing towards each other.

(l) Currency. Unless otherwise specifically provided herein, all cash payments to be made by the Company to Employee under the terms of this Agreement shall be made in United States Dollars. In the event that the parties agree to have any payments made in any currency other than the U.S. Dollar, the amount of such payments in such other currency shall be calculated using the exchange rate as reported in the Wall Street Journal for the date immediately preceding the date of payment. In the event that a given currency exchange rate is not reported as of the date immediately preceding such payment date, the next most recently reported exchange rate for that currency shall be utilized.

IN WITNESS WHEREOF, this Separation and Settlement Agreement and General Release has been duly executed as of the Effective Date.

/s/ John Piers Marmion

Date: 27/06/03.

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John Piers Marmion

Heidrick & Struggles International,  
Inc.

Date: \_\_\_\_\_

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By: Fritz E. Freidinger  
Title: General Counsel and  
Corporate Secretary

IN WITNESS WHEREOF, this Separation and Settlement Agreement and General Release has been duly executed as of the Effective Date.

Date:

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John Piers Marmion

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Heidrick & Struggles International,  
Inc.

/s/ Fritz E. Freidinger

Date: 6-16-03

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By: Fritz E. Freidinger  
Title: General Counsel and  
Corporate Secretary

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Exhibit A

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LETTER OF RESIGNATION

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Board of Directors  
Heidrick & Struggles International, Inc.  
233 South Wacker Drive  
Chicago, IL 60606-6303

Dear Sirs:

I hereby acknowledge my resignation as Chief Executive Officer with Heidrick & Struggles International, Inc. (the "Company") as of April 7, 2003, and acceptance thereof by the Company, and that I will not stand for re-election to the Board of Directors of the Company, such that as of the May 22, 2003 shareholders meeting, I will no longer serve in the position of Chairman or member of the Board of Directors of the Company. Effective as of the date of execution of the Separation and Severance Agreement dated May 15, 2003 (the "Separation Agreement"), I hereby resign all other officer or management positions with the Company and all of its related entities (including, without limitation, any position as a member of any board of directors of any related entity), and agree to remain employed solely as a senior advisor to the Company as provided in the Separation Agreement. Further, effective June 30, 2003, I hereby resign from employment with the Company and all of its related entities. My resignation is in accordance with the terms of the Separation Agreement and I hereby confirm that I have no claim for compensation for loss of office, save as set out in that Agreement.

Very truly yours,

John Piers Marmion

Exhibit B

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EMPLOYEE RELEASE AND WAIVER

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1. This document is attached to, is incorporated into, and forms a part of, a Separation and Settlement Agreement (the "Agreement") by and between Heidrick & Struggles International, Inc. (the "Company") and John Piers Marmion (the "Employee"). Except for (i) a Claim based upon a breach of the Agreement, (ii) a Claim which is expressly preserved by the Agreement, or (iii) a Claim relating to or arising out of the Company's fraud or criminal activity, the Employee, on behalf of himself and the other Employee Releasers, releases and forever discharges the Company and the other Company Releasees from any and all Claims which the Employee now has or claims, or might hereafter have or claim, whether known or unknown, suspected or unsuspected (or the other Employee Releasers may have, to the extent that it is derived from a Claim which the Employee may have), against the Company Releasees based upon or arising out of any matter or thing whatsoever, from the beginning of time to the effective date of this General Release and Waiver and shall include, without limitation, Claims (except those specifically preserved by the Agreement) arising out of or related to the Employment Agreement dated January 1, 2002 and Claims arising under (or alleged to have arisen under) (a) the Age Discrimination in Employment Act of 1967, as amended; (b) Title VII of the Civil Rights Act of 1964, as amended; (c) The Civil Rights Act of 1991; (d) Section 1981 through 1988 of Title 42 of the United States Code, as amended; (e) the Employee Retirement Income Security Act of 1974, as amended; (f) The Immigration Reform Control Act, as amended; (g) The Americans with Disabilities Act of 1990, as amended; (h) The National Labor Relations Act, as amended; (i) The Fair Labor Standards Act, as amended; (j) The Occupational Safety and Health Act, as amended; (k) The Family and Medical Leave Act of 1993; (l) any state antidiscrimination law; (m) any state wage and hour law; (n) any other local, state or federal law, regulation or ordinance; (o) any public policy, contract, tort, or common law; (p) any law, regulation or ordinance of the United Kingdom or the rest of Europe or any of their political entities; or (q) any allegation for costs, fees, or other expenses including attorneys' fees incurred in these matters. Employee further represents that he has not, and never will, institute against the Company or any of the Company Releasees any action or other proceeding in any court, administrative agency, or other tribunal of the United States, any State thereof or any foreign jurisdiction, with respect to any Claim or cause of action of any type, other than as provided under (i), (ii), or (iii) above, arising or which may have existed at any time prior to the effective date of the Agreement. If Employee does institute such a claim, he agrees to pay the reasonable costs incurred by the Company or any of the Company Releasees in defending such action, including reasonable attorneys' fees, experts' fees and costs.

