
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

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

For the fiscal year ended December 31, 2002

OR

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

Commission File No. 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) (Zip Code)

(312) 496-1200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|--------------------------------------|---|
| Common Stock, \$.01 par value | Nasdaq National Market |

Securities registered pursuant to Section 12(g) of the Act: None

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The number of shares outstanding of the Company's Common Stock as of February 28, 2003 was 18,157,271 shares. The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant on June 28, 2002 was approximately \$331,707,771 based upon the closing market price of \$19.97 on that date of a share of Common Stock as reported on the Nasdaq National Market.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2003 Annual Meeting of Stockholders scheduled to be held on May 21, 2003, are incorporated by reference into Part III of this Form 10-K.

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

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PART I

ITEM 1. BUSINESS

Heidrick & Struggles International, Inc. (“Heidrick & Struggles”) is 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.

Heidrick & Struggles and its predecessors have been in the executive search business for 50 years. We provide our services to a broad range of clients through our worldwide network of approximately 335 consultants located in major cities around the world. For many of our clients, our global access to and knowledge of markets and candidates is an important characteristic of our business. We provide our executive search services on a retained basis, recruiting senior executives who often earn more than \$180,000 annually. Our clients include the following:

- Fortune 500 companies
- Major non-U.S. companies
- Middle market and emerging growth companies
- Governmental and not-for-profit organizations
- Other leading private and public entities

The executive search industry is highly fragmented, consisting of more than 4,000 executive search firms worldwide. According to trade publications, fewer than 10 executive search firms/alliances generated more than \$100 million in worldwide revenue during 2002. Executive search firms are generally separated into two broad categories: retained search firms and contingency search firms. Retained executive search firms fulfill their clients’ senior leadership needs by identifying qualified candidates and assisting clients in evaluating and assessing these candidates for positions typically with annual cash compensation of \$150,000 and above. Retained executive search firms generally are compensated for their services whether or not the client employs a candidate identified by the search firm, and are generally retained on an exclusive basis. In contrast, contingency search firms usually focus primarily on positions with annual cash compensation of less than \$150,000 and are compensated only upon successfully placing a recommended candidate. Executive search firms normally charge a fee for their services equal to approximately one-third of the first year’s total compensation for the position being filled.

Our executive search process typically consists of the following steps:

- Analyze the client’s needs in order to understand its organizational structure, relationships and culture; determine the required set of skills for the position; define the required experience; and identify the other characteristics necessary for the successful candidate
- Interview and evaluate candidates on the basis of experience and potential cultural fit with the client organization
- Present confidential written reports on the candidates who fit the position specification
- Schedule a mutually convenient meeting between the client and each candidate
- Collect references on the final candidate
- Assist in structuring the compensation package and supporting the successful candidate’s integration into the client team

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Over the past several years we have begun to expand our services beyond executive search. For several years, we have offered executive assessment and interim executive placement services in Europe. In late 2000, we extended our executive assessment business to North America and other parts of the world. This service provides senior-level executives with assessments of the individuals and teams reporting to them. In 2002, we expanded our interim executive placement offerings into North America. We formed an alliance in March 2002 with Lore International Institute, a global executive coaching and professional development firm. Heidrick & Struggles and Lore International Institute are marketing the services to current and prospective clients.

We have reduced our focus on mid-level management search, with the completion of the integration of this business into our executive search business in January 2002.

Available Information

We maintain an Internet website at <http://www.heidrick.com>. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports are available free of charge on this site as soon as reasonably practicable after the reports are filed with or furnished to the Securities and Exchange Commission. We also post quarterly press releases on our financial results, webcast presentations, and other documents containing additional information related to our company on this site. Our Internet website and the information contained in or connected to our website are for informational purposes only and are not incorporated into this annual report on Form 10-K.

Matrix Structure

Our matrix structure, which is organized by geography, industry practices and functional specialties, is designed to enable us to better understand our clients' cultures, operations, business strategies and industries, thereby improving our ability to serve them.

Geographic Structure. We provide executive-level search and leadership consulting to our clients worldwide through our offices in 27 countries. Major locations are managed by an Office Managing Partner, and staffed with consultants, associates, administrative assistants and other support staff. Administrative functions are centralized where possible, although certain support and research functions are situated regionally because of variations in local requirements.

We also have affiliates in five countries. We have no financial investment in these affiliates, but receive licensing fees from them for the use of our name and our databases.

Industry Practices. Within our Executive Search business we have seven core industry practices: Financial Services, Industrial, Technology, Consumer, Health Care, Professional Services and Higher Education/Nonprofit. These core industry practices and their relative sizes, as measured by net revenue for 2002, are as follows:

| <u>Industry Practices:</u> | <u>Percentage of Net Revenue</u> |
|-----------------------------------|--|
| Financial Services | 28% |
| Industrial | 19 |
| Technology | 18 |
| Consumer | 16 |
| Health Care | 9 |
| Professional Services | 6 |
| Higher Education/Nonprofit; Other | 4 |
| | <u>100%</u> |

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Executive search consultants from each of the industry practices may work from any one of our offices. Certain markets have a significant concentration of companies within particular industry sectors. For example, our Financial Services practice has its largest concentration of consultants in New York and London, two of the largest financial centers in the world. Each industry practice is coordinated by a Practice Managing Partner who establishes marketing and search strategies, identifies focused accounts and target clients, and facilitates and assists with the group's marketing activities.

Functional Specialties. We recognize that searching for candidates for particular executive positions often requires specialized skill in much the same way as a search for an executive in a particular industry. As a result, many of our executive search consultants also specialize in searches for functional positions such as members of boards of directors, chief executive officers, chief financial officers, chief information officers and chief human resources officers. Our functional specialists tend to have experience with appropriate candidates from many different industries. Typically, a consultant in a particular industry practice who receives an assignment for a given functional position will consult throughout the search assignment with one or more colleagues with the appropriate functional expertise. This coordination benefits our clients because the best candidate for certain functional positions often will come from a different industry. For example, a client in the health care sector seeking a new chief human resources officer may benefit from exposure to a candidate whose background is in the industrial sector, even though that candidate may be less well known by the members of our Health Care practice.

On a given search assignment, we will generally utilize the expertise of executive search consultants in more than one of our locations, industry practices and functional specialties. For example, an executive search for a chief financial officer of a technology company located in the United Kingdom may involve an executive search consultant in the United Kingdom with an existing relationship with the client, another executive search consultant in Menlo Park with expertise in our Technology practice and a third executive search consultant in New York with expertise in chief financial officer recruiting.

Information by Geographic Segment

North America. As of December 31, 2002, we had 174 executive search consultants in our North America segment, which includes the United States (except Miami) and Canada. Our North America segment generated approximately 55% of our worldwide net revenue in 2002. The largest offices in this segment in terms of net revenue are New York, San Francisco and Chicago.

Latin America. As of December 31, 2002, we had 17 executive search consultants in our Latin America segment, which includes Mexico and the rest of Latin America, as well as Miami, which serves as the gateway office to the region. Approximately 3% of our worldwide net revenue in 2002 was generated in this segment.

Europe. As of December 31, 2002, we had 116 executive search consultants in 14 European countries. Our Europe segment generated approximately 36% of our worldwide net revenue in 2002. Germany, the United Kingdom and France produced the highest levels of net revenue in this segment.

Asia Pacific. As of December 31, 2002, we had 30 executive search consultants in the Asia Pacific segment. This segment generated 6% of our worldwide net revenue in 2002.

For financial information relating to each geographic segment, see Note 3, *Segment Information*, in the Notes to Consolidated Financial Statements.

Seasonality

Historically, in years that were not affected by significant economic change, there has been some seasonality in our business. As a percentage of total annual net revenue, the first and fourth quarters of the year

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are typically the lowest, although on average, the variance between the highest and lowest net revenue quarters is less than five percentage points.

Clients and Marketing

Our consultants market the firm's executive search services through two principal means: targeted client calling and industry networking with clients and referral sources. These efforts are assisted by our databases, which provide all our consultants with information as to contacts made by their colleagues with particular referral sources, candidates and clients. In addition, we benefit from a significant number of referrals generated by our reputation for high quality service and successfully completed assignments.

Either by agreement with clients or for client relations purposes, executive search firms sometimes refrain from recruiting employees of a client, and possibly other entities affiliated with that client, for a specified period, generally not more than one year from the commencement of a search. We seek to mitigate the adverse effects of these blocking arrangements by strengthening our long-term relationships, thereby communicating our belief to prospective clients that we can conduct searches without off-limits issues impeding the quality of our work.

No single client accounted for over 3% of our net revenue in 2002.

Information Management

We rely on technology to support our consultants and staff in the search process. Our technology infrastructure consists of internally developed databases containing candidate profiles and client records, coupled with online services and industry reference sources. We use technology to manage and share information on current and potential clients and candidates, to communicate to both internal and external constituencies, and to support administrative functions. Over the past several years, we have invested in improving our systems. We intend to continue to invest in our own systems, focusing on our global search system and on our financial management and reporting systems.

Professional Staff and Employees

Our executive search professionals are categorized either as consultants or associates. Associates assist consultants by conducting research, making initial contact with candidates in some instances, and performing other functions. As of December 31, 2002, we had 1,370 full-time equivalent employees, of whom 337 were executive search consultants, 379 were associates, and 654 were other search, support and corporate staff. During 2002, we reduced our workforce by approximately 400 people or 20% of our global workforce, including 112 executive and management search consultants, in order to better align the size of our employee base with market conditions. During 2001, we reduced our workforce by 620 people, or 25% of our global workforce, including 136 executive and management search consultants, in order to adjust to weakening economic conditions.

In each of the past five years, no single consultant accounted for a material portion of our net revenues. We most frequently recruit our consultants from other executive search firms or, on occasion, from the industries represented by our practices. In the latter case, these are often seasoned executives who are entering the search profession as a second career, and who we train in our techniques and methodologies. We are not a party to any collective bargaining agreement and we consider relations with our employees to be good.

Competition

The executive search industry is highly competitive. While we face competition to some degree from all firms in the industry, we believe our most direct competition comes from established retained executive search

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firms that conduct searches primarily for the most senior-level positions within an organization. In particular, our competitors include Spencer Stuart & Associates, Egon Zehnder International, Russell Reynolds Associates, Inc. and Korn/Ferry International. To a lesser extent, we also face competition from smaller boutique or specialty firms that specialize in certain regional markets or industry segments. Each firm with which we compete is also a competitor in seeking to attract the most effective consultants.

The overall search industry has relatively few barriers to entry. Higher barriers exist, however, for firms like ours that focus primarily on conducting searches for executive-level positions. At this level, clients rely more heavily on a search firm's reputation and global access, and the experience level of its consultants. We believe that the segment of executive search in which we compete is more quality-sensitive than price-sensitive. As a result, we compete on the level of service we offer, reflected by our industry practices and functional specialties, by our client focus, and, ultimately, by the quality of our search results. We believe that our emphasis on senior-level executive search, the depth of experience of our search consultants and our global presence enable us to compete favorably with other executive search firms in the United States and elsewhere.

Competition in our other leadership consulting services, including executive assessment, interim executive placement and coaching, is highly fragmented, with no universally recognized market leaders. Several of our primary competitors in executive search also offer such complementary services, but those typically represent less than a majority percentage of their revenue.

OUR EXECUTIVE OFFICERS

Our executive officers as of March 1, 2003 are as follows:

| <u>Name</u> | <u>Age</u> | <u>Position with Company</u> |
|---------------------|------------|--|
| Piers Marmion | 44 | Chairman and Chief Executive Officer; Director |
| Kevin J. Smith | 48 | Chief Financial Officer |
| Jocelyn A. Dehnert | 51 | Managing Partner, Northern Europe |
| Fritz E. Freidinger | 38 | General Counsel and Corporate Secretary |
| John T. Gardner | 59 | Vice Chairman, Board Services |
| Joie A. Gregor | 53 | President, North America |

Our executive officers serve at the discretion of our Board of Directors. There are no family relationships between any executive officer or director. The following information sets forth the business experience for at least the past five years for each executive officer.

Piers Marmion has been our Chairman since December 2001, our Chief Executive Officer since October 2001 and a member of our Board of Directors since March 2001. Previously, Mr. Marmion was Chief Operating Officer and President—International of Heidrick & Struggles Executive Search from August 2000 to October 2001. Prior to joining us, Mr. Marmion was Chief Operating Officer Worldwide and Head of Europe and Asia at Spencer Stuart & Associates from 1994 to 2000.

Kevin J. Smith has been our Chief Financial Officer since joining us in January 2002. Prior to that, Mr. Smith was the Executive Vice President and Chief Financial Officer from 2000 to 2001 and the Senior Vice President and Chief Accounting Officer from 1998 to 2000 at True North Communications, Inc. From 1997 to 1998 he held various positions with Midcom Communications, Inc., including Executive Vice President and Chief Financial Officer, Chief Executive Officer, and consultant.

Jocelyn A. Dehnert has been our Managing Partner, Northern Europe since September 2002. Previously, Dr. Dehnert was Regional Managing Partner, Asia Pacific from October 2001 to August 2002. She became a Partner with us in November 1996.

Fritz E. Freidinger has been our General Counsel and Corporate Secretary since joining us in December 2002. Prior to that, Mr. Freidinger was Vice President, Global General Counsel and Corporate Secretary of Jones Lang LaSalle Incorporated from 2001 to 2002. Previously, Mr. Freidinger was with Hagan & Associates, a law firm providing services to Jones Lang LaSalle and its clients, from 1997 to 2001.

John T. Gardner has been our Vice Chairman, Board Services since October 2001. Prior to that, Mr. Gardner was President, Global Practices from June 2000 to October 2001, and Managing Partner of our Industrial Practice from November 1993 to June 2000.

Joie A. Gregor has been our President, North America since February 2003, Managing Partner of our North America Board Services Practice since December 2002, and a Vice Chairman since August 2002. Previously, Ms. Gregor was Partner-In-Charge of our Communications Specialty Practice from October 2000 to February 2002, and Office Managing Partner of our New York office from October 1997 to February 1999. She joined us as a Partner in May 1993.

RISK FACTORS

In addition to other information in this Form 10-K, the following risk factors should be carefully considered in evaluating our business because such factors currently may have a significant impact on our operating results and financial condition. As a result of the risks set forth below and elsewhere in this Form 10-K, and the risks discussed in our other Securities and Exchange Commission filings, actual results could differ materially from those projected in any forward-looking statements.

We depend on attracting and retaining qualified consultants.

Our success depends upon our ability to attract and retain consultants who possess the skills and experience necessary to fulfill our clients' executive search needs. Our ability to hire and retain qualified consultants could be impaired by any diminution of our reputation, decrease in compensation levels relative to our competitors or restructuring of our compensation system, or competitor hiring programs. If we cannot attract, hire and retain such consultants, our business, financial condition and results of operations may suffer.

We may not be able to prevent our consultants from taking our clients with them to another firm.

Our success depends upon the ability of our consultants to develop and maintain strong, long-term relationships with our clients. Usually, one or two consultants have primary responsibility for a client relationship. When a consultant leaves one executive search firm and joins another, clients that have established relationships with the departing consultant may move their business to the consultant's new employer. We may also lose clients if the departing consultant has widespread name recognition or a reputation as a specialist in executing searches in a specific industry or management function. Historically, we have not experienced significant revenue loss from this client portability. If we fail to limit departing consultants from moving business to another employer, our business, financial condition and results of operations may be adversely affected.

Our success depends on our ability to maintain our professional reputation and brand name.

We depend on our overall reputation and brand name recognition to secure new engagements and hire qualified consultants. Our success also depends on the individual reputations of our consultants. We obtain a majority of our new engagements from existing clients or from referrals by those clients. A client who is dissatisfied with our work can adversely affect our ability to secure new engagements. If any factor hurts our reputation, including poor performance, we may experience difficulties in competing successfully for both new engagements and qualified consultants. Failure to maintain our professional reputation and brand name could seriously harm our business, financial condition and results of operations.

Because our clients may restrict us from recruiting their employees we may be unable to fill existing executive search assignments.

Clients frequently require us to refrain from recruiting certain of their employees when conducting executive searches on behalf of other clients. These restrictions generally remain in effect for no more than one year following the commencement of an engagement. However, the specific duration and scope of the blocking arrangements depend on the length of the client relationship, the frequency with which the client engages us to perform searches, the number of assignments we have performed for the client and the potential for future business with the client.

If a client's competitors believe that we are overly restricted by these blocking arrangements from recruiting the employees of our clients, these competitors may not engage us to perform their executive searches, and as a result, our business, financial condition and results of operations may suffer.

We face aggressive competition.

The global executive search industry is extremely competitive and highly fragmented. We compete with other large global executive search firms and with smaller specialty firms. Specialty firms can focus on regional or functional markets or on particular industries. Some of our competitors possess greater resources, greater name recognition and longer operating histories than we do in particular markets or practice areas. There are limited barriers to entry into the search industry and new search firms continue to enter the market. Many executive search firms that have a smaller client base may be subject to fewer blocking arrangements. In addition, our significant clients or prospective clients may decide to perform executive searches using in-house personnel. Finally, during soft economic climates, competitors sometimes reduce their fees in order to attract clients and increase market share. Because we typically do not discount our fees, we may experience some loss of revenue. We may not be able to continue to compete effectively with existing or potential competitors. Our inability to meet these competitive challenges could have an adverse impact on our business, financial condition and results of operations.

We rely heavily on information management systems.

Our success depends upon our ability to store, retrieve, process and manage substantial amounts of information. To achieve our goals, we must continue to improve and upgrade our information management systems. We may be unable to license, design and implement, in a cost-effective and timely manner, improved information systems that allow us to compete effectively. If we experience any interruptions or loss in our information processing capabilities, our business, financial condition and results of operations may suffer.

We face the risk of liability in performing executive searches.

We are exposed to potential claims with respect to the executive search process. A client could assert a claim for violations of blocking arrangements, breaches of confidentiality agreements or malpractice. In addition, a candidate could assert an action against us. Possible claims include failure to maintain the confidentiality of the candidate's employment search or for discrimination or other violations of the employment laws. In various countries, we are subject to data protection laws which require the consent of a candidate to transfer resumes and other data. We maintain professional liability insurance in amounts and coverages that we believe are adequate. However, we cannot guarantee that our insurance will cover all claims and that the coverage will be available at reasonable rates. Significant uninsured liabilities could have a negative impact on our business, financial condition and results of operations.

Our multinational operations may be adversely affected by social, political and economic risks.

We generate substantial revenue outside the United States. We offer our services through our offices and affiliates in 32 countries around the world. We are exposed to the risk of changes in social, political and economic conditions inherent in international operations. In particular, we conduct business in countries where the legal systems and trade practices are evolving. Commercial laws in these countries are often vague, arbitrary and inconsistently applied. Under these circumstances, it is difficult for us to determine at all times the exact requirements of such local laws. If we fail to comply with local laws, our business, financial condition and results of operations will suffer. In addition, the global nature of our operations poses challenges to our management, and financial and accounting systems. Failure to meet these challenges could seriously harm our business, financial condition and results of operations.

We may not be able to align our cost structure with revenue.

The timing and strength of an economic recovery in the United States, Europe and other areas of the world continues to be unclear. It is difficult for us to forecast revenue generation with any degree of certainty, even in the near term, and to balance revenue with the required capacity. In 2001 and 2002, we took steps to reduce our workforce, consolidate and close offices and reduce other expenses. If we do not reduce our costs in proportion to demand for our services in a timely manner or if we reduce our workforce so that we are unable to service increased demand, our business, financial condition and results of operations could be adversely affected.

We may not be able to generate sufficient profits to realize deferred tax assets.

The timing and strength of an economic recovery in the United States, Europe and other areas of the world continues to be unclear. While current operational and tax plans support the realizability of our deferred tax assets, prolonged economic downturns could jeopardize the future realizability of deferred tax balances. If we are unable to generate taxable income in the long-term, our business, financial condition and results of operations may suffer.

Our ability to sublease or assign unused office space could affect our earnings and cash flows.

In 2001 and 2002, we consolidated and closed offices in order to reduce costs. This left us with a significant amount of unused office space with respect to which we are still required to make lease payments. At the time of the office closings we accrued the estimated costs associated with these actions. Inherent in these accruals are estimates concerning vacancy periods and sublease income. If we are unable to sublease or assign this unused office space within the estimated time frame, or if we sublease or assign this office space for amounts less than we had anticipated, our business, financial condition, results of operations and cash flow may suffer.

We have antitakeover provisions that make an acquisition of us more difficult and expensive.

Antitakeover provisions in our Certificate of Incorporation, our Bylaws and the Delaware laws make it more difficult and expensive for us to be acquired in a transaction which is not approved by our Board of Directors. Some of the provisions in our Certificate of Incorporation and Bylaws include:

- a classified board of directors
- limitations on the removal of directors
- limitations on stockholder actions
- advance notification requirements for director nominations and actions to be taken at stockholder meetings
- the ability to issue one or more series of preferred stock by action of our Board of Directors

These provisions could discourage an acquisition attempt or other transaction in which stockholders could receive a premium over the current market price for the common stock.

ITEM 2. PROPERTIES

Our corporate office is located in Chicago, Illinois. We have offices in the major metropolitan areas in 27 countries around the world. All of our offices are leased. We do not own any real estate. The aggregate square footage of office space under lease was approximately 872,000 as of December 31, 2002. These office leases call for future minimum lease payments of approximately \$187 million and have terms that expire between 2003 and 2016, exclusive of renewal options that we can exercise. Approximately 100,000 square feet of office space has been sublet to third parties. See *Risk Factors* included in Item 1 of this Form 10-K for further information concerning unused office space.

ITEM 3. LEGAL PROCEEDINGS

From time to time we are involved in litigation that is incidental to our business. We currently are not a party to any litigation, which, in our opinion, is 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 SECURITY HOLDERS

No matters were submitted to a vote of security holders during the last quarter of 2002.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Our common stock is listed on the Nasdaq National Market under the symbol "HSII." The following table sets forth the high and low stock price per share of the common stock for the periods indicated, as reported on the Nasdaq National Market.

| <u>Year Ended December 31, 2002</u> | <u>High</u> | <u>Low</u> |
|-------------------------------------|-------------|------------|
| First Quarter | \$ 21.15 | \$ 14.42 |
| Second Quarter | 22.92 | 17.90 |
| Third Quarter | 20.00 | 13.60 |
| Fourth Quarter | 16.35 | 11.85 |
| <u>Year Ended December 31, 2001</u> | | |
| First Quarter | \$ 45.00 | \$ 25.00 |
| Second Quarter | 35.90 | 19.65 |
| Third Quarter | 22.75 | 12.00 |
| Fourth Quarter | 21.90 | 13.34 |

As of February 28, 2003, the last reported price on the Nasdaq National Market for our common stock was \$11.55 per share and there were approximately 260 stockholders of record of the common stock.

We have never paid cash dividends on our common stock and do not presently anticipate paying any cash dividends on our common stock in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will be dependent upon our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors deemed relevant by the Board of Directors. Our credit facility prohibits us from declaring and paying cash dividends on the common stock without the consent of our lenders. Future indebtedness and loan facilities may also prohibit or restrict our ability to pay dividends and make distributions to our stockholders.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below have been derived from our audited consolidated financial statements. The data as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000 are derived from the audited historical consolidated financial statements which are included elsewhere in this Form 10-K. The data as of December 31, 2000, 1999 and 1998 and for the years ended December 31, 1999 and 1998 are derived from audited historical consolidated financial statements which are not included in this report. The data set forth are qualified in their entirety by, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations," the audited consolidated financial statements, the notes thereto, and the other financial data and statistical information included in this Form 10-K.

| | Year Ended December 31, | | | | |
|---|---|--------------------|------------------|-----------------|--------------------|
| | 2002 | 2001 | 2000 | 1999(7) | 1998 |
| | (in thousands, except per share and other operating data) | | | | |
| Statement of Operations Data: | | | | | |
| Revenue: | | | | | |
| Revenue before reimbursements (net revenue) | \$ 350,712 | \$ 455,534 | \$ 594,394 | \$ 415,847 | \$ 216,836 |
| Reimbursements | 26,133(1) | 32,065(1) | 33,221(1) | N/A(1) | N/A(1) |
| Total revenue | 376,845 | 487,599 | 627,615 | 415,847 | 216,836 |
| Operating expenses: | | | | | |
| Salaries and employee benefits: | | | | | |
| Salaries and employee benefits | 242,330 | 302,792 | 395,105(5) | 277,580 | 161,870 |
| Nonrecurring compensation expense | — | — | 12,222(6) | 14,448(8)(9) | 12,748(10) |
| General and administrative expenses: | | | | | |
| General and administrative expenses | 106,913 | 157,404 | 156,242 | 104,144 | 53,557 |
| Nonrecurring general and administrative expenses | — | — | 1,753(6) | 772(8) | — |
| Reimbursed expenses | 26,133(1) | 32,065(1) | 33,221(1) | N/A(1) | N/A(1) |
| Special charges | 48,532(2) | 53,230(2) | — | — | — |
| Total operating expenses | 423,908 | 545,491 | 598,543 | 396,944 | 228,175 |
| Operating income (loss) | (47,063) | (57,892) | 29,072 | 18,903 | (11,339) |
| Non-operating income (expense): | | | | | |
| Interest income | | | | | |
| Interest income | 2,018 | 5,523 | 8,723 | 3,513 | 1,585 |
| Interest expense | | | | | |
| Interest expense | (210) | (166) | (209) | (1,504) | (505) |
| Net realized and unrealized gains (losses) on equity and warrant portfolio | | | | | |
| Net realized and unrealized gains (losses) on equity and warrant portfolio | (1,325)(3) | (3,703)(3) | 7,399(3) | 782(3) | — |
| Write-down of long-term investments | | | | | |
| Write-down of long-term investments | (5,000)(4) | (14,760)(4) | (240)(4) | — | — |
| Other, net | | | | | |
| Other, net | (73) | (517) | 418 | (152) | (2,212)(11) |
| Net non-operating income (expense) | (4,590) | (13,623) | 16,091 | 2,639 | (1,132) |
| Equity in net loss of affiliate | — | — | — | (630) | (3,417) |
| Income (loss) before income taxes and cumulative effect of accounting change | (51,653) | (71,515) | 45,163 | 20,912 | (15,888) |
| Provision for (benefit from) income taxes | (11,491) | (24,094) | 25,746 | 15,120 | 1,302 |
| Income (loss) before cumulative effect of accounting change | (40,162) | (47,421) | 19,417 | 5,792 | (17,190) |
| Cumulative effect of accounting change, net of tax | — | 4,494(3) | — | — | — |
| Net income (loss) | \$ (40,162) | \$ (42,927) | \$ 19,417 | \$ 5,792 | \$ (17,190) |
| Basic earnings (loss) per common share | | | | | |
| Basic earnings (loss) per common share | \$ (2.22) | \$ (2.28) | \$ 1.02 | \$ 0.42 | \$ (5.85) |
| Basic weighted average common shares outstanding | | | | | |
| Basic weighted average common shares outstanding | 18,107 | 18,839 | 18,979 | 13,642 | 2,940 |
| Diluted earnings (loss) per common share | | | | | |
| Diluted earnings (loss) per common share | \$ (2.22) | \$ (2.28) | \$ 0.95 | \$ 0.42 | \$ (5.85) |
| Diluted weighted average common shares outstanding | | | | | |
| Diluted weighted average common shares outstanding | 18,107 | 18,839 | 20,389 | 13,889 | 2,940 |
| Balance Sheet Data (at end of period): | | | | | |
| Working capital | | | | | |
| Working capital | \$ 79,505 | \$ 92,786 | \$ 120,340 | \$ 54,007 | \$ 7,954 |
| Total assets | | | | | |
| Total assets | 363,064 | 411,106 | 523,644 | 334,749 | 128,775 |
| Long-term debt, less current maturities | | | | | |
| Long-term debt, less current maturities | 294 | 1,959 | 610 | — | 6,350 |
| Mandatorily redeemable common stock | | | | | |
| Mandatorily redeemable common stock | — | — | — | — | 44,422 |
| Stockholders' equity | | | | | |
| Stockholders' equity | 199,711 | 229,591 | 287,677 | 167,880 | — |
| Other Operating Data: | | | | | |
| Average number of consultants during the period | | | | | |
| Average number of consultants during the period | 391 | 507 | 441 | 347 | 207 |

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Notes to Selected Financial Data:

- (1) In November 2001, the Emerging Issues Task Force (“EITF”) reached a consensus on Issue No. 01-14, “Income Statement Characterization of Reimbursements Received for ‘Out-of-Pocket’ Expenses Incurred,” (EITF No. 01-14). EITF No. 01-14 establishes that reimbursements received for certain out-of-pocket expenses should be reported as revenue. Historically, we classified reimbursements of out-of-pocket expenses as a reduction of operating expenses. We adopted this guidance in 2002. The presentation required by EITF No. 01-14 has no impact on operating income. Reimbursements for out-of-pocket expenses for 1999 and 1998 are not presented separately as revenue and operating expenses as such data was not available for those years.
- (2) In October 2002, October 2001 and June 2001, we announced cost reduction initiatives to better align costs with expected net revenue levels. These special charges related to reductions of our workforce, consolidation and closing of offices, goodwill and intangible asset write-offs and the settlement of the former CEO’s contract upon his retirement. For 2002, we recognized special charges of \$48.5 million related to these announced initiatives. For 2001, we recorded special charges of \$53.2 million related to these announced initiatives.
- (3) 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 a derivative instrument 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 Statement of Operations rather than as a component of accumulated other comprehensive income.

On January 1, 2001, we adopted SFAS No. 133. As a result, in 2001, we recorded a transition adjustment to income of \$4.5 million, net of consultants’ bonuses, other costs, and taxes. In 2002 and 2001, we recorded unrealized losses, net of consultants’ bonuses and other costs, of \$3.0 million and \$4.7 million, respectively, related to the equity and warrant portfolio.

Upon a value event such as an initial public offering or an acquisition, the equity securities arising from the exercise of warrants are monetized, resulting in a realized gain, net of consultants bonuses and other costs. In 2002, 2001, 2000 and 1999, we recorded realized gains, net of consultants’ bonuses and other costs, of \$1.6 million, \$1.0 million, \$7.4 million and \$0.8 million, respectively, related to the equity and warrant portfolio.
- (4) During 2002, we wrote-down our remaining investment in the ETF Group, incurring a non-cash charge of \$5.0 million. During 2001, we recorded non-cash charges of \$14.8 million in connection with writing down our investments in Silicon Valley Internet Capital (“SVIC”) and ETF Group. During 2000, we recorded a non-cash charge of \$0.2 million related to our investment in SVIC.
- (5) Includes non-cash compensation expense of \$2.7 million, due to the issuance of options by LeadersOnline at a price below the deemed fair market value, for accounting purposes, at the time of issuance.
- (6) We incurred \$14.0 million of nonrecurring expenses during the third quarter of 2000 as a result of the withdrawal of LeadersOnline’s proposed initial public offering. This included a non-cash compensation expense of \$12.2 million which represents the remainder of the non-cash compensation expense related to the issuance of options by LeadersOnline at a price below the deemed fair market value, for accounting purposes, at the time of issuance. The remaining \$1.8 million is due to the write-off of expenses related to the proposed initial public offering and is included in nonrecurring general and administrative expenses.
- (7) Heidrick & Struggles, Inc. acquired Heidrick & Struggles International, Inc., on February 26, 1999. The historical results of operations of Heidrick & Struggles International, Inc. have been included in the consolidated financial statements subsequent to the date of acquisition.
- (8) We recorded costs of \$2.8 million during the third quarter of 1999 as a result of the merger with Sullivan & Company on September 1, 1999. The costs consist of a \$2.0 million non-cash compensation expense for accelerated vesting of an employee equity ownership program in place at Sullivan & Company and \$0.8 million of transaction-related costs, including legal, accounting and advisory fees, which are included in nonrecurring general and administrative expenses.
- (9) We recorded nonrecurring compensation expense of \$12.4 million during the first quarter of 1999 as a result of the modification of the terms of the Mülder Partner GmbH & Co. KG (“Mülder”) acquisition agreement, including the termination of all employment contingencies. This nonrecurring expense represents the write-off of \$2.9 million of deferred compensation assets, the settlement of the remaining cash due of \$4.3 million, and the issuance of 428,452 common shares (valued at \$5.2 million) to the previous owners of Mülder.
- (10) We recorded nonrecurring compensation expense of \$12.7 million comprised of \$9.9 million of salaries and employee benefits expense arising from the difference between the price of shares issued to certain of our employees in December 1998 and the fair market value of such shares at the date of grant and \$2.8 million of salaries and employee benefits expense relating to the early settlement of profit sharing arrangements upon the acquisition of certain Latin American locations.
- (11) Includes a nonrecurring charge of \$2.5 million recorded in connection with the costs of the postponement of our initial public offering in September 1998.

ITEM 7. 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 annual report on Form 10-K contain forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. The forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate and management's beliefs and assumptions. Forward-looking statements may be identified by the use of words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," 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 overseas markets; 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. For more information on the factors that could affect the outcome of forward-looking statements, see Risk Factors in Item 1 of this Form 10-K. We caution the reader that the list of factors may not be exhaustive. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

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 in 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 were completed during the 2002 first quarter, including the integration of LeadersOnline into our Executive Search business.

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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 which occurred since June 2001, at the current and anticipated near-term 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.

The turbulent geopolitical situation and its effects on the worldwide economy continue to create uncertainty in the business environment. For 2003, we expect net revenue to be flat to down modestly compared to 2002. The corresponding 2003 operating margins at that net revenue level are expected to be 3 to 5 percent.

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.

As of January 1, 2002 we completed the integration of LeadersOnline, our mid-level management recruiting service, into our Executive Search business. As a result, we no longer report LeadersOnline as a separate segment. As LeadersOnline was North America based, the net revenue and operating income (loss) have been included as part of the North America region.

We adopted 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) in 2002, which requires that reimbursements of out-of-pocket expenses be reported on a gross basis as revenue and as operating expenses. Historically, the reimbursements of out-of-pocket expenses were classified as a reduction of operating expenses. The change in presentation has no impact on our consolidated operating income (loss). For segment purposes, the revenue from reimbursements is reported on a separate line, and therefore does not affect the analysis of 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.

Prior period disclosures were revised to reflect the above changes.

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The following table summarizes the results of operations for the periods indicated:

| | Year Ended December 31, | | |
|--|-------------------------|-------------|------------|
| | 2002 | 2001 | 2000 |
| | (In thousands) | | |
| Revenue: | | | |
| Revenue before reimbursements (net revenue) | \$ 350,712 | \$ 455,534 | \$ 594,394 |
| Reimbursements | 26,133 | 32,065 | 33,221 |
| Total revenue | 376,845 | 487,599 | 627,615 |
| Operating expenses: | | | |
| Salaries and employee benefits: | | | |
| Salaries and employee benefits | 242,330 | 302,792 | 395,105 |
| Nonrecurring compensation expense | — | — | 12,222 |
| General and administrative expenses: | | | |
| General and administrative expenses | 106,913 | 157,404 | 156,242 |
| Nonrecurring general and administrative expenses | — | — | 1,753 |
| Reimbursed expenses | 26,133 | 32,065 | 33,221 |
| Special charges | 48,532 | 53,230 | — |
| Total operating expenses | 423,908 | 545,491 | 598,543 |
| Operating income (loss) | (47,063) | (57,892) | 29,072 |
| Net non-operating income (expense) | (4,590) | (13,623) | 16,091 |
| Income (loss) before income taxes and cumulative effect of accounting change | (51,653) | (71,515) | 45,163 |
| Provision for (benefit from) income taxes | (11,491) | (24,094) | 25,746 |
| Income (loss) before cumulative effect of accounting change | (40,162) | (47,421) | 19,417 |
| Cumulative effect of accounting change, net of tax | — | 4,494 | — |
| Net income (loss) | \$ (40,162) | \$ (42,927) | \$ 19,417 |

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The following table sets forth, for the periods indicated, our selected statements of operations data as a percentage of revenue before reimbursements (net revenue):

| | Year Ended December 31, | | |
|--|-------------------------|---------------|--------------|
| | 2002 | 2001 | 2000 |
| Revenue: | | | |
| Revenue before reimbursements (net revenue) | 100.0% | 100.0% | 100.0% |
| Reimbursements | 7.5 | 7.0 | 5.6 |
| Total revenue | 107.5 | 107.0 | 105.6 |
| Operating expenses: | | | |
| Salaries and employee benefits: | | | |
| Salaries and employee benefits | 69.1 | 66.5 | 66.5 |
| Nonrecurring compensation expense | — | — | 2.1 |
| General and administrative expenses: | | | |
| General and administrative expenses | 30.5 | 34.6 | 26.3 |
| Nonrecurring general and administrative expenses | — | — | 0.3 |
| Reimbursed expenses | 7.5 | 7.0 | 5.6 |
| Special charges | 13.8 | 11.7 | — |
| Total operating expenses | 120.9 | 119.7 | 100.7 |
| Operating income (loss) | (13.4) | (12.7) | 4.9 |
| Net non-operating income (expense) | (1.3) | (3.0) | 2.7 |
| Income (loss) before income taxes and cumulative effect of accounting change | (14.7) | (15.7) | 7.6 |
| Provision for (benefit from) income taxes | (3.3) | (5.3) | 4.3 |
| Income (loss) before cumulative effect of accounting change | (11.5) | (10.4) | 3.3 |
| Cumulative effect of accounting change, net of tax | — | 1.0 | — |
| Net income (loss) | (11.5)% | (9.4)% | 3.3% |

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

2002 Compared to 2001

Revenue before reimbursements (net revenue). Consolidated net revenue decreased \$104.8 million, or 23.0%, to \$350.7 million for 2002 compared to \$455.5 million for 2001. Excluding the effect of exchange rate fluctuations, net revenue declined approximately 24%. The decline was due to decreased demand for our executive search services across most geographies, industries and disciplines, especially in our Technology and Financial Services practices. The number of confirmed executive searches decreased 20% from 2001. We believe this decrease reflects the impact of the continuing global economic slowdown.