2. In respect of Claims arising under English law, Employee:

(a) acknowledges that he has taken independent legal advice from Steven Oxley of Wilsons (his "English Advisor") on the terms and effect of the Agreement and this General Release and Waiver, that he has entered into such agreements voluntarily, without reservation and with the intention that it will be binding on him as a compromise agreement or otherwise and that the conditions regarding compromise agreements under



the following English statutes have been satisfied: section 203 of the Employment Rights Act 1996, section 77 of the Sex Discrimination Act 1975, section 72 of the Race Relations Act 1976, section 9 of the Disability Discrimination Act 1995, Regulation 35 of the Working Time Regulations 1998, section 288 of the Trade Union and Labour Relations (Consolidation) Act 1992, section 9 of the Part-Time Workers Regulations 2000 and Regulation 41 of the Transnational Information and Consultation of Employees Regulations 1999 have been satisfied. Employee also warrants the accuracy of paragraph 2 of the Certificate attached as Exhibit C to the Agreement and acknowledges that the Severance Payment includes any statutory compensation to which he may be entitled and that it would not be just and equitable for him to receive any further compensation;

(b) represents and warrants that:

(i) his only Statutory Claims (as defined in paragraph 2(c) below) or particular complaints are for unfair dismissal, breach of contract and unlawful deduction from wages; and

(ii) his English Advisor has advised him that, on the basis of the information available to his Advisor, he has no other Statutory Claim against the Company and the other Company Releasees.

(c) A Statutory Claim means any claim for or relating to unfair dismissal, a redundancy payment, equal pay, sex, race or disability discrimination, working time, unauthorised deduction from wages or for the infringement of any other statutory employment rights which Employee has or may have under the Employment Rights Act 1996, the Trade Union and Labour Relations (Consolidation) Act 1992, the Employment Relations Act 1999, the Part-Time Workers Regulations 2000 or the Transnational Information and Consultation of Employee Regulations 1999.

3. For purposes of this General Release and Waiver, the terms set forth below shall have the following meanings:

(a) The term "Agreement" shall include the Agreement and the Exhibits thereto.

(b) The term "Claims" shall include any and all rights, claims, demands, debts, dues, sums of money, accounts, attorneys' fees, experts' fees, complaints, judgments, executions, actions and causes of action of any nature whatsoever, cognizable at law or equity.

(c) The term "Company Releasees" shall include the Company and its affiliates and their respective officers, directors, trustees, members, representatives, agents, employees, shareholders, partners, attorneys, assigns, administrators and fiduciaries under any employee benefit plan of the Company and of any affiliate, and insurers, and their predecessors and successors.

(d) The term "Employee Releasors" shall include the Employee, and his family, heirs, executors, representatives, agents, insurers, administrators, successors, assigns, and any other person claiming through the Employee.