Net revenue in North America was \$194.2 million in 2002, a decrease of \$63.9 million, or 24.8%, from \$258.1 million in 2001. Increases in our Consumer and Professional Services practices were more than offset by declines in our Technology and Financial Services practices. In Latin America, net revenue decreased \$3.5 million, or 24.2%, to \$11.0 million in 2002 from \$14.5 million in 2001, as the region felt the effects of weak U.S. and local economies and political turmoil in some countries. Most of the practices reported declines. Net revenue in Europe decreased \$31.3 million, or 20.1%, to \$124.4 million in 2002 from \$155.7 million in 2001. Excluding the impact of exchange rate fluctuations, Europe's net revenue declined approximately 24%. Most practices experienced declines in net revenue from 2001 to 2002. In Asia Pacific, net revenue was \$21.1 million in 2002, a decrease of \$6.1 million, or 22.5%, from \$27.2 million in 2001. Excluding the impact of exchange rate fluctuations, net revenue decreased 24% compared to 2001. Increases in the region's Professional Services and Higher Education/Nonprofit practices were more than offset by declines in the Financial Services, Technology, and other practices.

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Salaries and employee benefits. Consolidated salaries and employee benefits expense decreased \$60.5 million, or 20.0%, to \$242.3 million in 2002 from \$302.8 million in 2001. The decrease in dollar terms was primarily attributable to lower accruals for performance-based compensation, related in part to the lower net revenue, and lower fixed costs as a result of the elimination of more than 1,000 positions, or approximately 40% of our workforce, since June 2001. As a percentage of net revenue, salaries and employee benefits expense increased to 69.1% for 2002 from 66.5% for 2001. This increase as a percentage of net revenue was primarily due to the impact of lower net revenue against our fixed salaries and employee benefits expense, partially offset by a lower percentage of net revenue being accrued for performance-based compensation for executive search consultants, management and support staff. The average number of executive search consultants for 2002 was 391, a decrease of 23%, compared to an average of 507 in 2001.

General and administrative expenses. Consolidated general and administrative expenses decreased \$50.5 million, or 32.1%, to \$106.9 million in 2002 from \$157.4 million in 2001. This decrease was due to lower discretionary spending, lower bad debt expense, and cost savings from the consolidation and closing of offices. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," we did not record goodwill amortization for 2002. For 2001, general and administrative expenses included \$2.5 million of goodwill amortization. As a percentage of net revenue, general and administrative expenses decreased to 30.5% in 2002 from 34.6% in 2001.

Special charges. In 2002, we recorded special charges of \$48.5 million related to reductions in our workforce and the consolidation and closing of offices. In 2001, we recorded special charges for \$53.2 million related to reductions in our workforce, the consolidation and closing of offices, and the settlement of the former CEO's contract upon his retirement. The following table summarizes the workforce reductions as well as the special charges related to all announced initiatives:

| Special Charges by Announcement Date | Employee Reductions | | | Special Charges | | | |
|--------------------------------------|---------------------|------------|------------|------------------|-----------------|--------------------|-------------|
| | Consultants | All Other | Total | Employee-related | Office Closings | Other Cash Charges | Total |
| (In millions) | | | | | | | |
| June 2001 Announcement: | | | | | | | |
| Q2 2001 | 63 | 222 | 285 | \$ 7.7 | \$ — | \$ 0.5 | \$ 8.2 |
| Q3 2001 | 6 | 9 | 15 | 1.0 | 1.0 | 0.2 | 2.3 |
| Total | 69 | 231 | 300 | 8.7 | 1.0 | 0.7 | 10.4 |
| October 2001 Announcement: | | | | | | | |
| Q4 2001 | 67 | 253 | 320 | 15.0 | 27.1 | 0.7 | 42.8 |
| Q1 2002 | 51 | 115 | 166 | 10.4 | 12.8 | — | 23.2 |
| Total | 118 | 368 | 486 | 25.4 | 39.9 | 0.7 | 66.0 |
| October 2002 Announcement: | | | | | | | |
| Q4 2002 | 61 | 175 | 236 | 12.2 | 13.2 | — | 25.4 |
| Special Charges by Year: | | | | | | | |
| Total 2001 | 136 | 484 | 620 | \$ 23.7 | \$ 28.1 | \$ 1.4 | \$53.2 |
| Total 2002 | 112 | 290 | 402 | \$ 22.6 | \$ 26.0 | \$ — | \$48.5 |

Note: Consultants include both executive and management search consultants.

Totals and subtotals may not equal the sum of individual line items due to rounding.

In June 2001, we announced a reduction of our workforce. The actions affected 300 people, or 13% of the firm's global workforce. Of the reductions, 69 were executive and management search consultants and the remainder was support staff in executive and management search and in the corporate departments. Nearly two-

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thirds of the layoffs were in North America, 24% were in Europe, and the rest were in Latin America and Asia Pacific. As a result of this workforce reduction, we recorded special charges of \$10.4 million in the nine months ended September 30, 2001, primarily for severance and related costs. The charges were substantially all cash.

In October 2001, we announced additional reductions in our workforce, the consolidation and closing of offices, and the settlement of the former CEO's contract upon his retirement. The actions affected 486 employees or approximately 20% of the firm's global workforce. Of the reductions, 118 were executive and management search consultants and the remainder was support staff in executive and management search and in the corporate departments. Approximately 55% of the reduction was in North America, 35% was in Europe, and the rest were in Latin America and Asia Pacific.

As a result of the actions announced in October 2001, we recorded \$42.8 million of special charges in the 2001 fourth quarter and \$23.2 million in the 2002 first quarter. The special charges recorded in the 2001 fourth quarter included \$15.0 million for severance and other employee-related costs, of which \$7.8 million relates to the settlement of the former CEO's contract upon his retirement. In addition, charges related to the consolidation and closing of offices were \$27.1 million, of which \$1.6 million is goodwill impairment related to the exit from South Africa and the Baltic region. The remainder of the charges, \$0.7 million, is primarily for other cash expenses incurred as a result of the announced actions. The 2002 first quarter special charges of \$23.2 million include severance and other employee-related costs of \$10.4 million, and \$12.8 million related to the consolidation and closing of offices.

In October 2002, we announced additional reductions in our workforce and the consolidation and closing of offices, recording a charge of \$25.4 million. The actions affected 236 employees, of which 156 were in Europe. Of the reductions, 61 were executive and management search consultants and the remainder was support staff. Of the \$25.4 million special charge, \$12.2 million was for severance and related costs, \$10.6 million was facilities-related, and \$2.6 million was for the write-off of goodwill and intangible assets. Approximately 80% of the special charge is expected to be paid in cash.

Approximately \$39.2 million of the 2001 and 2002 special charges remained unpaid as of December 31, 2002. The majority of the amounts remaining to be paid relate to real estate leases. Cash disbursements lag the charges because charges related to disposing of leases are recorded currently, while the cash spending for each affected lease will continue until sub-leasing, or negotiations with the lessor to terminate the lease, are completed. Based on current estimates, approximately \$20.7 million is expected to be paid in 2003 with the remaining \$18.5 million payable in years subsequent to 2003.

Operating income (loss). The following table summarizes our consolidated operating loss for 2002 and 2001, respectively:

| <u>Consolidated operating income (loss)</u> | <u>2002</u> | <u>2001</u> | <u>Increase (decrease) in operating income</u> |
|--|------------------|------------------|--|
| | | | (In millions) |
| Total regions | \$ 29.2 | \$ 28.8 | \$ 0.4 |
| Corporate | (27.8) | (33.5) | 5.7 |
| Operating income (loss) before special charges | 1.5 | (4.7) | 6.2 |
| Special charges | (48.5) | (53.2) | 4.7 |
| Consolidated operating loss | \$ (47.1) | \$ (57.9) | \$ 10.8 |

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

Our consolidated operating loss was \$47.1 million in 2002, a decrease of \$10.8 million, compared to an operating loss of \$57.9 million in 2001. The decrease in the operating loss was primarily due to lower special charges, lower corporate costs and improved profitability in the geographic regions. Operating income before

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special charges increased \$6.2 million to \$1.5 million in 2002 from an operating loss before special charges of \$4.7 million in 2001. The increase in operating income before special charges was driven by a \$60.5 million reduction in salaries and employee benefits expense due to reductions in our workforce and lower accruals for performance-based compensation, and a \$50.5 million reduction of general and administrative expenses due to reduced spending on discretionary items, reductions in bad debt expense, and savings from office consolidations and closings. These cost reductions more than offset the \$104.8 million decline in net revenue compared to 2001.

In North America, operating income for 2002 increased \$9.7 million to \$33.7 million from \$24.0 million in 2001. The decline of \$63.9 million in North America's net revenue was offset by lower levels of fixed salaries and employee benefits expense, bad debt expense, discretionary spending and 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 June 2001.

In Latin America, the operating loss increased \$0.8 million to \$2.8 million in 2002, compared to an operating loss of \$2.0 million in 2001. The increase in the operating loss was attributable to a \$3.5 million decline in Latin America's net revenue, costs related to converting certain wholly-owned subsidiaries into licensees and an adjustment for value-added taxes, partially offset by lower performance-based and fixed compensation expenses due to consultant departures.

In Europe, the operating loss was \$3.2 million in 2002, compared to operating income of \$4.9 million in 2001. The decline of \$8.1 million was attributable to a \$31.3 million decline in Europe's net revenue, partially offset by lower salaries and employee benefits expense reflecting the lower net revenue and lower headcount due to the reductions in workforce which have occurred since June 2001. The initiatives announced in the fourth quarter of 2002 are expected to improve the Europe region's profitability in 2003.

In Asia Pacific, operating income in 2002 was \$1.5 million compared to operating income of \$1.9 million in 2001. The decline in operating income of \$0.4 million was attributable to a decline in net revenue of \$6.1 million, partially offset by lower salaries and employee benefits expense and lower general and administrative expenses, primarily bad debt expense.

Unallocated corporate expenses declined \$5.7 million, or 17.1%, to \$27.8 million in 2002 from \$33.5 million in 2001 due to reduced costs associated with corporate staffing, the elimination of goodwill amortization, and lower discretionary spending.

The special charges incurred in 2002 and 2001 of \$48.5 million and \$53.2 million, respectively, are explained in the preceding section captioned "Special charges."

Net non-operating income (expense). Consolidated net non-operating expense for 2002 was \$4.6 million compared to \$13.6 million for 2001. The following table presents the components of our net non-operating income (expense) for 2002 and 2001, respectively:

| Consolidated non-operating income (expense) | 2002 | 2001 | Increase (decrease) in net non-operating income |
|---|---------|----------|---|
| | | | (In millions) |
| Interest income | \$ 2.0 | \$ 5.5 | \$ (3.5) |
| Interest expense | (0.2) | (0.2) | — |
| Realized and unrealized gains (losses) on equity and warrant portfolio: | | | |
| Realized gains on investments | 1.6 | 1.0 | 0.6 |
| Net unrealized loss on derivative instruments | (3.0) | (4.7) | 1.7 |
| Net realized and unrealized gains (losses) | (1.3) | (3.7) | 2.4 |
| Write-down of long-term investments | (5.0) | (14.8) | 9.8 |
| Other, net | (0.1) | (0.5) | 0.4 |
| Net non-operating expense | \$(4.6) | \$(13.6) | \$ 9.0 |

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

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Interest income in 2002 declined \$3.5 million compared to 2001 due to lower cash balances available for investment and lower returns on the invested cash.

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 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. Upon a value event such as an initial public offering or an acquisition, the equity securities arising from the exercise of the warrants are monetized, resulting in a realized gain, net of consultants' bonuses and other costs. The accounting for SFAS No. 133 is more fully described in Note 1, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements. During 2002, we recognized \$1.6 million of realized gains and \$3.0 million of unrealized losses, net of consultants' bonuses and other costs, related to our equity and warrant portfolio. During 2001, we recognized \$1.0 million of realized gains and \$4.7 million of unrealized losses, net of consultants' bonuses and other costs, related to our equity and warrant portfolio.

The write-down of long-term investments totaled \$5.0 million in 2002 and \$14.8 million in 2001. In the second quarter of 2002, due to the continuing decline in the valuation of technology start-up companies, we wrote down the remainder of our investment in ETF Group, incurring a non-cash charge of \$5.0 million. In the fourth quarter of 2001, we wrote down half of our \$10.0 million investment in ETF Group, because its portfolio of companies had been adversely affected by the downturn in the valuation of technology start-up companies. During the third quarter of 2001, we wrote down our investment in Silicon Valley Internet Capital ("SVIC") due to the economy's impact on the value of Internet infrastructure start-up companies, which resulted in a non-cash charge of \$9.8 million. At the time of our initial investment in SVIC, Mr. Robert W. Shaw was a member of our Board of Directors and had an ownership interest in SVIC.

Cumulative effect of change in accounting principle. As a result of the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its subsequent amendments on January 1, 2001, we recorded, as a cumulative effect of accounting change, a transition adjustment to income of \$4.5 million, net of consultants' bonuses, other costs and taxes.

Income taxes. In 2002, the tax benefit was recorded at a rate of 22.2%, reflecting valuation allowances related to the recoverability of foreign tax credits, foreign net operating losses and other tax-related allowances. In 2001, the tax benefit reflected a rate of 33.7%. During 2002, we had a pre-tax loss of \$51.7 million compared to a loss before taxes and the cumulative effect of the accounting change, of \$71.5 million in 2001. The income tax provision and related current and deferred tax balances are more fully described in Note 6, *Income Taxes*, in the Notes to Consolidated Financial Statements.

2001 Compared to 2000

Revenue before reimbursements (net revenue). Our consolidated net revenue of \$455.5 million in 2001 represented a decline of \$138.9 million, or 23.4%, from \$594.4 million in 2000, reflecting the impact of the global economic slowdown. Excluding the effect of exchange rate fluctuations, revenue for 2001 decreased 22% from 2000. The decline was due primarily to a decrease in demand for our executive search services across most geographies, industries and disciplines. North America experienced the largest decline, on a regional basis. From an industry perspective, our Technology, Financial Services and Consumer practices were most negatively affected. Confirmed searches decreased 36% compared to 2000.

In North America, net revenue was \$258.1 million for 2001, a decrease of \$105.5 million, or 29.0%, from \$363.6 million for 2000. While all practices had lower net revenue, the region's Technology and Financial Services practices were most affected by lower demand. In Latin America, net revenue was \$14.5 million for

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2001, a decrease of \$5.5 million, or 27.4%, from \$20.0 million for 2000. The decline in net revenue was primarily in the region's Technology and Consumer practices. Europe's net revenue was \$155.7 million for 2001, a decrease of \$20.7 million, or 11.8%, from \$176.4 million for 2000. Excluding the impact of exchange rate fluctuations, net revenue decreased 9% compared to 2000. Higher net revenue in the region's Professional Services, Higher Education/Nonprofit and Industrial practices was more than offset by declines in other practices, particularly the Financial Services and Technology practices. In Asia Pacific, net revenue was \$27.2 million for 2001, a decrease of \$7.2 million, or 20.9%, from \$34.4 million for 2000, reflecting lower demand in most practices. Excluding the impact of exchange rate fluctuations, net revenue decreased 14% compared to 2000.

Salaries and employee benefits. Our consolidated salaries and employee benefits were \$302.8 million for 2001, a decrease of \$92.3 million, or 23.4%, from \$395.1 million for 2000. As a percentage of net revenue, salaries and employee benefits were 66.5% for both 2001 and 2000. The decline in dollar terms was primarily due to lower accruals for performance-based compensation for management, executive search consultants and support staff attributable to the impact of reduced levels of net revenue and profitability on our variable compensation structure. The expense also declined because we renegotiated certain minimum guaranteed compensation arrangements that resulted in an extension from a one-year to a three-year amortization period, and because we recouped in the first quarter of 2001 previously accrued performance-related bonuses that were not earned because individuals did not meet performance goals in 2000. Partially offsetting these reductions was an increase in expense due to a greater number of executive search consultants and support staff compared to the prior year. The average number of executive search consultants for 2001 was 507, an increase of 15%, compared to an average of 441 for 2000.

General and administrative expenses. Our consolidated general and administrative expenses were \$157.4 million for 2001, an increase of \$1.2 million, or 0.7%, compared to \$156.2 million for 2000. As a percentage of net revenue, general and administrative expenses increased to 34.6% for 2001 from 26.3% in 2000, primarily because of the relatively large fixed component of our costs matched against substantially lower than anticipated net revenue. The increase in dollar terms reflects higher facilities and related expenses due to the increase in the average number of executive search consultants and support staff, higher practice and professional development expenses, and higher technology-related expenses, offset by lower bad debt expense reflective of lower net revenue levels and improved collections, and reductions in marketing and general operating expenses at LeadersOnline.

Special charges. For 2001, we incurred special charges of \$53.2 million. During the second quarter of 2001, we announced a reduction of our workforce. During the fourth quarter of 2001, we announced additional reductions in our workforce, the consolidation and closing of offices, and the settlement of the former CEO's contract upon his retirement.

The 2001 actions affected 620 employees, approximately 25% of our global workforce, including 136 consultants, most of whom were in the core Executive Search business. The remainder was support staff in Executive Search, LeadersOnline, and in the corporate departments. Nearly 60% of the layoffs were in North America, 35% were in Europe, and the rest were in Latin America and Asia Pacific. The workforce reduction affected virtually all practices.

The special charges include severance and other employee-related costs of \$23.7 million, of which \$7.8 million relates to the settlement of the former CEO's contract upon his retirement. In addition, the charges related to the consolidation and closing of offices are \$28.1 million, of which \$1.6 million is goodwill impairment related to the exit from South Africa and the Baltic region. The remainder of the charge, \$1.4 million, is primarily for other cash expenses incurred as a result of the announced actions.

Nonrecurring compensation expense. During the third quarter of 2000, we recorded nonrecurring compensation expense of \$12.2 million as a result of the decision to cancel an initial public offering of the common stock of LeadersOnline. This charge represented the remainder of the non-cash compensation expense related to the issuance of options by LeadersOnline, at a price below the deemed fair market value, for accounting purposes, at the time of issuance. See Note 5, *Nonrecurring Compensation and General and Administrative Expenses*, in the Notes to Consolidated Financial Statements.

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Nonrecurring general and administrative expenses. During the third quarter of 2000, we recorded nonrecurring general and administrative expenses of \$1.8 million due to the write-off of expenses related to the proposed initial public offering of LeadersOnline which was cancelled in September 2000. See Note 5, *Nonrecurring Compensation and General and Administrative Expenses*, in the Notes to Consolidated Financial Statements.

Operating income (loss). The following table summarizes our operating income (loss) for 2001 and 2000, respectively:

| <u>Consolidated operating income (loss)</u> | <u>2001</u> | <u>2000</u> | <u>Increase (decrease) in operating income</u> |
|--|------------------|----------------|--|
| | | | (In millions) |
| Region operating income before nonrecurring expenses | \$ 28.8 | \$ 73.3 | \$ (44.5) |
| Nonrecurring compensation expense | — | (12.2) | 12.2 |
| Nonrecurring general and administrative expenses | — | (1.8) | 1.8 |
| Corporate | (33.5) | (30.3) | (3.2) |
| Operating income (loss) before special charges | (4.7) | 29.1 | (33.8) |
| Special charges | (53.2) | — | (53.2) |
| Consolidated operating income (loss) | <u>\$ (57.9)</u> | <u>\$ 29.1</u> | <u>\$ (87.0)</u> |

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

In 2001, our operating loss was \$57.9 million compared to operating income of \$29.1 million for 2000. The decrease is attributable to the special charges incurred in 2001 of \$53.2 million, a decline of \$44.5 million in the operating income of the geographic regions, and an increase in unallocated corporate expenses of \$3.2 million, partially offset by lower nonrecurring compensation and general and administrative expenses. All geographic regions experienced declines in operating income in 2001 compared to 2000.

In North America, operating income was \$24.0 million for 2001, a decrease of \$11.9 million, or 33.2%, from \$35.9 million in 2000. Excluding the nonrecurring compensation and general and administrative expenses in 2000, North America's operating income declined \$25.9 million due to lower net revenue coupled with higher fixed compensation and general and administrative expenses related to the increase in the number of search teams compared to 2000. The nonrecurring expenses are explained above in the paragraphs captioned "*Nonrecurring compensation expense*," and "*Nonrecurring general and administrative expenses*."

Our Latin America region incurred an operating loss of \$2.0 million in 2001, a decrease of \$3.8 million from operating income of \$1.8 million in 2000, due primarily to lower net revenue levels.

Europe's operating income was \$4.9 million in 2001, a decrease of \$11.9 million, or 71.0%, from \$16.8 million in 2000, due primarily to lower net revenue coupled with higher spending on market development initiatives and fixed costs, offset by lower accruals for performance-based compensation for executive search consultants, management and support staff.

In Asia Pacific, operating income was \$1.9 million in 2001, a decrease of \$2.9 million, or 59.8%, from \$4.8 million in 2000, due primarily to lower net revenue levels partially offset by lower compensation-related expenses.

Unallocated corporate expenses increased \$3.2 million, or 10.6%, to \$33.5 million in 2001 from \$30.3 million in 2000, primarily due to higher costs related to our technology initiatives, outside fees for redesigning our global human resources and compensation programs, and several one-time costs to complete commitments made to various organizations by prior senior management.

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The special charges incurred in 2001 of \$53.2 million are explained above in the section captioned “*Special charges.*”

Net non-operating income (expense). The following table presents the components of our net non-operating income (expense) for 2001 and 2000, respectively:

| <u>Consolidated non-operating income (expense)</u> | <u>2001</u> | <u>2000</u> | <u>Increase (decrease) in net non-operating income</u> |
|---|------------------|----------------|--|
| | | | (In millions) |
| Interest income | \$ 5.5 | \$ 8.7 | \$ (3.2) |
| Interest expense | (0.2) | (0.2) | — |
| Realized and unrealized gains (losses) on equity and warrant portfolio: | | | |
| Realized gains on investments | 1.0 | 7.4 | (6.4) |
| Net unrealized loss on derivative instruments | (4.7) | — | (4.7) |
| Net realized and unrealized gains (losses) | (3.7) | 7.4 | (11.1) |
| Write-down of long-term investments | (14.8) | (0.2) | (14.6) |
| Other, net | (0.5) | 0.4 | (0.9) |
| Net non-operating income (expense) | <u>\$ (13.6)</u> | <u>\$ 16.1</u> | <u>\$ (29.7)</u> |

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

Our net non-operating expense for 2001 was \$13.6 million, a decrease of \$29.7 million, compared to net non-operating income of \$16.1 million in 2000. Interest income declined by \$3.2 million, due primarily to lower levels of cash available for investment and lower yields on invested cash.

Realized gains on investments, net of consultants’ bonuses and other costs, and related primarily to our equity and warrant portfolio, were \$1.0 million for 2001 compared to \$7.4 million in 2000.

The net unrealized loss on derivative instruments of \$4.7 million in 2001 relates to the valuation of a portion of our warrant portfolio in accordance with SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and its subsequent amendments, which we adopted on January 1, 2001. The unrealized loss is net of consultants’ bonuses and other costs. Some of the warrants in our portfolio meet the definition of a derivative instrument under SFAS No. 133 and therefore subsequent changes in their fair value must be recorded in the Consolidated Statement of Operations rather than as a component of accumulated other comprehensive income. The accounting for SFAS No. 133 is more fully described in Note 1, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements.

The write-down of long-term investments totaled \$14.8 million in 2001 and \$0.2 million in 2000. In the third quarter 2001, we wrote off the remainder of our investment in SVIC, due to the economy’s impact on the value of Internet infrastructure start-up companies. This resulted in a non-cash charge of \$9.8 million. Combined with the \$0.2 million write-down of SVIC which was recorded in 2000, this resulted in write-downs of the entire investment of \$10.0 million in the two-year period. In addition, in the fourth quarter of 2001, we wrote down half of our investment of \$10.0 million in ETF Group. The value of the ETF Group’s portfolio of companies had been affected by the downturn in the valuation of technology start-up companies. This resulted in a non-cash charge of \$5.0 million in the fourth quarter of 2001.

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Income taxes. For 2001, excluding income taxes related to the cumulative effect of accounting change, we recorded a benefit from income taxes of \$24.1 million because of our pretax loss. For 2000, our income tax expense was \$25.7 million. The effective tax rate for 2001 and 2000 was 33.7% and 57.0%, respectively. The income tax provision and related current and deferred tax balances are more fully described in Note 6, *Income Taxes*, in the Notes to Consolidated Financial Statements.

Cumulative effect of change in accounting principle. As a result of the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its subsequent amendments on January 1, 2001, we recorded, as a cumulative effect of accounting change, a transition adjustment to income of \$4.5 million, net of consultants' bonuses, other costs and taxes.

Liquidity and Capital Resources

General. We continually evaluate our liquidity requirements, capital needs and availability of capital resources based on our operating needs. Historically, we have financed our operations with available cash and funds generated by operations, together with the net proceeds of our initial public offering in April 1999 and follow-on public offering in February 2000.

We believe that the funds expected to be generated from operations and funds available under our committed and unsecured 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 special 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 performance and the performance of the individual employee. Our ability to undertake acquisitions may depend, in part, on access to additional funds.

We do not have material off-balance sheet arrangements, special purpose entities, trading activities of non-exchange traded contracts, or transactions with related parties except as related to our investment in SVIC, which we wrote down, in its entirety, by December 31, 2001. See Note 9, *Investments*, in the Notes to Consolidated Financial Statements.

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 December 31, 2002, we had \$3.8 million of deferred compensation structured as forgivable loans. The terms of deferred compensation arrangements structured as forgivable loans and granted to executive officers are included in these employees' employment agreements as filed with the Securities and Exchange Commission.

Lines of credit. In December 2001, we replaced our \$40.0 million committed revolving credit facility which expired on December 31, 2001, with a \$50.0 million committed revolving credit facility (the "Facility"). The Facility was amended on March 25, 2002 and November 27, 2002 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 special 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; and capital expenditures. 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.

There were no borrowings outstanding under the existing line of credit at December 31, 2002 or December 31, 2001, nor were there any borrowings during the years ended December 31, 2002 and 2001, respectively, under the then existing line of credit. At December 31, 2002, we were in compliance with the financial covenants of the Facility, and no event of default existed.

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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 March 15, 2003, there were no borrowings under this unsecured line of credit.

Cash and cash equivalents. Cash and cash equivalents at December 31, 2002 and 2001 were \$110.2 million and \$108.7 million, respectively.

Cash from operating activities. In 2002, cash provided by operating activities was \$6.0 million, reflecting our net loss adjusted for non-cash items, and the refund of approximately \$25.0 million of U.S. income taxes arising from the carryback of net operating losses to prior years and the recovery of estimated taxes paid in the first half of 2001, partially offset by the payments related to our special charges and payment of bonuses in March 2002 and December 2002. In 2003, we anticipate that we will generate a loss for U.S. income tax purposes, due primarily to the timing of tax deductions related to our special charges, and therefore do not anticipate paying U.S. income tax in 2003.

In 2001, cash used in operating activities was \$20.5 million, reflecting our net loss adjusted for non-cash items, payments related to the special charges, the payment of bonuses in March 2001 and December 2001, and payment of estimated income taxes during the first six months of 2001.

In 2000, cash from operating activities contributed \$89.4 million reflecting net income, non-cash expenses such as depreciation and amortization, stock-based compensation and the nonrecurring expenses, as well as a decrease in working capital.

Cash from investing activities. Cash used in investing activities was \$3.9 million for 2002, \$22.8 million for 2001 and \$46.0 million for 2000.

During 2002, we did not acquire any executive search firms. During 2001, we acquired three executive search firms for \$7.8 million, which was paid in cash, restricted stock units, shares of our common stock, and notes payable. During 2000, we acquired six executive search firms for an aggregate of \$19.4 million in cash and notes payable and an additional \$5.1 million of our common stock.

Capital expenditures were \$5.2 million, \$24.1 million and \$17.9 million for 2002, 2001 and 2000, respectively. In 2002, these expenditures were primarily for computer equipment and software. In 2001 and 2000, these expenditures were primarily for office furniture and fixtures, leasehold improvements, and computer equipment and software. We anticipate that our capital expenditures for 2003 will be approximately \$5.0 million to \$7.0 million.

During 2002 and 2001, we did not purchase any long-term investments. In 2000, purchases of long-term investments totaled \$23.4 million; of this amount \$20.0 million was invested in SVIC and ETF Group. On June 29, 2000, we announced that we formed a strategic alliance with SVIC. At the time of our investment in SVIC, Mr. Robert W. Shaw was a member of our Company's Board of Directors, and had an ownership interest in SVIC. We invested \$10.0 million in SVIC's first round of financing during 2000. On October 26, 2000, we announced that we had entered into an alliance with and invested \$10.0 million in ETF Group. By December 31, 2001, we wrote down our entire investment in SVIC, incurring a non-cash charge totaling \$10.0 million. In addition, by March 31, 2002 we wrote down our \$10.0 million investment in ETF Group, incurring a non-cash charge of \$5.0 million in 2002 and \$5.0 million in 2001. See also Note 9, *Investments*, in the Notes to Consolidated Financial Statements.

In 1999, we began selling equity securities obtained as part of our warrant program. During 2002, 2001 and 2000, the amount of cash received from the sale of equity securities received as part of our warrant program, net of consultants' bonuses and other costs, was \$1.5 million, \$2.1 million and \$7.4 million, respectively.

Cash from financing activities. For 2002, cash used in financing activities was \$1.8 million, resulting primarily from payments on debt related to acquisitions.

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For 2001, cash used in financing activities was \$28.1 million, resulting primarily from repurchases of our common stock. 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. During 2001, we repurchased 1,445,500 shares of common stock for \$27.7 million. During 2002, we repurchased 4,032 shares of common stock for \$0.1 million. As of December 31, 2002, approximately 550,000 shares may be repurchased under the authorization. From February 25, 2003 through March 5, 2003, we repurchased 288,000 shares of common stock for \$3.2 million.

For 2000, cash provided by financing activities was \$64.8 million, resulting primarily from the net proceeds raised in a follow-on sale of our common stock and the private sales of LeadersOnline stock, partially offset by payments for the repurchase of LeadersOnline options and stock, and payment on debt related to the acquisition in 1998 of Fenwick Partners, Inc., a Boston-based executive search firm. On April 10, 2000, LeadersOnline filed a registration statement with the Securities and Exchange Commission relating to a proposed initial public offering of its Class A common stock. In April 2000, LeadersOnline sold a total of 609,000 shares of its common stock to VerticalNet, Inc. and to certain of our employees for \$5.00 per share. The net cash proceeds, after expenses, were \$2.9 million and we recorded a gain in stockholders' equity of \$2.7 million as a result of this transaction. In the third quarter of 2000, we made a decision to cancel the proposed initial public offering of LeadersOnline. As a result, LeadersOnline withdrew its registration statement with the Securities and Exchange Commission and paid \$3.1 million to repurchase the stock sold to VerticalNet, Inc. and to certain of our employees. In addition, we paid \$10.0 million to compensate option holders for the cancellation of their options.

Application of Critical Accounting Policies and Estimates

Our significant accounting policies are discussed in the Notes to Consolidated Financial Statements. The application of certain of these policies requires significant judgments or an estimation process that may affect our results of operations, financial position and cash flows, as well as the related footnote disclosures. We base our estimates on historical experience and other assumptions that we believe are reasonable. If actual amounts are ultimately different from previous estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. The accounting policies and estimates with the greatest potential to have a significant impact on our operating results, financial position, cash flows and footnote disclosures are as follows:

Revenue recognition. We recognize revenues in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," and its related interpretations. Revenue before reimbursements for out-of-pocket expenses ("net revenue") is recognized when earned and realizable and therefore when the following criteria have been met: persuasive evidence of an arrangement exists, services have been rendered, the fee to our client is fixed or determinable, and collectibility is reasonably assured. Net revenue consists of retainers and indirect expenses billed to clients. Typically, we are paid a retainer for our executive search services equal to approximately one-third of the estimated first year compensation of the position to be filled. If actual compensation of the placed candidate exceeds the estimated compensation, we are generally authorized to bill the client for one-third of the excess. Net revenue from executive search engagements is recognized over the expected period of performance, in proportion to the estimated personnel time incurred to fulfill our obligations under the arrangements. Net revenue in excess of the retainer, resulting from actual compensation of the placed candidate exceeding estimated compensation, is recognized upon completion of the executive search when the amount of the additional fee is known. Our assumptions about the duration of the time and extent of efforts for search teams to complete our services in an executive search engagement require significant judgment as these variables have fluctuated in the past and are expected to continue to do so.

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Allowance for doubtful accounts. Accounts receivable from our customers are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in existing accounts receivable balances. We determine the allowance for doubtful accounts through an analysis of several factors, including the aging of our accounts receivable, historical write-off experience, and specific account analyses. We consider current and projected economic conditions and historical trends when determining the allowance for doubtful accounts. Actual collections of accounts receivable could differ from our estimates due to changes in future economic or industry conditions or specific customers' financial condition.

Accruals related to the consolidation and closing of offices recorded as part of our special charges. In October 2002, October 2001 and June 2001, we announced cost reduction initiatives to better align costs with expected revenue levels. These initiatives included the consolidation and closing of offices where we had long-term leases. At the time of the office closings and consolidations, we accrued the estimated costs associated with these actions. The accruals were established in accordance with EITF 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 Staff Accounting Bulletin No. 100, "Restructuring and Impairment Charges." Inherent in these accruals are estimates concerning vacancy periods, expected sublease income, and costs to terminate the leases. These accruals are periodically updated to reflect information concerning the commercial real estate markets in which the related offices are located. We believe that the accounting estimate related to accruals for the consolidation and closing of offices is a critical accounting estimate because it is highly susceptible to changes in the commercial real estate markets and the local regional economic factors where this leased office space is located.

Income taxes. Deferred taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

As of December 31, 2002, we concluded that it is more likely than not that deferred tax assets, net of existing valuation allowances, will be realized through the generation of future taxable income. In making this assessment, we consider expected sources of future taxable income arising from the scheduled reversal of temporary differences that have generated deferred tax liabilities, projected taxable income from operations, tax planning strategies and the expected future expiration dates of tax loss carryforwards. We incurred taxable losses in 2002 and 2001, primarily resulting from special charges recorded as a result of aligning the cost structure with expected revenue levels. Valuation allowances have been established against foreign tax credits and tax benefits attributable to loss carryforwards in certain foreign jurisdictions with expiration periods ranging from three- to ten-years.