4. The following provisions are applicable to and made a part of the Agreement and this General Release and Waiver:

(a) By this General Release and Waiver, the Employee Releasors do not release or waive any right or claim which they may have under the Age Discrimination in Employment Act, as amended by the Older Workers Benefit Protection Act, which arises after the date of execution of this General Release and Waiver.

(b) In exchange for this General Release and Waiver, the Employee hereby acknowledges that he has received separate consideration beyond that to which he is otherwise entitled under the Company's policies, under contract, or under applicable law.

(c) The Employee has consulted with an attorney of his choosing prior to executing the Agreement and this General Release and Waiver.

(d) The Employee has up to twenty-one (21) days from the date of presentment to consider whether or not to execute the Agreement and this General Release and Waiver which right the Employee has chosen to waive with the advice of counsel. In the event of such execution, the Employee has a further period of seven (7) days from the date of said execution in which to revoke said execution. The Agreement and this General Release and Waiver will not become effective until expiration of such revocation period.

5. The Agreement (including this General Release and Waiver and all other Exhibits to the Agreement), and the commitments and obligations of all parties thereunder:

(a) shall become final and binding immediately following the expiration of the Employee's right to revoke the execution of the Agreement in accordance with paragraph 4(d) of this Exhibit B;

(b) shall not become final and binding until the expiration of such right to revoke; provided, however, that nothing contained herein shall confer any right upon the Company to revoke the Agreement; and

(c) shall not become final and binding if the Employee revokes such execution.

\* \* \* \* \*

The Employee hereby acknowledges that he has carefully read and understands the terms of the Agreement and this General Release and Waiver and each of his rights as set forth therein.

/s/ John Piers Marmion

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John Piers Marmion

Date: 30/06/2003.

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WITNESSETH.

/s/

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Exhibit C

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English Advisor's Certificate

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I, Stephen Oxley, hereby certify as follows:

- 1 I am a solicitor of the Supreme Court of England and Wales and hold a current Practising Certificate.
- 2 I have advised John Piers Marmion ("my Client") on the terms and effect of the Settlement Agreement dated 15 May 2003 between Heidrick & Struggles International Inc. and my Client and in particular its effect on my Client's ability to pursue my Client's rights before an English Employment Tribunal, including the matters set out in paragraph 2 of Exhibit B to the Settlement Agreement (the General Release and Waiver).
- 3 I am not acting (and have not acted) in relation to this matter for Heidrick & Struggles International Inc. or any associated employer.
- 4 There is in force a contract of insurance or an indemnity provided for members of a profession or professional body covering the risk of a claim by my Client in respect of loss arising in consequence of the advice I have given.
- 5 I confirm that paragraphs 2(b)(i) and (ii) of the General Release Waiver are accurate.

SIGNED:                    /s/  
-----

Name of Solicitor: Stephen Oxley

Firm:                     Wilsons

Address:                 Steynings House, Fisherton Street,  
Salisbury, Wiltshire, SP2 7RJ, UK

Dated:                    -----

Exhibit D

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COMPANY GENERAL RELEASE AND WAIVER

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6. This document is attached to, is incorporated into, and forms a part of, a Separation and Settlement Agreement (the "Agreement") by and between Heidrick & Struggles International, Inc. (the "Company") and John Piers Marmion (the "Employee"). Except for (i) a Claim based on a breach of the Agreement, (ii) a Claim which is expressly preserved by the Agreement, (iii) a Claim relating to or arising out of the Employee's fraud or criminal activity, or (iv) a Claim relating to or arising out of the Employee's willful or intentional misconduct in the performance of Employee's obligations under the Employment Agreement, the Company, on behalf of itself and the other Company Releasors, releases and forever discharges the Employee and the other Employee Releasees from any and all Claims which the Company now has or claims, or might hereafter have or claim, whether known or unknown (or the other Company Releasors may have, to the extent that it is derived from a Claim which the Company may have), against the Employee Releasees based upon or arising out of any matter or thing whatsoever, from the beginning of time to the effective date of this General Release and Waiver, and shall include, without limitation, Claims arising out of or related to the Employment Agreement dated January 1, 2002, and Claims arising under (or alleged to have arisen under) (a) any local, state, federal, regulation or ordinance; (b) any public policy, contract, tort, or common law; (c) any allegation for costs, fees, or other expenses including attorneys' fees incurred in these matters; or (d) any law, regulation or ordinance of the United Kingdom or the rest of Europe or any of their political entities. Company further represents that it has not, and never will, institute against the Employee or any of the Employee Releasees any action or other proceeding in any court, administrative agency, or other tribunal of the United States, any State thereof or any foreign jurisdiction, with respect to any Claim or cause of action of any type, other than as provided under (i), (ii), (iii) or (iv) above, arising or which may have existed at any time prior to the effective date of the Agreement. If Company does institute such a claim, it agrees to pay the reasonable costs incurred by the Employee or any of the Employee Releasees in defending such action, including reasonable attorneys' fees, experts' fees and costs.

7. For purposes of this General Release and Waiver, the terms set forth below shall have the following meanings:

(a) The term "Agreement" shall include the Agreement and the Exhibits thereto.

(b) The term "Claims" shall include any and all rights, claims, demands, debts, dues, sums of money, accounts, attorneys' fees, complaints, judgments, executions, actions and causes of action of any nature whatsoever, cognizable at law or equity.

(c) The term "Company Releasors" shall include the Company and any of its affiliates and, to the extent acting on behalf of the Company or any of its affiliates and not acting in their individual capacities, their respective officers, directors, trustees, members, representatives, agents, employees, shareholders, partners, attorneys, assigns,

administrators and fiduciaries under any employee benefit plan of the Company and of any affiliate, and insurers, and their predecessors and successors.

(d) The term "Employee Releasees" shall include the Employee, and his family, heirs, executors, representatives, agents, insurers, administrators, successors, assigns, and any other person claiming through the Employee.

8. The Agreement (including this General Release and Waiver and all other Exhibits to the Agreement), and the commitments and obligations of all parties thereunder:

(a) shall become final and binding immediately following the expiration of the Employee's right to revoke the execution of the Agreement in accordance with paragraph 4(d) of Exhibit B to the Agreement;

(b) shall not become final and binding until the expiration of such right to revoke; provided, however, that nothing contained herein shall confer any right upon the Company to revoke the Agreement; and

(c) shall not become final and binding if the Employee revokes such execution.

\* \* \* \* \*

The Company hereby acknowledges that it has carefully read and understands the terms of the Agreement and this General Release and Waiver and each of its rights as set forth therein.

Heidrick & Struggles International, Inc.

/s/ Fritz E. Freidinger

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By: Fritz E. Freidinger  
Title: General Counsel and Corporate  
Secretary

Date: July 1, 2003  
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State of Illinois

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County of Cook  
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Subscribed Before Me This

1ST Day of July, 2003

/s/ Mary D. Olawumi

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Notary Public]

OFFICIAL SEAL  
MARY D OLAWUMI  
NOTORAY PUBLIC, STATE OF ILLINOIS  
MY COMMISSION EXPIRES: 10/15/06

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May 15, 2003

David C. Anderson  
4627 Miron Drive  
Dallas, Texas 75220

Dear David:

This letter (the "Agreement and Release") confirms our agreement with regard to the termination of your employment with Heidrick & Struggles, Inc. (the "Company") effective May 15, 2003 (the "Termination Date"). Our understanding and agreement with respect to the termination of your employment is as follows:

1. You hereby confirm the termination of your employment with the Company effective as of the Termination Date, and you agree to execute a letter of resignation effective as of the Termination Date.

2. With the exception of 2(a) below, your total and final compensation from the Company shall be payable on the first business day following the date on which this agreement becomes final and binding pursuant to paragraph 16 below (the "Initial Payment Date") and shall be as follows:

(a) You will receive your regular base salary through and until the Termination Date through the Company's normal payroll process.