Our evaluation of the realizability of deferred tax assets is based on current assumptions and estimates. We periodically review these assumptions and estimates based on projected operating results for tax jurisdictions where we have significant deferred tax assets. The timing and strength of an economic recovery in the United States and other areas of the world continues to be unclear. Further economic declines in future periods may impact our ability to realize the deferred tax assets.

Recently Issued Financial Accounting Standards

In July 2002, the Financial Accounting Standards Board (“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 do not anticipate that adoption of SFAS No. 146 will 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 on 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. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in Note 1, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements.

In November 2002, the FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34.” 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 do not anticipate that adoption of Interpretation No. 45 will have a material impact on our financial condition or results of operations.

Quarterly Comparisons

The following table sets forth certain financial information for each quarter of 2002 and 2001. The information is derived from our quarterly consolidated financial statements which are unaudited but which, in the opinion of management, have been prepared on the same basis as the audited annual consolidated financial statements included in this document and include all adjustments, consisting only of normal recurring items, necessary for the fair presentation of the information for the periods presented. The consolidated financial data shown below should be read in conjunction with the consolidated financial statements and notes thereto. The operating results for any quarter are not necessarily indicative of results for any future period.

| | Quarter Ended | | | | | | | |
|--|----------------|-----------|-----------|------------|------------|------------|-------------|------------|
| | 2002 | | | | 2001 | | | |
| | Mar. 31(1) | June 30 | Sept. 30 | Dec. 31(2) | Mar. 31(3) | June 30(4) | Sept. 30(5) | Dec. 31(6) |
| | (in thousands) | | | | | | | |
| Revenue before reimbursements (net revenue) | \$ 91,723 | \$ 93,476 | \$ 87,356 | \$ 78,157 | \$ 139,268 | \$ 123,171 | \$ 104,618 | \$ 88,477 |
| Operating income (loss) before special charges | (4,987) | 956 | 3,554 | 1,946 | 7,849 | 881 | (5,720) | (7,672) |
| Special charges | 23,169 | — | — | 25,363 | — | 8,163 | 2,272 | 42,795 |
| Operating income (loss) | (28,156) | 956 | 3,554 | (23,417) | 7,849 | (7,282) | (7,992) | (50,467) |
| Income (loss) before income taxes and cumulative effect of accounting change | (27,285) | (5,227) | 2,585 | (21,726) | 8,486 | (6,965) | (19,302) | (53,734) |
| Income (loss) before cumulative effect of accounting change | (17,735) | (3,397) | 924 | (19,954) | 4,837 | (3,970) | (13,007) | (35,281) |
| Cumulative effect of accounting change | — | — | — | — | 4,494 | — | — | — |
| Net income (loss) | (17,735) | (3,397) | 924 | (19,954) | 9,331 | (3,970) | (13,007) | (35,281) |

- (1) During the first quarter of 2002, we recorded \$23.2 million of special charges related to the cost reduction initiatives announced in October 2001.
- (2) In October 2002, we announced reductions in our workforce and the consolidation and closing of offices, and as a result recorded a special charge of \$25.4 million in the fourth quarter of 2002.
- (3) On January 1, 2001, we adopted Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and its subsequent amendments. As a result, we recorded a transition adjustment to income of \$4.5 million, net of consultants’ bonuses, other costs and taxes.
- (4) In June 2001, we announced reductions in our workforce. As a result of these workforce reductions, we recorded special charges in the second quarter of 2001 totaling \$8.2 million.
- (5) During the third quarter of 2001, we recorded special charges of \$2.3 million related to the reduction in workforce, which was announced in June 2001.
- (6) In October 2001, we announced additional reductions of our workforce, the consolidation and closing of offices, and the settlement of the former CEO’s contract upon his retirement. As a result of these announced actions, we recorded special charges totaling \$42.8 million in the 2001 fourth quarter.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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 are 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. Historically, we have not experienced significant gains or losses on transactions involving U.S. dollars and other currencies. 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 2002 net loss of \$40.2 million, a 1% change in the average exchange rate of the British pound and the euro would have increased or decreased our net loss by approximately \$0.3 million. For financial information by geographic segment, see Note 3, *Segment Information*, in the Notes to Consolidated Financial Statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors
Heidrick & Struggles International, Inc.:

We have audited the accompanying consolidated balance sheet of Heidrick & Struggles International, Inc. and subsidiaries as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the year then ended. In connection with our audit of the 2002 consolidated financial statements, we have also audited the 2002 financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit. The 2001 and 2000 consolidated financial statements and financial statement schedule of Heidrick & Struggles International, Inc. and subsidiaries as listed in the accompanying index were audited by other auditors who have ceased operations. Those auditors' reports, dated February 6, 2002, on the 2001 and 2000 consolidated financial statements and financial statement schedule were unqualified, before the disclosures added and adjustments described in Notes 1, 3, and 12 to the consolidated financial statements, and included an explanatory paragraph that described the change in the Company's method of accounting for certain derivative financial instruments.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heidrick & Struggles International, Inc. and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related 2002 financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As described above, the 2001 and 2000 consolidated financial statements of Heidrick & Struggles International, Inc. and subsidiaries as listed in the accompanying index were audited by other auditors who have ceased operations. As described in Note 12, these consolidated financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which was adopted by the Company as of January 1, 2002. In our opinion, the disclosures for 2001 and 2000 in Note 12 are appropriate. As described in Note 1, the Company adopted the provisions of Emerging Issues Task Force Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-pocket' Expenses Incurred," in 2002, and the amounts in the 2001 and 2000 consolidated statements of operations have been reclassified to conform to the 2002 presentation. As described in Note 3, the Company changed the composition of its reportable segments in 2002, and the amounts in the 2001 and 2000 consolidated financial statements relating to reportable segments have been restated to conform to the 2002 composition of reportable segments. We audited the adjustments that were applied to reclassify the presentation of expense reimbursements and to restate the disclosures for reportable segments reflected in the 2001 and 2000 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 consolidated financial statements of Heidrick & Struggles International, Inc. and subsidiaries other than with respect to such adjustments and disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 consolidated financial statements taken as a whole.

/s/ KPMG LLP

Chicago, Illinois
February 20, 2003

Note: This Report of Independent Public Accountants is a copy of a previously issued Report of Arthur Andersen LLP, Independent Public Accountants, and has not been reissued by Arthur Andersen LLP. This Report was filed as part of the Form 10-K of Heidrick & Struggles International, Inc. for the year ended December 31, 2001. The registrant has been unable to obtain a reissued Report of Arthur Andersen LLP or a currently dated consent to the incorporation of this previously issued Report of Arthur Andersen LLP into the registrant's current registration statements. While the extent of any resulting limitations on recovery by investors is unclear, the lack of a currently dated consent could limit the time within which any actions against Arthur Andersen LLP for violations of securities laws may be brought.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of
Heidrick & Struggles International, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of **HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES** (a Delaware corporation) as of December 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heidrick & Struggles International, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 7 to the financial statements, effective January 1, 2001, the Company changed its method of accounting for certain derivative instruments to conform with Statements of Financial Accounting Standards No. 133 and its subsequent amendments. As a result of the adoption, the Company recorded \$4.5 million of income (after tax) as a cumulative effect of a change in accounting principle.

/s/ ARTHUR ANDERSEN LLP

Chicago, Illinois,
February 6, 2002

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

| | December 31, | |
|---|-------------------|-------------------|
| | 2002 | 2001 |
| Current assets: | | |
| Cash and cash equivalents | \$ 110,220 | \$ 108,732 |
| Accounts receivable, less allowance for doubtful accounts of \$7,463 and \$13,749 at December 31, 2002 and 2001, respectively | 41,774 | 54,241 |
| Other receivables | 3,552 | 5,870 |
| Prepaid expenses | 11,881 | 11,445 |
| Income taxes recoverable, net | 6,125 | 22,958 |
| Deferred income taxes, net | 24,924 | 36,605 |
| | <hr/> | <hr/> |
| Total current assets | 198,476 | 239,851 |
| Property and equipment: | | |
| Leasehold improvements | 27,385 | 32,640 |
| Office furniture, fixtures and equipment | 27,906 | 32,104 |
| Computer equipment and software | 46,414 | 44,596 |
| | <hr/> | <hr/> |
| | 101,705 | 109,340 |
| Accumulated depreciation and amortization | (63,475) | (54,976) |
| | <hr/> | <hr/> |
| Property and equipment, net | 38,230 | 54,364 |
| Other non-current assets: | | |
| Assets designated for pension plan | 21,196 | 16,624 |
| Investments | 3,007 | 14,836 |
| Other non-current assets | 9,478 | 14,637 |
| Goodwill, net | 50,271 | 51,110 |
| Other intangibles, net | 10,230 | 12,595 |
| Deferred income taxes, net | 32,176 | 7,089 |
| | <hr/> | <hr/> |
| Total other non-current assets | 126,358 | 116,891 |
| | <hr/> | <hr/> |
| Total assets | \$ 363,064 | \$ 411,106 |

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

| | December 31, | |
|--|--------------|------------|
| | 2002 | 2001 |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 1,161 | \$ 2,480 |
| Accounts payable | 8,887 | 13,391 |
| Accrued expenses— | | |
| Salaries and employee benefits | 67,514 | 96,991 |
| Other | 20,704 | 18,955 |
| Current portion of accrued special charges | 20,705 | 15,248 |
| | <hr/> | <hr/> |
| Total current liabilities | 118,971 | 147,065 |
| Non-current liabilities: | | |
| Long-term debt, less current maturities | 294 | 1,959 |
| Retirement and pension plans | 25,234 | 19,092 |
| Non-current portion of accrued special charges | 18,531 | 13,282 |
| Other non-current liabilities | 323 | 117 |
| | <hr/> | <hr/> |
| Total non-current liabilities | 44,382 | 34,450 |
| | <hr/> | <hr/> |
| Total liabilities | 163,353 | 181,515 |
| | <hr/> | <hr/> |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value, 10,000,000 shares authorized, no shares issued at December 31, 2002 and 2001 | — | — |
| Common stock, \$.01 par value, 100,000,000 shares authorized, of which 18,152,346 and 18,040,779 shares were outstanding at December 31, 2002 and 2001, respectively | 196 | 195 |
| Treasury stock at cost, 1,433,431 and 1,435,500 shares at December 31, 2002 and 2001, respectively | (27,421) | (27,459) |
| Additional paid in capital | 260,445 | 258,699 |
| Retained earnings (accumulated deficit) | (26,227) | 13,935 |
| Cumulative foreign currency translation adjustment | (1,241) | (5,881) |
| Unrealized gain on available-for-sale investments, net of tax | 57 | 9 |
| Deferred stock-based compensation | (6,098) | (9,907) |
| | <hr/> | <hr/> |
| Total stockholders' equity | 199,711 | 229,591 |
| | <hr/> | <hr/> |
| Total liabilities and stockholders' equity | \$ 363,064 | \$ 411,106 |
| | <hr/> | <hr/> |

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

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

| | Year Ended December 31, | | |
|---|-------------------------|--------------------|------------------|
| | 2002 | 2001 | 2000 |
| Revenue: | | | |
| Revenue before reimbursements (net revenue) | \$ 350,712 | \$ 455,534 | \$ 594,394 |
| Reimbursements | 26,133 | 32,065 | 33,221 |
| Total revenue | 376,845 | 487,599 | 627,615 |
| Operating expenses: | | | |
| Salaries and employee benefits: | | | |
| Salaries and employee benefits | 242,330 | 302,792 | 395,105 |
| Nonrecurring compensation expense | — | — | 12,222 |
| General and administrative expenses: | | | |
| General and administrative expenses | 106,913 | 157,404 | 156,242 |
| Nonrecurring general and administrative expenses | — | — | 1,753 |
| Reimbursed expenses | 26,133 | 32,065 | 33,221 |
| Special charges | 48,532 | 53,230 | — |
| Total operating expenses | 423,908 | 545,491 | 598,543 |
| Operating income (loss) | (47,063) | (57,892) | 29,072 |
| Non-operating income (expense): | | | |
| Interest income | 2,018 | 5,523 | 8,723 |
| Interest expense | (210) | (166) | (209) |
| Net realized and unrealized gains (losses) on equity and warrant portfolio | (1,325) | (3,703) | 7,399 |
| Write-down of long-term investments | (5,000) | (14,760) | (240) |
| Other, net | (73) | (517) | 418 |
| Net non-operating income (expense) | (4,590) | (13,623) | 16,091 |
| Income (loss) before income taxes and cumulative effect of accounting change | (51,653) | (71,515) | 45,163 |
| Provision for (benefit from) income taxes | (11,491) | (24,094) | 25,746 |
| Income (loss) before cumulative effect of accounting change | (40,162) | (47,421) | 19,417 |
| Cumulative effect of accounting change, net of tax | — | 4,494 | — |
| Net income (loss) | \$ (40,162) | \$ (42,927) | \$ 19,417 |
| Basic earnings (loss) per common share: | | | |
| Income (loss) before cumulative effect of accounting change | \$ (2.22) | \$ (2.52) | \$ 1.02 |
| Cumulative effect of accounting change | — | 0.24 | — |
| Total basic earnings (loss) per common share | \$ (2.22) | \$ (2.28) | \$ 1.02 |
| Diluted earnings (loss) per common share: | | | |
| Income (loss) before cumulative effect of accounting change | \$ (2.22) | \$ (2.52) | \$ 0.95 |
| Cumulative effect of accounting change | — | 0.24 | — |
| Total diluted earnings (loss) per common share | \$ (2.22) | \$ (2.28) | \$ 0.95 |
| Weighted average common shares outstanding: | | | |
| Basic | 18,107 | 18,839 | 18,979 |
| Diluted | 18,107 | 18,839 | 20,389 |

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND
COMPREHENSIVE INCOME (LOSS)
(In thousands)

| | Common Stock | | Treasury Stock | Additional Paid in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Deferred Stock-Based Compensation | Total |
|--|---------------|---------------|--------------------|----------------------------|--------------------|---|-----------------------------------|------------------|
| | Shares | Amount | | | | | | |
| Balance at December 31, 1999 | 16,663 | \$ 167 | \$ — | \$ 124,363 | \$ 37,445 | \$ 5,905 | \$ — | \$167,880 |
| Net income | | — | — | — | 19,417 | — | — | 19,417 |
| Other comprehensive income (loss): | | | | | | | | |
| Unrealized loss on available-for-sale investments, net of tax (pretax \$4,885) | | — | — | — | — | (2,759) | — | (2,759) |
| Foreign currency translation adjustment | | — | — | — | — | (1,288) | — | (1,288) |
| Total comprehensive income (loss) | | — | — | — | 19,417 | (4,047) | — | 15,370 |
| Common stock transactions: | | | | | | | | |
| Stock issued for acquisitions | 148 | 1 | — | 6,166 | — | — | — | 6,167 |
| Stock issued to employees | 64 | 1 | — | 2,997 | — | — | — | 2,998 |
| Stock issued in follow-on public offering | 2,458 | 25 | — | 76,160 | — | — | — | 76,185 |
| Issuance of restricted stock units | — | — | — | 20,225 | — | — | (7,117) | 13,108 |
| Amortization of deferred compensation | — | — | — | — | — | — | 1,222 | 1,222 |
| Forfeitures of restricted stock units | — | — | — | (459) | — | — | 39 | (420) |
| Exercise of stock options | 40 | — | — | 553 | — | — | — | 553 |
| Gain on sale of subsidiary stock | — | — | — | 2,711 | — | — | — | 2,711 |
| Subsidiary stock repurchase and cancellation of options | — | — | — | 1,903 | — | — | — | 1,903 |
| Balance at December 31, 2000 | 19,373 | 194 | — | 234,619 | 56,862 | 1,858 | (5,856) | 287,677 |
| Net loss before cumulative effect of accounting change | | — | — | — | (47,421) | — | — | (47,421) |
| Other comprehensive income (loss): | | | | | | | | |
| Unrealized loss on available-for-sale investments, net of tax (pretax \$258) | | — | — | — | — | (147) | — | (147) |
| Foreign currency translation adjustment | | — | — | — | — | (4,002) | — | (4,002) |
| Cumulative effect of accounting change, net of tax (pretax \$7,882) | | — | — | — | 4,494 | (3,581) | — | 913 |
| Total comprehensive income (loss) | | — | — | — | (42,927) | (7,730) | — | (50,657) |
| Treasury and common stock transactions: | | | | | | | | |
| Issuance of restricted stock units | — | — | — | 22,295 | — | — | (8,127) | 14,168 |
| Amortization of deferred compensation | — | — | — | — | — | — | 4,024 | 4,024 |
| Forfeitures of restricted stock units | — | — | — | (885) | — | — | 52 | (833) |
| Issuance of stock for acquisitions | 20 | — | — | 430 | — | — | — | 430 |
| Exercise of stock options | 49 | 1 | — | 675 | — | — | — | 676 |
| Net (purchases) reissuances of treasury stock | (1,435) | — | (27,459) | 68 | — | — | — | (27,391) |
| Vesting of restricted stock units | 34 | — | — | (269) | — | — | — | (269) |
| Accrued compensation | — | — | — | 1,766 | — | — | — | 1,766 |
| Balance at December 31, 2001 | 18,041 | 195 | (27,459) | 258,699 | 13,935 | (5,872) | (9,907) | 229,591 |
| Net loss | | — | — | — | (40,162) | — | — | (40,162) |
| Other comprehensive income (loss): | | | | | | | | |
| Unrealized gain on available-for-sale investments, net of tax (pretax \$83) | | — | — | — | — | 48 | — | 48 |
| Foreign currency translation adjustment | | — | — | — | — | 4,640 | — | 4,640 |
| Total comprehensive income (loss) | | — | — | — | (40,162) | 4,688 | — | (35,474) |
| Treasury and common stock transactions: | | | | | | | | |
| Issuance of restricted stock units | — | — | — | 2,055 | — | — | (2,055) | — |
| Amortization of deferred compensation | — | — | — | — | — | — | 5,096 | 5,096 |
| Forfeitures of restricted stock units | — | — | — | (2,900) | — | — | 768 | (2,132) |
| Issuance of common stock | 47 | — | — | 332 | — | — | — | 332 |
| Exercise of stock options | 63 | 1 | — | 889 | — | — | — | 890 |
| Net (purchases) reissuances of treasury stock | 1 | — | 38 | 63 | — | — | — | 101 |
| Accrued compensation under performance share plan | — | — | — | 1,307 | — | — | — | 1,307 |
| Balance at December 31, 2002 | 18,152 | \$ 196 | \$ (27,421) | \$ 260,445 | \$ (26,227) | \$ (1,184) | \$ (6,098) | \$199,711 |