(b) You will receive a pro rata 2003 bonus payment (the "Pro-rata 2003 Bonus") based on the number of months of service up to the Termination Date. The amount of the Pro-rata 2003 Bonus is TWO HUNDRED TWENTY-FIVE THOUSAND DOLLARS (\$225,000.00) and is payable in a lump sum on the Initial Payment Date.

(c) You will receive severance payments in the amount of ONE MILLION TWO HUNDRED THOUSAND DOLLARS (\$1,200,000.00) to be paid in twelve equal monthly installments in the gross amount of ONE HUNDRED THOUSAND DOLLARS (\$100,000.00) (the "Severance Payments") as of each one-month anniversary of the Termination Date. No Severance Payments shall be made prior to the Initial Payment Date.

(d) With the exception of the three stock option grants you received on April 26, 1999 (the "4-26-99 Options"), effective as of the Initial Payment Date, you shall forfeit and/or relinquish any and all interests and rights in and under all vested or unvested outstanding stock options awarded under any plan or program maintained by the



Company or any of its affiliates. You hereby acknowledge and agree that you do not possess, nor are entitled to, any other stock option awards under any plan or program of the Company or any of its affiliates. The 4-26-99 Options shall continue to operate under the terms and conditions of the respective award agreements setting forth such awards (including any restrictive covenants contained therein), taking into account the termination of your employment as of the Termination Date.

(e) Effective as of the Initial Payment Date, you shall become fully vested in 12,500 of the 50,000 restricted stock units granted to you on December 31, 2001, which are not currently vested. Effective as of the Termination Date you shall forfeit any and all rights in the remaining 37,500 restricted stock units. You hereby acknowledge and agree that you do not possess, nor are you entitled to, any other restricted stock unit awards under any plan or program of the Company or any of its affiliates. The Company shall withhold from the restricted stock units vesting pursuant to this Agreement that number of shares equal to the minimum statutory required withholding, based on the closing share price on the Initial Payment Date. The net shares, after withholding, shall be delivered or otherwise made available to you as soon as practicable following the Initial Payment Date.

(f) Effective as of the Termination Date, you shall forfeit and/or relinquish any and all interests and rights under the Company's Performance Share Program, for any and all performance periods. You hereby acknowledge that you are not entitled to any future participation or payouts with respect to the Performance Share Program.

(g) Your comprehensive life, accidental death and dismemberment and disability insurance benefits, if any, will cease as of the Termination Date. You may have conversion privileges under some of these benefits programs. Please contact our Human Resource Department for details.

(h) Your coverage under the Company's group medical and dental insurance programs, if any, will cease as of the Termination Date. You may continue to be covered under these programs for a period of 18 months from that date (or such longer period as may be required by law) or until you experience a "COBRA disqualifying event," whichever occurs first. This continued coverage shall be available at your own expense. This continued coverage shall be subject to and in accordance with the terms of the documents governing the program. Specific information on the program will be sent to you separately.

(i) Except as specifically provided in this Agreement with respect to plans or arrangements specifically identified in this Agreement, your continued participation in all employee benefit (pension and welfare) and compensation plans will cease as of the Termination Date. Any payments made to you pursuant to this Agreement, other than with respect to the continued payment of salary through the Termination Date, shall be disregarded for purposes of determining the amount of benefits to be accrued on behalf of you under any pension or other benefit plan maintained by the Company or its affiliates. Nothing contained herein shall limit or otherwise impair your to receive pension or

similar benefit payments which are vested as of the Termination Date under any applicable tax qualified pension or other tax qualified benefit plan.

(j) You will be reimbursed for approved and authorized out-of-pocket expenses incurred through the Termination Date, provided you submit appropriate expense reports no later than Termination Date.

(k) You will receive payment for your accrued and unused vacation days through the Termination Date.

(l) Any payments under this Agreement and Release, or other amounts under this Agreement and Release which are required to be treated as compensation, shall be subject to all applicable tax withholding and payroll deductions.