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

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

| | Year Ended December 31, | | |
|--|-------------------------|-----------------|----------------|
| | 2002 | 2001 | 2000 |
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ (40,162) | \$ (42,927) | \$ 19,417 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 15,262 | 22,156 | 19,064 |
| Loss on sale of property and equipment | 339 | 901 | 538 |
| Gain on sale of equity securities | (1,630) | (978) | (7,399) |
| Write-down of long-term investments | 5,000 | 14,760 | 240 |
| Deferred income taxes | (12,030) | (12,388) | (12,672) |
| Minority interest in loss of consolidated subsidiary | — | — | (208) |
| Nonrecurring compensation and general and administrative expenses | — | — | 13,975 |
| Net unrealized loss on derivative instruments | 2,955 | 4,681 | — |
| Cumulative effect of accounting change, net of tax | — | (4,494) | — |
| Stock-based compensation expense, net | 4,271 | 3,251 | 3,920 |
| Special charges | 48,532 | 53,230 | — |
| Cash paid for special charges | (25,396) | (20,792) | — |
| Changes in assets and liabilities: | | | |
| Trade and other receivables | 17,223 | 50,329 | (26,435) |
| Accounts payable | (5,172) | 3,337 | 1,341 |
| Accrued expenses | (30,342) | (42,327) | 75,175 |
| Income taxes recoverable, net | 16,583 | (39,390) | 5,720 |
| Retirement and pension plan liabilities | 2,887 | (611) | 923 |
| Other assets and liabilities, net | 7,710 | (9,231) | (4,240) |
| Net cash provided by (used in) operating activities | 6,030 | (20,493) | 89,359 |
| Cash flows from investing activities: | | | |
| Acquisitions, net of cash acquired | — | (2,400) | (15,648) |
| Purchases of securities for nonqualified retirement plan | — | — | (239) |
| Purchases of property and equipment | (5,201) | (24,059) | (17,885) |
| Purchases of long-term investments | — | — | (23,417) |
| Proceeds from sales of equity securities, net | 1,457 | 2,147 | 7,399 |
| Other, net | (204) | 1,558 | 3,754 |
| Net cash used in investing activities | (3,948) | (22,754) | (46,036) |
| Cash flows from financing activities: | | | |
| Proceeds from sales of common stock and treasury stock | — | — | 76,185 |
| Proceeds from sale of subsidiary stock | — | — | 2,919 |
| Proceeds from stock options exercised | 890 | 676 | 553 |
| Purchases of treasury stock | (81) | (27,721) | — |
| Repurchase of subsidiary options and stock | — | — | (13,018) |
| Payments on debt | (2,583) | (1,015) | (1,822) |
| Net cash provided by (used in) financing activities | (1,774) | (28,060) | 64,817 |
| Effect of foreign currency exchange rates on cash and cash equivalents | 1,180 | (4,797) | (152) |
| Net increase (decrease) in cash and cash equivalents | 1,488 | (76,104) | 107,988 |
| Cash and cash equivalents: | | | |
| Beginning of year | 108,732 | 184,836 | 76,848 |
| End of year | \$ 110,220 | \$ 108,732 | \$ 184,836 |
| Supplemental disclosures of cash flow information | | | |
| Cash paid (refunded) for— | | | |
| Interest | \$ 37 | \$ 172 | \$ 118 |
| Income taxes | (15,335) | 26,962 | 33,400 |
| Supplemental schedule of noncash financing and investing activities | | | |
| Unrealized gain (loss) on available-for-sale investments | \$ 83 | \$ (258) | \$ (4,885) |
| Debt from the acquisition of net assets | — | 3,580 | 1,745 |
| Issuance of stock for merger and acquisitions | — | 430 | 5,084 |
| Issuance of stock related to debt from acquisition | — | — | 1,083 |

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All tables in thousands, except per share figures)

1. Summary of Significant Accounting Policies

Nature of Business

Heidrick & Struggles International, Inc. and Subsidiaries (the “Company”) are engaged in providing executive search and leadership consulting services to clients on a retained basis. The Company operates principally in North America, Latin America, Europe and Asia Pacific.

Principles of Consolidation

The consolidated financial statements include Heidrick & Struggles International, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Use of Estimates

The preparation of the consolidated financial statements requires management of the Company to make certain estimates and assumptions required under accounting principles generally accepted in the United States of America, which may differ from the actual results. Significant items subject to estimates and assumptions include revenue recognition, allowance for doubtful accounts, allowances for deferred tax assets, and accruals related to the consolidation and closing of offices recorded in conjunction with the Company’s special charges.

Revenue Recognition

Revenue before reimbursements of out-of-pocket expenses (net revenue) consists of retainers and indirect expenses billed to clients. For each assignment, the Company and its client enter into a contract that outlines the general terms and conditions of the assignment. Typically, the Company is paid a retainer for its executive search services equal to approximately one-third of the estimated first year compensation for the position to be filled. In addition, if the actual compensation of a placed candidate exceeds the estimated compensation, the Company often will be authorized to bill the client for one-third of the excess. Indirect expenses are calculated as a percentage of the retainer with certain dollar limits per search. The Company generally bills its clients for its retainer and indirect expenses in one-third increments over a three-month period commencing in the month of a client’s acceptance of the contract.

The Company recognizes revenue in accordance with Staff Accounting Bulletin (“SAB”) No. 101, “Revenue Recognition in Financial Statements,” and its related interpretations. Net revenue is recognized when earned and realizable and therefore when the following criteria have been met: persuasive evidence of an arrangement exists, services have been rendered, the fee to our client is fixed or determinable, and collectibility is reasonably assured. Net revenue consists of retainers and indirect expenses billed to clients. Net revenue from executive search engagements is recognized over the expected period of performance, in proportion to the estimated personnel time incurred to fulfill our obligations under the arrangements. Net revenue in excess of the retainer, resulting from actual compensation of the placed candidate exceeding estimated compensation, is recognized upon completion of the executive search when the amount of the additional fee is known.

In November 2001, the Emerging Issues Task Force (“EITF”) reached a consensus on Issue No. 01-14, “Income Statement Characterization of Reimbursements Received for ‘Out-of-Pocket’ Expenses Incurred,” (EITF No. 01-14). EITF No. 01-14 establishes that reimbursements received for certain out-of-pocket expenses should be reported as revenue. The Company adopted EITF No. 01-14 in 2002. Historically, the Company

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

classified reimbursements of out-of-pocket expenses as a reduction of operating expenses. The change in presentation has no impact on the Company's financial condition or results of operations. Prior period information was revised to reflect the change in presentation.

Salaries and Employee Benefits

Salaries and employee benefits consist of compensation and benefits paid to consultants, executive officers, and administrative and support personnel, of which the most significant elements are salaries and annual performance-related bonuses. Other items in this category are expenses related to signing bonuses and minimum guaranteed bonuses (often incurred in connection with the hiring of new consultants), payroll taxes, profit sharing and retirement benefits, and employee insurance benefits.

Salaries and employee benefits are recognized on an accrual basis. Certain signing bonuses and minimum guaranteed compensation are amortized up to a maximum of three years, consistent with the terms associated with these payments.

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 December 31, 2002, \$3.8 million of deferred compensation was structured as forgivable loans. The terms of deferred compensation arrangements structured as forgivable loans and granted to executive officers are included in these employees' employment agreements as filed with the Securities and Exchange Commission.

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 its 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 exceeded 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 earnings and basic and diluted earnings per share for the years ended December 31, 2002, 2001 and 2000 would have been as follows:

| | 2002 | 2001 | 2000 |
|---|-------------|-------------|-----------|
| Net earnings (loss): | | | |
| As reported | \$ (40,162) | \$ (42,927) | \$ 19,417 |
| Pro forma | (49,522) | (52,175) | 15,613 |
| Basic earnings (loss) per share: | | | |
| As reported | \$ (2.22) | \$ (2.28) | \$ 1.02 |
| Pro forma | (2.73) | (2.77) | 0.82 |
| Diluted earnings (loss) per share: | | | |
| As reported | \$ (2.22) | \$ (2.28) | \$ 0.95 |
| Pro forma | (2.73) | (2.77) | 0.77 |

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The weighted average fair value of options at their grant date during 2002, 2001 and 2000, were \$8.75, \$20.50 and \$23.99, respectively. The estimated fair value of each option granted is calculated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model were as follows:

| | 2002 | 2001 | 2000 |
|-------------------------------|-------|-------|-------|
| Risk-free interest rate | 4.4% | 4.9% | 6.2% |
| Expected years until exercise | 4.5 | 6.2 | 5.4 |
| Expected stock volatility | 52.0% | 61.3% | 54.3% |
| Dividend yield | 0% | 0% | 0% |

Compensation expense resulting from grants of restricted stock units is measured on the date of grant and is amortized primarily on a straight-line basis over the vesting period.

Income Taxes

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities, applying enacted statutory tax rates in effect for the year in which the tax differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Earnings (Loss) per Common Share

Basic earnings (loss) per common share is computed by dividing net income (loss) by weighted average common shares outstanding for the year. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted. Common equivalent shares are excluded from the determination of diluted earnings per share in periods in which they have an anti-dilutive effect. See Note 8, *Basic and Diluted Earnings per Common Share*, for the reconciliation of basic and diluted earnings per share.

Translation of Foreign Currencies

The translation of financial statements into U.S. dollars has been performed in accordance with SFAS No. 52, "Foreign Currency Translation." The local currency for all subsidiaries has been designated as the functional currency. Assets and liabilities have been translated into U.S. dollars at the current rate of exchange prevailing at the balance sheet date. Revenue and expenses have been translated at an average exchange rate for the period. Translation adjustments are reported as a component of accumulated other comprehensive income.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of accounts receivable. Concentrations of credit risk with respect to accounts receivable are limited due to the Company's large number of clients and their dispersion across many different industries and geographies. At December 31, 2002, the Company had no significant concentrations of credit risk.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The allowance for doubtful accounts is developed based upon several factors including the aging of our accounts receivable, historical write-off experience and specific account analyses. As such, these factors may change over time causing the allowance level to adjust accordingly.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or, for leasehold improvements, the shorter of the lease term or the estimated useful life of the asset, as follows:

| | |
|---------------------------------|------------|
| Office furniture and fixtures | 8–10 years |
| Computer equipment and software | 3–8 years |
| Automobiles | 3–4 years |

Depreciation is calculated for tax purposes using accelerated methods, where applicable.

In accordance with Statement of Position No. 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,” system development costs for internal-use software are capitalized. Once the software is placed in service, it is depreciated using the straight-line method over a three- to eight-year period.

Investments

The Company’s investments include warrants and equity securities in our client companies which are received, in addition to the 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, which the Company adopted on January 1, 2001. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. Changes in the fair value of these derivative instruments, during 2001 and prospectively, are recorded in the Consolidated Statement of Operations. Other warrants received and which do not meet the definition of a derivative 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.

Prior to adopting SFAS No. 133 on January 1, 2001, unrealized gains and losses on all warrants were excluded from earnings and were reported as a component of accumulated other comprehensive income.

In addition to the warrant and equity portfolio, the Company may hold other investments. These other investments are held at cost and are regularly reviewed for declines in fair value.

Business Combinations

In June 2001, the FASB issued SFAS No. 141, “Business Combinations.” This statement requires that all business combinations be accounted for using the purchase method of accounting. For intangible assets, the new rules state that an acquired asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible assets can be sold, transferred, licensed, rented, or exchanged, regardless of the acquirer’s intent to do so. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001.

Goodwill and Intangible Assets

In June 2001, the FASB issued SFAS No. 142, “Goodwill and Other Intangible Assets.” Under the new rule, goodwill and intangible assets that have indefinite useful lives are no longer amortized. Rather, these assets are

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

subject to, at a minimum, an annual assessment for impairment by applying a fair-value-based test. SFAS No. 142 also requires that intangible assets with finite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets."

The provisions of SFAS No. 142 were applied beginning January 1, 2002. Upon adoption, a fair-value-based test was performed and indicated that the fair value of each reporting unit exceeded its carrying amount. As a result, no impairment charge was recorded.

Prior to the adoption of SFAS No. 142, goodwill was amortized on a straight-line basis over the expected periods to be benefited, approximately 30 years, and assessed for recoverability by determining whether the amortization of the goodwill balance over its remaining life could be recovered through undiscounted future operating cash flows of the acquired operation.

Intangible assets are amortized over their estimated useful lives and have been segregated as a separate line item on the Consolidated Balance Sheets.

Impairment of Long-Lived Assets

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," provides a single accounting model for long-lived assets to be disposed of. SFAS No. 144 also changes the criteria for classifying an asset as held for sale; and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The Company adopted SFAS No. 144 on January 1, 2002. The adoption of SFAS No. 144 did not affect the Company's financial statements.

In accordance with SFAS No. 144, long-lived assets, such as property, equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge, equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset, is recognized.

Prior to the adoption of SFAS No. 144, the Company accounted for long-lived assets in accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of."

Special Charges

The accruals for special charges were established in accordance with EITF 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 SAB No. 100, "Restructuring and Impairment Charges." In the Consolidated Statements of Operations, the special charges have been segregated on a separate line titled, "Special charges." For segment reporting, the special charges have been segregated and therefore do not impact the comparisons among years.

Reclassifications

Certain amounts in previously issued financial statements have been reclassified to conform to the 2002 classifications.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2. Business Combinations

During 2001, the Company completed acquisitions of three executive search firms. The total purchase price for acquisitions in 2001 was \$7.8 million. Of this amount, \$3.6 million was paid in cash, and the remainder represented restricted stock units and the Company's common stock valued at \$0.6 million, and notes payable of \$3.6 million. These acquisitions were accounted for under the purchase method and resulted in an allocation to goodwill and other intangible assets of \$3.5 million.

During 2000, the Company completed a total of six acquisitions of executive search firms. The aggregate purchase price of these six acquisitions during 2000 was \$24.5 million, consisting of the Company's stock valued at \$5.1 million, notes payable of \$1.7 million and cash of \$17.7 million. These acquisitions were accounted for under the purchase method and resulted in an allocation to goodwill and other intangibles of \$23.7 million.

These acquisitions did not have a material effect on the consolidated financial statements.

3. 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 EITF No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred," 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.

As of January 1, 2002, the Company completed the integration of LeadersOnline, the Company's mid-level management recruiting service, into the Executive Search business. As a result, the Company no longer reports LeadersOnline as a separate segment. As LeadersOnline was North America based, the net revenue and operating income (loss) have been included as part of the North America region.

In conjunction with the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002, all goodwill and intangible assets have been assigned to the appropriate reporting unit. Goodwill and intangible assets in the amount of \$31.7 million that was previously included as part of the corporate identifiable assets in 2001 has been assigned to the Europe region.

Prior period segment disclosures were revised to reflect these changes.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The revenue, operating income (loss), depreciation and amortization, and capital expenditures, by segment, for the years ended December 31, 2002, 2001 and 2000 are as follows:

| | 2002 | 2001 | 2000 |
|--|-------------|-------------|------------|
| Revenue: | | | |
| North America | \$ 194,241 | \$ 258,142 | \$ 363,584 |
| Latin America | 11,020 | 14,534 | 20,018 |
| Europe | 124,391 | 155,684 | 176,431 |
| Asia Pacific | 21,060 | 27,174 | 34,361 |
| Revenue before reimbursements (net revenue) | 350,712 | 455,534 | 594,394 |
| Reimbursements | 26,133 | 32,065 | 33,221 |
| Total | \$ 376,845 | \$ 487,599 | \$ 627,615 |
| Operating income (loss): | | | |
| North America | \$ 33,711 | \$ 24,017 | \$ 35,933 |
| Latin America | (2,775) | (1,986) | 1,837 |
| Europe | (3,209) | 4,884 | 16,818 |
| Asia Pacific | 1,497 | 1,916 | 4,769 |
| Total regions | 29,224 | 28,831 | 59,357 |
| Corporate | (27,755) | (33,493) | (30,285) |
| Operating income (loss) before special charges | 1,469 | (4,662) | 29,072 |
| Special charges | (48,532) | (53,230) | — |
| Total | \$ (47,063) | \$ (57,892) | \$ 29,072 |
| Depreciation and amortization: | | | |
| North America | \$ 3,998 | \$ 6,616 | \$ 6,538 |
| Latin America | 293 | 400 | 297 |
| Europe | 6,541 | 5,935 | 4,744 |
| Asia Pacific | 588 | 743 | 740 |
| Total regions | 11,420 | 13,694 | 12,319 |
| Corporate | 3,842 | 8,462 | 6,745 |
| Total | \$ 15,262 | \$ 22,156 | \$ 19,064 |
| Capital expenditures: | | | |
| North America | \$ 536 | \$ 6,274 | \$ 7,957 |
| Latin America | 104 | 685 | 883 |
| Europe | 1,790 | 12,765 | 5,115 |
| Asia Pacific | 210 | 377 | 999 |
| Total regions | 2,640 | 20,101 | 14,954 |
| Corporate | 2,561 | 3,958 | 2,931 |
| Total | \$ 5,201 | \$ 24,059 | \$ 17,885 |

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The identifiable assets and goodwill and intangible assets, by segment, at December 31, 2002 and 2001 are as follows:

| | 2002 | 2001 |
|---|------------|------------|
| Identifiable assets: | | |
| North America | \$ 71,670 | \$ 90,202 |
| Latin America | 4,367 | 8,506 |
| Europe | 142,467 | 159,995 |
| Asia Pacific | 21,964 | 21,346 |
| | <hr/> | <hr/> |
| Total regions | 240,468 | 280,049 |
| Corporate | 122,596 | 131,057 |
| | <hr/> | <hr/> |
| Total | \$ 363,064 | \$ 411,106 |
| | <hr/> | <hr/> |
| Goodwill and intangible assets, net: | | |
| North America | \$ 22,810 | \$ 23,772 |
| Latin America | — | — |
| Europe | 36,188 | 38,830 |
| Asia Pacific | 1,503 | 1,103 |
| | <hr/> | <hr/> |
| Total regions | 60,501 | 63,705 |
| Corporate | — | — |
| | <hr/> | <hr/> |
| Total | \$ 60,501 | \$ 63,705 |
| | <hr/> | <hr/> |

4. Special 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 special 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 special charges related to these announced initiatives.

In June 2001, the Company announced a reduction of its workforce and as a result recorded special charges of \$8.2 million and \$2.3 million during the second and third quarters of 2001, respectively, for severance and other related costs. As of September 30, 2001, the Company notified 300 employees that they would be part of the reduction in workforce, most of whom were in the core Executive Search business, including 69 executive and management search consultants. The remaining employees were support staff in Executive Search, LeadersOnline and in the corporate departments. Nearly two-thirds of the reduction was in North America, 24% in Europe, and the rest in Latin America and Asia Pacific. The reduction impacted all practices. By segment, the special charges recorded during the second and third quarters of 2001 are as follows: North America \$2.3 million, Latin America \$1.0 million, Europe \$5.5 million, Asia Pacific \$0.4 million and Corporate \$1.3 million. The majority of the charge represented cash charges.

In October 2001, the Company announced additional reductions in its workforce, the consolidation and closing of offices, and the settlement of the former CEO's contract upon his retirement. These initiatives, which were completed during the 2002 first quarter, affected 486 employees, including 118 executive search and management search consultants. The remaining employees were search and corporate support staff. Approximately 55% of the reduction was in North America, 35% was in Europe, and the rest in Latin America and Asia Pacific. As a result of these actions, the Company recorded \$42.8 million of special charges in the

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

fourth quarter of 2001. These charges include severance and other employee-related costs of \$15.0 million, of which \$7.8 million relates to the settlement of the former CEO's contract upon his retirement, and costs relating to the consolidation and closing of offices of \$27.1 million, of which \$1.6 million is goodwill impairment related to the exit from South Africa and the Baltic region. The remainder of the charges, \$0.7 million, is primarily for other cash expenses recorded as a result of the announced initiatives. By segment, the special charges recorded in the fourth quarter of 2001 are as follows: North America \$19.5 million, Europe \$14.2 million, Asia Pacific \$0.4 million, and Corporate \$8.7 million. In addition, the Company recorded special charges of \$23.2 million in the first quarter of 2002 related to these announced initiatives. The special charges recorded in the first quarter of 2002 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 special 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 and Corporate \$2.5 million. Approximately \$15.2 million of the \$23.2 million of special charges recorded in the first quarter of 2002 represents cash charges.

In October 2002, the Company announced further reductions in its workforce and the consolidation and closing of offices, and as a result recorded special charges of \$25.4 million in the fourth quarter of 2002. These actions affected 236 employees, including 61 executive and management search consultants. The remaining employees were search and corporate support staff. Approximately 20% of the reduction was in North America, 66% in Europe and the rest in Latin America, Asia Pacific and Corporate. These charges include severance and other employee related costs of \$12.2 million, \$10.6 million relating to the consolidation and closing of offices and \$2.6 million of goodwill and intangible asset write-offs. By segment, the special charges recorded in the 2002 fourth quarter are as follows: North America \$6.4 million, Latin America \$0.5 million, Europe \$17.7 million, Asia Pacific \$0.4 million and Corporate \$0.4 million. Approximately \$20.9 million of the \$25.4 million special charges were expected to be paid in cash.

The table below outlines the special charges along with related cash payments, non-cash charges and amounts unpaid as of December 31, 2001 and 2002.

| | Severance and Other Employee- Related Costs | Office Closings | Other Cash Charges | Total |
|---|---|--------------------|--------------------------|------------------|
| Special charges recorded in 2001 | \$ 23,740 | \$ 28,067 | \$ 1,423 | \$ 53,230 |
| Cash payments | (18,759) | (877) | (1,156) | (20,792) |
| Non-cash charges | — | (3,908) | — | (3,908) |
| Special charges unpaid as of December 31, 2001 | 4,981 | 23,282 | 267 | 28,530 |
| Special charges recorded in 2002 | 22,560 | 25,972 | — | 48,532 |
| Cash payments | (12,635) | (12,494) | (267) | (25,396) |
| Non-cash charges | (2,903) | (9,527) | — | (12,430) |
| Special charges unpaid as of December 31, 2002 | \$ 12,003 | \$ 27,233 | \$ — | \$ 39,236 |

The majority of the amounts remaining to be paid as of December 31, 2002 relate to real estate leases which require cash payments until sub-leasing, or negotiations with the lessor to terminate the lease, are completed. Based on current estimates, approximately \$20.7 million is expected to be paid in 2003 with the remainder payable in years subsequent to 2003.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

5. Nonrecurring Compensation and General and Administrative Expenses

On April 10, 2000, LeadersOnline filed a registration statement with the Securities and Exchange Commission relating to a proposed initial public offering of its common stock. In the third quarter of 2000, the Company decided to retain proprietary control of LeadersOnline, and its Internet-enhanced recruiting methods. As a result, LeadersOnline withdrew its registration statement with the Securities and Exchange Commission relating to the proposed initial public offering. In connection with the withdrawal of the registration statement, the Company recorded, in the third quarter of 2000, a non-cash compensation expense of \$12.2 million. This expense represents the remainder of a \$14.9 million non-cash compensation expense related to the issuance of options by LeadersOnline at a price below the deemed fair market value, for accounting purposes, at the time of issuance. The difference of \$2.7 million had been previously recorded as a recurring compensation expense over the first three quarters of 2000. The amount of \$14.9 million was recorded to additional paid in capital. The Company repurchased from its employees for \$10.0 million the options issued by LeadersOnline and also repurchased LeadersOnline stock for \$3.1 million from the Company's employees and from VerticalNet, Inc. These payments were charged against additional paid in capital. In addition, a \$1.8 million charge was recorded for the write-off of expenses related to the proposed initial public offering.

6. Income Taxes

The sources of income (loss) before income taxes for the years ended December 31, 2002, 2001 and 2000 are as follows:

| | 2002 | 2001 | 2000 |
|--|--------------------|--------------------|------------------|
| United States | \$ (27,323) | \$ (71,561) | \$ 17,384 |
| Foreign | (24,330) | 46 | 27,779 |
| Subtotal | (51,653) | (71,515) | 45,163 |
| Cumulative accounting change, pre-tax | — | 7,882 | — |
| Total income (loss) before income taxes | \$ (51,653) | \$ (63,633) | \$ 45,163 |

The provision for (benefit from) income taxes for the years ended December 31, 2002, 2001 and 2000 is as follows:

| | 2002 | 2001 | 2000 |
|--|--------------------|--------------------|------------------|
| Current— | | | |
| Federal | \$ (12,446) | \$ (14,041) | \$ 18,159 |
| State | 1,988 | (2,752) | 6,515 |
| Foreign | 12,375 | 6,919 | 13,678 |
| Deferred | (13,408) | (14,220) | (12,606) |
| Provision for (benefit from) income taxes, before income tax effect of cumulative accounting change | (11,491) | (24,094) | 25,746 |
| Tax effect of cumulative accounting change | — | 3,388 | — |
| Total provision for (benefit from) income taxes | \$ (11,491) | \$ (20,706) | \$ 25,746 |

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A reconciliation of the provision for (benefit from) income taxes for the years ended December 31, 2002, 2001 and 2000 to income taxes at the statutory U.S. federal income tax rate of 35% for 2002, 2001 and 2000 is as follows:

| | 2002 | 2001 | 2000 |
|--|--------------------|--------------------|------------------|
| Income tax provision (benefit) at the statutory | | | |
| U.S. federal rate | \$ (18,078) | \$ (22,271) | \$ 15,807 |
| State income taxes (benefit), net of federal tax benefit | (1,588) | (3,690) | 3,075 |
| Nondeductible expenses | 4,679 | 1,581 | 6,865 |
| Effect of foreign tax credits | (15,127) | (1,823) | (6,129) |
| Foreign tax differential and branch taxes | 4,120 | 1,390 | 9,155 |
| Valuation allowance | 14,700 | 4,346 | (2,348) |
| Other, net | (197) | (239) | (679) |
| Total provision for (benefit from) income taxes | \$ (11,491) | \$ (20,706) | \$ 25,746 |

The deferred tax amounts have been classified in the Consolidated Balance Sheets as of December 31, 2002 and 2001 as follows:

| | 2002 | 2001 |
|---|------------------|------------------|
| Current deferred tax assets | \$ 25,130 | \$ 36,769 |
| Current deferred tax liabilities | (206) | (164) |
| Net current deferred tax asset | 24,924 | 36,605 |
| Non-current deferred tax assets, net | 40,891 | 14,640 |
| Non-current deferred tax liabilities | (8,715) | (7,551) |
| Net non-current deferred tax asset | 32,176 | 7,089 |
| Net deferred tax asset | \$ 57,100 | \$ 43,694 |

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The deferred tax assets and liabilities as of December 31, 2002 and 2001 are attributable to the following components:

| | 2002 | 2001 |
|--|-----------|-----------|
| Deferred tax assets attributable to: | | |
| Receivable allowances | \$ 3,012 | \$ 4,894 |
| Accrued vacations | 1,648 | 2,119 |
| Accrued bonuses | 15,947 | 15,689 |
| Liability for nonqualified retirement plans | 5,813 | 4,113 |
| Other accrued expenses | 7,889 | 5,456 |
| Leasehold improvements and equipment | 3,860 | 762 |
| Foreign net operating loss carryforwards | 10,943 | 5,242 |
| Write-down on investments | 6,879 | 5,650 |
| Goodwill | 1,929 | 1,856 |
| Accrued special charges | 14,629 | 10,555 |
| State tax net operating losses | 4,100 | — |
| Foreign tax credit carryforwards | 15,406 | 6,407 |
| | <hr/> | <hr/> |
| Subtotal | 92,055 | 62,743 |
| Valuation allowance | (26,034) | (11,334) |
| | <hr/> | <hr/> |
| Deferred tax assets, net | 66,021 | 51,409 |
| | <hr/> | <hr/> |
| Deferred tax liabilities attributable to: | | |
| System development costs | (3,564) | (3,802) |
| Unrealized gain on equity and warrant portfolio | (1,338) | (3,845) |
| Other | (4,019) | (68) |
| | <hr/> | <hr/> |
| Deferred tax liabilities | (8,921) | (7,715) |
| | <hr/> | <hr/> |
| Net deferred tax asset | \$ 57,100 | \$ 43,694 |
| | <hr/> | <hr/> |

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. At December 31, 2002, the Company has carryforwards of foreign net operating losses which expire in 2004 through 2012, and foreign tax credits of \$15.4 million, which expire in 2004 through 2007. The Company has provided a valuation allowance against substantially all of the foreign net operating losses and foreign tax credits. The valuation allowance reflects the uncertainty of the Company's ability to fully utilize these benefits given the limited carryforward periods permitted by the various taxing jurisdictions. The Company believes it is more likely than not that it will realize the benefit of its deferred tax assets, net of the existing valuation allowances, at December 31, 2002.

As of December 31, 2002, the Company had undistributed earnings held in its foreign subsidiaries. The Company has not recognized a deferred tax liability for the undistributed earnings of its foreign operations that arose in 2002 and prior years because the Company currently does not expect to remit those earnings in the foreseeable future. Determination of the amount of unrecognized deferred tax liability related to undistributed earnings of foreign subsidiaries is not practicable. A deferred tax liability will be recognized when the Company is no longer able to demonstrate that it plans to permanently reinvest undistributed earnings.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

7. Cumulative Effect of Change in Accounting Principle

As a result of the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its subsequent amendments, on January 1, 2001, the Company recorded, as a cumulative effect of accounting change, a transition adjustment to income of \$4.5 million, net of consultants' bonuses, other costs and taxes.

8. Basic and Diluted Earnings per Common Share

A reconciliation of the basic and diluted earnings (loss) per share, and the shares used in the computation, for the years ended December 31, 2002, 2001 and 2000 is as follows:

| | 2002 | 2001 | 2000 |
|--|-------------|-------------|-----------|
| Basic earnings (loss) per common share: | | | |
| Net income (loss) available to common stockholders | \$ (40,162) | \$ (42,927) | \$ 19,417 |
| Weighted average common shares outstanding | 18,107 | 18,839 | 18,979 |
| Basic earnings (loss) per common share | \$ (2.22) | \$ (2.28) | \$ 1.02 |
| Diluted earnings (loss) per common share: | | | |
| Net income (loss) available to common stockholders | \$ (40,162) | \$ (42,927) | \$ 19,417 |
| Weighted average common shares outstanding | 18,107 | 18,839 | 18,979 |
| Dilutive common shares | — | — | 1,410 |
| Weighted average diluted common shares outstanding | 18,107 | 18,839 | 20,389 |
| Diluted earnings (loss) per common share | \$ (2.22) | \$ (2.28) | \$ 0.95 |

For the years ended December 31, 2002 and 2001, there were approximately 0.9 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 be anti-dilutive.

9. Investments

The Company had investments of \$3.0 million and \$14.8 million at December 31, 2002 and 2001, respectively. Investments include the fair value of the Company's warrants and equity securities in publicly traded and private companies, and other investments.

The fair value of warrants and equity securities in publicly traded and private companies was \$3.0 million and \$9.8 million at December 31, 2002 and 2001, respectively.

Other investments are accounted for using the cost method. There were no other investments at December 31, 2002. The carrying value of other investments was \$5.0 million at December 31, 2001.

On October 26, 2000, the Company announced that it entered into an alliance with and invested \$10.0 million in ETF Group. In the fourth quarter of 2001, the Company wrote down half of its investment in ETF Group incurring a non-cash charge of \$5.0 million. The Company wrote down the remaining \$5.0 million in the second quarter of 2002.

On June 29, 2000, the Company announced that it had formed a strategic alliance with Silicon Valley Internet Capital ("SVIC"). The Company invested \$10.0 million in SVIC's first round of financing. At the time of the investment in SVIC, Mr. Robert W. Shaw was a member of the Company's Board of Directors and had an ownership interest in SVIC. During the fourth quarter of 2000, the Company recorded a write-down of \$0.2 million related to its investment in SVIC. During 2001, the Company wrote down its remaining investment in SVIC, incurring a non-cash charge of \$9.8 million.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

The realized and unrealized gains (losses), net of consultants' bonuses and other costs, for the years ended December 31, 2002, 2001 and 2000 were as follows:

| | 2002 | 2001 | 2000 |
|---|-------------------|-------------------|-----------------|
| Realized gains on investments | \$ 1,630 | \$ 978 | \$ 7,399 |
| Unrealized losses on derivative instruments | (2,955) | (4,681) | — |
| Net realized and unrealized gains (losses) on equity and warrant portfolio | \$ (1,325) | \$ (3,703) | \$ 7,399 |

11. Other Non-current Assets

Other non-current assets primarily include the non-current portion of deferred compensation and the non-current portion of prepaid rent. At December 31, 2002 and 2001, the Company had \$9.5 million and \$14.6 million of non-current assets, respectively.

12. Goodwill and Other Intangibles*Goodwill*

A transitional goodwill impairment test was performed as of January 1, 2002, upon adoption of SFAS No. 142, "Goodwill and Other Intangible Assets." The Company's annual goodwill impairment test was performed 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.

As a result of adopting SFAS No. 142, the Company ceased to record annual goodwill amortization of approximately \$2.5 million in 2002. Operating results excluding goodwill amortization for the years ended December 31, 2002, 2001 and 2000 are as follows:

| | 2002 | 2001 | 2000 |
|--|--------------------|--------------------|------------------|
| Reported net income (loss) | \$ (40,162) | \$ (42,927) | \$ 19,417 |
| Add back: Goodwill amortization, net of tax | — | 2,027 | 1,733 |
| Adjusted net income (loss) | \$ (40,162) | \$ (40,900) | \$ 21,150 |
| Basic earnings (loss) per common share: | | | |
| Reported net income (loss) | \$ (2.22) | \$ (2.28) | \$ 1.02 |
| Add back: Goodwill amortization, net of tax | — | 0.11 | 0.09 |
| Adjusted net income (loss) | \$ (2.22) | \$ (2.17) | \$ 1.11 |
| Diluted earnings (loss) per common share: | | | |
| Reported net income (loss) | \$ (2.22) | \$ (2.28) | \$ 0.95 |
| Add back: Goodwill amortization, net of tax | — | 0.11 | 0.09 |
| Adjusted net income (loss) | \$ (2.22) | \$ (2.17) | \$ 1.04 |

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Changes in the carrying amount of goodwill for the year ended December 31, 2002 were as follows:

| | North America | Europe | Asia Pacific | Total |
|----------------------------------|---------------|-----------|--------------|-----------|
| Balance at December 31, 2001 | \$ 18,362 | \$ 31,645 | \$ 1,103 | \$ 51,110 |
| Earnout payments | — | — | 376 | 376 |
| Impairment losses | — | (1,796) | — | (1,796) |
| Exchange rate fluctuations/other | — | 557 | 24 | 581 |
| Balance at December 31, 2002 | \$ 18,362 | \$ 30,406 | \$ 1,503 | \$ 50,271 |

As part of the cost reduction initiatives announced in October 2002, the Company exited a management search operation which had been acquired by the Company in 2001. This management search operation had not been fully integrated with the other operations in the Europe reporting unit. As a result of exiting this operation, the Company wrote off \$1.8 million of goodwill related to this operation. As part of the cost reduction initiatives announced in October 2001, the Company wrote off approximately \$1.6 million of goodwill related to the Company's exit from South Africa and the Baltic region. See Note 4, *Special Charges*, for additional information.