3. Other than as set forth herein, you will not receive compensation, payments or benefits of any kind from the Company or Releasees (as that term is defined below), and you expressly acknowledge and agree that you are not entitled to, you have no rights to, and you will not receive any additional compensation, payments or benefits of any kind from the Company or Releasees, and that no representations or promises have been made to you to the contrary.

4. You understand and agree that you are receiving compensation, payments and/or benefits under this Agreement and Release which are in excess of those to which you are now or in the future may be entitled from the Company or Releasees (as that term is defined below), and that such compensation, payments and/or benefits are being provided to you in consideration for your acceptance and execution of, and in reliance upon your representations in, this Agreement and Release and you acknowledge that such consideration is adequate and satisfactory to you.

5. In exchange for the compensation, payments, benefits and other consideration provided to you in this Agreement and Release, you agree as follows:

(a) You agree to accept the compensation, payments, benefits and other consideration provided for in this Agreement and Release in full resolution and satisfaction of, and hereby IRREVOCABLY AND UNCONDITIONALLY RELEASE, REMISE AND FOREVER DISCHARGE the Company and Releasees from any and all agreements, promises, liabilities, claims, demands, rights and entitlements of any kind whatsoever, in law or equity, whether known or unknown, asserted or unasserted, fixed or contingent, apparent or concealed, which you, your heirs, executors, administrators, successors or assigns ever had, now have or hereafter can, shall or may have for, upon, or by reason of any matter, cause or thing whatsoever existing, arising or occurring at any time on or prior to the date you execute this Agreement and Release, including, without limitation, any and all claims arising out of or relating to your employment, compensation and benefits with the Company and/or the termination thereof, and any and all contract claims, benefit claims, tort claims, fraud claims, claims for bonuses, commissions, sales credits, etc., defamation, disparagement, or other personal injury claims, claims related to any bonus compensation, claims for accrued vacation pay, claims under any federal, state or municipal wage payment, discrimination or fair employment practices law, statute or regulation, and claims for costs, expenses and attorneys' fees with respect thereto, except

that the Company's obligations under this Agreement and Release shall continue in full force and effect in accordance with their terms. This release and waiver includes, without limitation, any and all rights and claims under Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, the Civil Rights Act of 1866 (42 U.S.C. Section 1981), the Employee Retirement Income Security Act, as amended, the Federal Age Discrimination in Employment Act, the Americans with Disabilities Act, the Fair Labor Standards Act, the National Labor Relations Act, the Family and Medical Leave Act, and any other federal, state or local statute, ordinance, regulation or constitutional provision regarding employment, compensation, employee benefits, termination of employment or discrimination in employment.

(b) For the purpose of implementing a full and complete release and discharge of claims, you expressly acknowledge that this Agreement and Release is intended to include in its effect, without limitation, all the claims described in the preceding paragraphs, whether known or unknown, apparent or concealed, and that this Agreement and Release contemplates the extinction of all such claims, including claims for attorney's fees. You expressly waive any right to assert after the execution of this Agreement and Release that any such claim, demand, obligation, or cause of action has, through ignorance or oversight, been omitted from the scope of the Agreement and Release.

(c) For purposes of this Agreement and Release, the term "the Company and Releasees" includes the Company and its past, present and future direct and indirect parents, subsidiaries, affiliates, divisions, predecessors, successors, insurers, and assigns, and their past, present and future officers, directors, shareholders, representatives, agents and employees, in their official and individual capacities, and all other related individuals and entities, jointly and individually, and this Agreement and Release shall inure to the benefit of and shall be binding and enforceable by all such entities and individuals.

6. Nothing contained in this Agreement and Release shall be deemed to constitute an admission or evidence of any wrongdoing or liability on the part of you or the Company or Releasees, nor of any violation of any federal, state or municipal statute, regulation or principle of common law or equity. The Company expressly denies any wrongdoing of any kind in regard to your employment or your termination.

7.

(a) You hereby agree and acknowledge that you shall continue to be subject to the restrictive covenants of Section 7 of your employment agreement with the Company dated as of January 1, 2002 (the "Employment Agreement").

(b) You and the Company hereby agree and acknowledge that the Arbitration provisions of Section 8 of the Employment Agreement shall apply to any and all disputes, controversies or claims arising between the parties relating to this Agreement.

(c) You have and/or agree to immediately return to the Company any and all computer equipment (including any desktop and/or laptop computers, handheld

computing devices, home systems, computer disks and diskettes), cellular telephones, fax machines, and any other magnetic and other media materials you have in your possession or under your control belonging to the Company. You have also returned and/or agree to immediately return your Company keys, credit cards and I.D. cards to the Company.

(d) You hereby represent and acknowledge that, as of the Termination Date, you do not possess any of the following: original or duplicate copies of your work product and files, calendars, books, records, notes, notebooks, customer lists and proposals to customers, manuals and any other magnetic and other media materials containing confidential or proprietary information concerning the Company or Releasees or their customers or operations. You further represent and acknowledge that either you did not possess any such items or that, as of the Termination Date, they have been returned to the Company and you have retained no copies of them.

8. You will not issue any communication, written or otherwise, that disparages or encourages any adverse action against the Company, provided that this paragraph shall not preclude you from testifying truthfully under oath pursuant to subpoena or otherwise, or from cooperating with any governmental, regulatory or self-regulatory body or agency with jurisdiction over the activities of the Company. The Company will provide you notice of its intentions to suspend or terminate payments under this Agreement due to a violation of this Section 8; provided, however, that no such suspension of payments shall be commenced prior to the initiation of an arbitration process as provided in Section 7(b) above. The Company will not issue any communication, written or otherwise, that disparages or encourages any adverse action against you, provided that this paragraph shall not preclude the Company from testifying truthfully under oath pursuant to subpoena or otherwise, or from cooperating with any governmental, regulatory or self-regulatory body or agency with jurisdiction over the activities of the Company.

9. You agree to perform all acts and execute and deliver any documents that may be reasonably necessary to carry out the provisions of this Agreement and Release.

10. You acknowledge and agree that:

(a) You have entered into this Agreement and Release knowingly and voluntarily.

(b) You have read and understand this entire Agreement and Release.

11. This Agreement and Release may not be changed orally, and no modification, amendment or waiver of any of the provisions contained in this Agreement and Release, nor any future representation, promise or condition in connection with the subject matter of this Agreement and Release shall be binding upon any party hereto unless made in writing and signed by such party.

12. This Agreement and Release shall be subject to and governed by and interpreted in accordance with the laws of the State of Illinois without regard to conflicts of laws principles. This Agreement reflects the entire agreement between you and the Company and, except as specifically provided herein, supersedes all prior agreements and understandings, written or oral relating to the subject matter hereof, it being acknowledged, however, that you shall continue to

be subject to the restrictive covenants of Section 7 of your Employment. To the extent that the terms of this Agreement and Release (including Exhibits to this Agreement and Release) are to be determined under, or are to be subject to, the terms or provisions of any other document, this Agreement and Release (including Exhibits to this Agreement and Release) shall be deemed to incorporate by reference such terms or provisions of such other documents.

13. In the event that any provision of this Agreement and Release shall be held to be void, voidable, unlawful or, for any reason, unenforceable, the remaining portions shall remain in full force and effect. The unenforceability or invalidity of a provision of this Agreement and Release in one jurisdiction shall not invalidate or render that provision unenforceable in any other jurisdiction.

14. This Agreement and Release shall inure to the benefit of and shall be binding upon (a) the Company, its successors and assigns, and any company with which the Company may merge or consolidate or to which the Company may sell all or substantially all of its assets and (b) you and your executors, administrators, heirs and legal representatives. You may not sell or otherwise assign your rights, obligations, or benefits under this Agreement and Release and any attempt to do so shall be void.

15. All notices in connection with or provided for under this Agreement and Release shall be validly given or made only if made in writing and delivered personally or mailed by registered or certified mail, return receipt requested, postage prepaid, to the party entitled or required to receive the same. Notice shall be deemed to have been given upon receipt in the case of personal delivery and upon the date of receipt indicated on the return receipt in the case of mail.

16. If this Agreement and Release conforms to your understanding and is acceptable to you, please indicate your agreement by signing and dating the enclosed copy of this Agreement and Release in the space provided below and returning the signed Agreement and Release to Fritz Freidinger, General Counsel, at the address indicated above within 21 days of the date of this Agreement and Release. Once you have signed the Agreement and Release, you will then be permitted to revoke this Agreement and Release at any time during the period of seven days following its execution by delivering to me a written notice of revocation. This Agreement and Release will not be effective or enforceable and no benefits shall be provided hereunder unless and until the seven-day revocation period has expired without your having exercised your right of revocation. In the event that you fail to execute and return this Agreement and Release on a timely basis, or you execute and then elect to revoke this Agreement and Release, this Agreement and Release will be of no force or effect, and neither you nor the Company will have any rights or obligations hereunder. You should consult with an attorney prior to signing this Agreement and Release.

Sincerely,

HEIDRICK & STRUGGLES, INC.

By: /s/ Fritz E. Freidinger

-----  
Fritz E. Freidinger

THIS AGREEMENT AND RELEASE IS A LEGAL DOCUMENT.

BY SIGNING THIS AGREEMENT AND RELEASE, YOU ACKNOWLEDGE AND AFFIRM THAT: (1) YOU ARE COMPETENT; (2) YOU WERE AFFORDED A REASONABLE TIME PERIOD OF AT LEAST 21 DAYS TO REVIEW AND CONSIDER THIS AGREEMENT AND RELEASE AND HAVE BEEN ADVISED TO DO SO WITH AN ATTORNEY OF YOUR CHOICE; (3) YOU HAVE READ AND UNDERSTAND AND ACCEPT THIS DOCUMENT AS FULLY AND FINALLY RESOLVING, WAIVING AND RELEASING ANY AND ALL CLAIMS AND RIGHTS WHICH YOU MAY HAVE AGAINST THE COMPANY AND RELEASEES (AS DEFINED ABOVE), INCLUDING, WITHOUT LIMITATION, ANY AND ALL CLAIMS AND RIGHTS UNDER THE AGE DISCRIMINATION IN EMPLOYMENT ACT; (4) NO PROMISES OR INDUCEMENTS HAVE BEEN MADE TO YOU EXCEPT AS SET FORTH IN THIS AGREEMENT AND RELEASE; AND (5) YOU HAVE SIGNED THIS AGREEMENT AND RELEASE FREELY, KNOWINGLY AND VOLUNTARILY, INTENDING TO BE LEGALLY BOUND BY ITS TERMS.

ACCEPTED AND AGREED:

/s/ David C. Anderson

-----  
David C. Anderson

-----  
Date

Sworn to before me this  
\_\_\_ day of \_\_\_\_\_, 200\_\_.

-----  
Notary Public

CERTIFICATION

I, Thomas J. Friel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Heidrick & Struggles International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrants's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 13, 2003

/s/ Thomas J. Friel

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Chief Executive Officer



CERTIFICATION

I, Kevin J. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Heidrick & Struggles International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrants's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 13, 2003

/s/ Kevin J. Smith

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Chief Financial Officer

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18,  
United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Heidrick & Struggles International, Inc., a Delaware corporation (the "Company"), does hereby certify that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (the "Form 10-Q") of the Company fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 13, 2003

/s/ Thomas J. Friel

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Chief Executive Officer

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18,  
United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Heidrick & Struggles International, Inc., a Delaware corporation (the "Company"), does hereby certify that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (the "Form 10-Q") of the Company fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 13, 2003

/s/ Kevin J. Smith

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Chief Financial Officer