Intangible Assets

The carrying amount of amortizable intangible assets and the related accumulated amortization at December 31, 2002 and 2001 are as follows:

| | Weighted Average Life | 2002 | | | 2001 | | |
|----------------------|--------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
| | | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Client relationships | 13.5 | \$ 13,046 | \$ (3,290) | \$ 9,756 | \$ 13,331 | \$ (1,999) | \$ 11,332 |
| Other intangibles | 3.2 | 2,211 | (1,737) | 474 | 2,397 | (1,134) | 1,263 |
| Total | 13.0 | \$ 15,257 | \$ (5,027) | \$ 10,230 | \$ 15,728 | \$ (3,133) | \$ 12,595 |

The aggregate intangible amortization expense for the years ended December 31, 2002, 2001 and 2000 is as follows:

| | 2002 | 2001 | 2000 |
|---|----------|----------|----------|
| Aggregate intangible amortization expense | \$ 2,028 | \$ 2,076 | \$ 1,043 |

The estimated intangible amortization expense for each of the next five years is as follows:

| Year ended December 31, | |
|-------------------------|----------|
| 2003 | \$ 1,513 |
| 2004 | 1,346 |
| 2005 | 1,103 |
| 2006 | 981 |
| 2007 | 981 |

In connection with the special charges recorded in 2002, the Company wrote off approximately \$0.5 million of intangible assets. See Note 4, *Special Charges*, for additional information.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

13. Line of Credit

In December 2001, the Company replaced the existing \$40.0 million revolving credit facility which expired on December 31, 2001, with a \$50.0 million revolving credit facility (the "Facility"). The Facility was amended on March 25, 2002 and November 27, 2002 and will expire on December 28, 2004. Under the Facility, the Company 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 certain tests of our financial condition. The Facility has certain financial covenants the Company must meet relating to consolidated EBITDA (defined as earnings before interest expense, taxes, depreciation and amortization, and designated special charges), fixed charge coverage (defined as the relationship of EBITDA to interest expense and capital expenditures), leverage (defined as the ratio of total indebtedness to EBITDA), tangible net worth, working capital and capital expenditures. The Facility prohibits the Company from declaring and paying cash dividends on the common stock without the consent of the lenders. In addition, the Facility restricts the Company's ability to make acquisitions and incur additional debt. The Company must pay a facility fee even if no portion of the line of credit is used.

There were no borrowings outstanding under the existing line of credit at December 31, 2002 or December 31, 2001, nor were there any borrowings during the years ended December 31, 2002 and 2001, respectively, under the then existing line of credit. As of December 31, 2002 and 2001, the Company was in compliance with all of its financial covenants and no event of default existed.

In February 2003, the Company 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.

14. Other Accrued Liabilities

The components of other accrued liabilities at December 31, 2002 and 2001 are as follows:

| | 2002 | 2001 |
|-------------------------------------|-----------|-----------|
| Deferred revenue | \$ 6,846 | \$ 2,092 |
| Accrued rent | 2,928 | 4,514 |
| Accrued sales and value-added taxes | 2,511 | 2,036 |
| Other | 8,419 | 10,313 |
| Total | \$ 20,704 | \$ 18,955 |

15. Long-Term Debt

At December 31, 2002 and 2001, long-term debt consists of notes payable due as a result of acquisitions. The future principal payments on debt are as follows:

| Year ended December 31, | | |
|-------------------------|----|-------|
| 2003 | \$ | 1,161 |
| 2004 | | 294 |
| Total | \$ | 1,455 |

The fair value of debt based on current rates for similar debt is estimated to be \$1.4 million at December 31, 2002.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

16. Stock-Based Compensation

In 1998, the Company adopted the 1998 Heidrick & Struggles GlobalShare Program I and the 1998 Heidrick & Struggles GlobalShare Program II (collectively, the “Plan”). The Plan serves as a means to attract, reward, and retain selected key employees, outside directors and independent contractors. The Plan is administered by the Compensation Committee of the Board of Directors. Awards may be in the form of options, which may be incentive stock options or non-qualified stock options, stock appreciation rights, or other awards, such as restricted stock units, that are valued based upon the fair market value of shares. Awards may be paid in shares, cash or a combination thereof. No incentive option can be for a term of greater than ten years and the option price per share of common stock cannot be less than 100% of the fair market value of the Company’s common stock on the date of grant.

The maximum number of underlying shares of common stock authorized or reserved for issuance under the Plan is based on a formula which shall not exceed an aggregate amount equal to forty percent of the highest number of shares of the Company’s common stock which are issued and outstanding from time to time during the term of the Plan, provided, however, that in no event will the sum of the total number of shares authorized or reserved for issuance upon the exercise or issuance of all awards granted under the Plan plus the total amount of the Company’s issued and outstanding shares of common stock exceed the number of shares of common stock authorized for issuance under the Company’s Amended and Restated Certificate of Incorporation.

The Plan further provides that the total number of shares with respect to which incentive stock options may be granted shall not exceed 2,000,000. No incentive stock options have been granted under the Plan.

Under the Plan, the maximum number of shares of common stock for which awards may be granted during a calendar year to any participant is 400,000. The maximum amount of a cash award received under the Plan may not exceed \$3,000,000 in any one fiscal year.

In 2000, the Company adopted the Heidrick & Struggles International, Inc. Restricted Stock Unit Plan (the “RSU Plan”). The RSU Plan is designed to reward certain employees and independent contractors of the Company who hold the internal title of Partner or Senior Partner through the issuance of restricted stock units, which upon vesting, are immediately convertible into shares of the Company’s common stock at a ratio of 1:1.

The total number of restricted stock units and the underlying shares of the Company’s common stock which may be issued or delivered under the RSU Plan shall be determined by the Compensation Committee of the Board of Directors on an annual basis. Under both the Plan and the RSU Plan, the maximum number of shares of common stock reserved for issuance are subject to adjustment for certain anti-dilution provisions.

Under the RSU Plan, restricted stock units cliff vest at 3 years from the date of grant. Under the Plan, the restricted stock units have vesting periods ranging from ratable vesting over a 3 to 5 year period to a cliff vest of 3 to 5 years from the date of grant. The deferred compensation related to restricted stock units is recorded in stockholders’ equity and is amortized to expense on a straight-line basis over the vesting period.

In 2002, the Company adopted and the stockholders approved certain amendments to the Plan to create a management compensation program which consists of an annual Management Incentive Plan (“MIP”), a Management Stock Option Plan (“MSOP”) and a Performance Share Program (“PSP”). These plans provide for designated participants to receive annual and longer-term incentive compensation and were designed to replace the prior practice of issuing options and restricted stock units under the Plan and the RSU Plan.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The MIP is an annual bonus program designed to link participant performance with the attainment of pre-established Company, strategic business unit and individual performance goals. It provides for an annual bonus ranging from 0% to 150% of target incentive compensation. These bonuses are paid in cash for awards up to 100% of target incentive compensation. Any amounts awarded in excess of 100% of the target incentive compensation are paid in shares of the Company common stock on a mandatory deferred basis. The employee must be employed by the Company on the date of payment to receive a bonus under the MIP.

The MSOP is designed to align the interests of executives and stockholders with the common goal of increasing stockholder value. It provides for annual grants of options. Generally, the options vest over a three-year period, are forfeited in the event the participant is not in the Company's employ on the vesting date and have a five-year term. In addition, participants who receive options under the MSOP must abide by certain restrictive covenants, including covenants barring the participant from competing with the Company, soliciting any of the Company's customers or employees, and disclosing any confidential information such participant received in connection with his or her employment.

The PSP provides long-term incentive compensation based on the Company's cumulative performance and the price of the Company's common stock measured at the end of a three-year award cycle. The awards are expressed as shares of the Company's common stock and the participants will earn and be paid from zero to 150% of their performance shares based on the Company's achievement against specific performance goals. The value of the PSP award at the payout date is determined by a combination of the Company's performance against the specific performance goals and the price of the Company's common stock on the payout date. Performance shares are paid in cash or shares of the Company's common stock at the sole discretion of the Company. A new PSP cycle starts each year such that participants may have up to three overlapping awards at one time. The cost of the performance shares is expensed over the three-year service period at an amount that is anticipated to be earned. During 2002, the compensation expense related to the PSP was \$1.3 million.

Restricted Stock Units

Restricted stock unit activity for the years ended December 31, 2002, 2001 and 2000 is as follows:

| | Number of Restricted Stock Units |
|---|---|
| Outstanding on December 31, 1999 | — |
| Granted | 469,833 |
| Vested and converted to common stock | — |
| Forfeited | (11,292) |
| Outstanding on December 31, 2000 | 458,541 |
| Granted | 758,510 |
| Vested and converted to common stock | (53,800) |
| Forfeited | (21,034) |
| Outstanding on December 31, 2001 | 1,142,217 |
| Granted | 152,074 |
| Vested and converted to common stock | (75,978) |
| Forfeited | (89,503) |
| Outstanding on December 31, 2002 | 1,128,810 |

Total deferred compensation amortization expense for restricted stock units for 2002, 2001 and 2000 was \$5.1 million, \$4.0 million and \$1.2 million, respectively. The weighted average fair value, at the time of grant, of restricted stock units granted during 2002, 2001 and 2000 were \$19.94, \$27.41 and \$43.09, respectively.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Non-qualified Stock Options

Activity for non-qualified stock options for the years ended December 31, 2002, 2001 and 2000 is as follows:

| | Number of Shares | Weighted Average Exercise Price Per Share |
|---|------------------|--|
| Outstanding on December 31, 1999 | 1,485,501 | \$ 14.00 |
| Granted | 1,388,950 | 43.81 |
| Exercised | (39,865) | 14.00 |
| Forfeited | (94,347) | 14.73 |
| Outstanding on December 31, 2000 | 2,740,239 | 28.85 |
| Granted | 950,677 | 33.98 |
| Exercised | (48,644) | 14.00 |
| Forfeited | (184,803) | 25.91 |
| Outstanding on December 31, 2001 | 3,457,469 | 30.62 |
| Granted | 1,154,000 | 18.37 |
| Exercised | (63,330) | 14.00 |
| Forfeited | (446,270) | 31.06 |
| Outstanding on December 31, 2002 | 4,101,869 | \$ 27.44 |

Information about non-qualified stock options at December 31, 2002 is as follows:

| Options Outstanding | | | | Options Exercisable | |
|-----------------------------|--------------------|--|---------------------------------------|---------------------|---------------------------------|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life in Years | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$14.00-\$21.12 | 2,218,405 | 5.2 | \$ 16.28 | 409,268 | \$ 14.23 |
| \$31.72-\$45.44 | 1,708,464 | 5.5 | 38.89 | 611,375 | 40.18 |
| \$57.00-\$57.00 | 175,000 | 1.8 | 57.00 | 15,000 | 57.00 |
| \$14.00-\$57.00 | 4,101,869 | 5.2 | \$ 27.44 | 1,035,643 | \$ 30.17 |

17. Employee Benefit Plans

Qualified Retirement Plan

The Company has a defined contribution retirement plan for all eligible employees in the United States. The plan contains a 401(k) provision which provides for employee tax-deferred contributions.

The Company matched employee contributions on a two-for-one basis up to a maximum contribution of \$2,000 per participant for each of the years ended December 31, 2002, 2001 and 2000. The Company also has the option of making discretionary contributions. For the year ended December 31, 2000, the Company elected to contribute to each eligible participant a sum equal to 3.03% of the participant's total compensation, as defined, and an additional 3.03% of the participant's compensation above the Social Security taxable wage base up to the maximum amount allowed by the Internal Revenue Code. Discretionary contributions were not made for the years ended December 31, 2002 and 2001.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The plan provides that forfeitures will be used to reduce the Company's contributions. Forfeitures are created when participants terminate employment before becoming entitled to their full benefits under the plan. Plan expense for the years ended December 31, 2002, 2001 and 2000 was \$1.0 million, \$1.2 million and \$4.5 million, respectively.

The plan allows participants the option of having their account balances or portions thereof invested in the Company's common stock. At December 31, 2002 and 2001, respectively, the plan held 953,720 and 1,961,848 shares of the Company's common stock.

Nonqualified Retirement Plan

The Company has a nonqualified retirement plan for employees in the United States classified as senior associates and senior information specialists. This plan provides for discretionary employer contributions. The plan expense for the years ended December 31, 2001 and 2000 was \$0.4 million and \$0.5 million, respectively. There was no plan expense for the year ended December 31, 2002. The liability for this retirement plan at December 31, 2002 and 2001, was \$0.9 million and \$1.4 million, respectively.

Deferred Compensation Plans

In 2002, the Company adopted a Deferred Compensation Plan in the United States (the "U.S. Plan") and in the United Kingdom (the "U.K. Plan"). Participation in these plans is not mandatory.

For the U.S. Plan, certain U.S.-based employees are given the opportunity to defer up to 100% of their eligible cash compensation into several different investment vehicles, including a Company stock fund. Cash deferrals must be made for a minimum of one year. These deferrals are always vested and are not subject to a risk of forfeiture. The U.S. Plan also allows participants to continue to defer beyond the mandatory initial two-year deferral period any share-based deferrals earned under the MIP. The extension of the deferral must be for a minimum of one year. As of December 31, 2002, the compensation deferred in the U.S. Plan was \$0.9 million. As of December 31, 2002, the U.S. Plan was not funded.

For the U.K. Plan, certain U.K.-based employees are given the opportunity to waive the right to their annual discretionary bonus payment. The Company may then choose to make a contribution on the employee's behalf into an Employee Benefit Trust ("EBT"). The trustee of the EBT has full discretion over the administration and the EBT's choice of investments. The assets and liabilities of the EBT are included in the Consolidated Balance Sheet at December 31, 2002. As of December 31, 2002, the compensation deferred in the U.K. Plan was \$1.3 million of which \$0.4 million was funded.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

18. Pension Plans and Life Insurance Contract

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

The following table provides a reconciliation of the benefit obligation for the years ended December 31, 2002 and 2001:

| | 2002 | 2001 |
|---|-----------|-----------|
| Change in benefit obligation: | | |
| Benefit obligation at January 1, | \$ 19,184 | \$ 18,214 |
| Service cost | 618 | 574 |
| Interest cost | 1,104 | 1,044 |
| Actuarial (gain) loss | (1,025) | 471 |
| Benefits paid | (531) | (473) |
| Translation difference | 3,350 | (646) |
| | <hr/> | <hr/> |
| Benefit obligation at December 31, | 22,700 | 19,184 |
| Unrecognized net loss | (532) | (1,475) |
| | <hr/> | <hr/> |
| Net amount recognized | \$ 22,168 | \$ 17,709 |
| | <hr/> | <hr/> |
| Accrued benefit cost at December 31: | | |
| Unfunded status of the plan | \$ 22,700 | \$ 19,184 |
| Unrecognized net loss | (532) | (1,475) |
| | <hr/> | <hr/> |
| Accrued benefit cost | \$ 22,168 | \$ 17,709 |
| | <hr/> | <hr/> |
| Assumptions: | | |
| Discount rate (weighted average) | 6.0% | 6.0% |
| Rate of compensation increase | 4.0% | 4.0% |
| Components of net periodic benefit cost: | | |
| Service cost | \$ 618 | \$ 574 |
| Interest cost | 1,104 | 1,044 |
| | <hr/> | <hr/> |
| Net periodic benefit cost | \$ 1,722 | \$ 1,618 |
| | <hr/> | <hr/> |

The pension benefits are fully reinsured within a group insurance contract with Victoria Lebensversicherung AG. The surrender value at December 31, 2002 and 2001 was \$21.2 million and \$16.6 million, respectively. Because the reinsurance is not segregated from the Company's assets for purposes of SFAS No. 87, "Employers' Accounting for Pensions," the reinsurance is not regarded as an asset with respect to the pension plan.

During 2000, the Company established a defined benefit pension plan for the former CEO. The plan was not funded as of December 31, 2000 and was eliminated during 2001 as part of the settlement of the former CEO's contract upon his retirement. During 2000, the Company recognized an expense of \$1.4 million related to this plan.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

19. Commitments and Contingencies*Operating Leases*

The Company leases office space in various buildings for its own use. The terms of these operating leases provide that the Company pay base rent and a share of increases in operating expenses and real estate taxes in excess of defined amounts. These leases expire at various dates through 2016.

The Company also leases certain computer equipment which is accounted for as an operating lease.

Minimum future office space and equipment lease payments due in each of the next five years and thereafter are as follows:

| | | |
|--------------------------|----|---------|
| Year ending December 31, | | |
| 2003 | \$ | 32,213 |
| 2004 | | 27,518 |
| 2005 | | 23,400 |
| 2006 | | 19,902 |
| 2007 | | 18,200 |
| Thereafter | | 69,090 |
| | | <hr/> |
| Total | \$ | 190,323 |

Rent expense under operating leases for the years ended December 31, 2002, 2001 and 2000 was \$35.5 million, \$41.6 million and \$31.9 million, respectively. The minimum future lease payments indicated above include amounts due on leased properties that have been sublet in connection with the cost reduction initiatives that were announced in 2002 and 2001. The Company has contractual arrangements in place to receive sublease income of \$8.8 million related to the leases that expire at various dates through 2016. See Note 4, *Special Charges*, for more information concerning accruals for costs related to the consolidation and closing of offices recorded as part of our special charges.

Litigation

In the normal course of business, the Company is a party to various matters involving disputes and litigation. While it is not possible at this time to determine the ultimate outcome of these matters, management believes that the ultimate liability, if any, will not be material to the consolidated results of operations, financial condition or liquidity of the Company.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

20. Public Offerings

On February 9, 2000, the Company completed a follow-on public offering under a Registration Statement on Form S-1 effective February 3, 2000 (File No. 333-94017) of an aggregate of 3,450,000 shares of common stock at \$33.00 per share, which included 450,000 shares from the exercise of the over-allotment option granted to certain underwriters of the offering. The Company offered 2,458,306 shares and the selling stockholders offered 991,694 shares. This offering resulted in net proceeds (after deducting the underwriting discount and offering expenses) of \$76.2 million to the Company and \$31.0 million to the selling stockholders. The Company did not receive any of the proceeds from the sale by selling stockholders. The Company used the net proceeds from this offering for general corporate purposes including the funding of LeadersOnline, growth initiatives, hiring of additional executive search consultants, expanding its technology infrastructure and funding acquisitions.

21. Sale and Repurchase of Subsidiary Stock

During the second quarter of 2000, LeadersOnline sold a total of 609,000 shares of its common stock to VerticalNet, Inc. and to certain employees of the Company. The common stock was sold for \$5 per share and resulted in net cash proceeds, after expenses, of \$2.9 million to LeadersOnline. The Company's ownership interest in LeadersOnline was diluted from 100% to 96.4% as a result of these transactions. The resulting gain to the Company of \$2.7 million has been recorded to additional paid in capital.

As a result of the decision to retain proprietary control of LeadersOnline and the cancellation of its proposed initial public offering in September 2000, the Company paid \$3.1 million to repurchase the stock sold to VerticalNet, Inc. and to certain employees. In addition, the Company paid \$10.0 million to compensate option holders for the cancellation of their options. These payments were charged to additional paid in capital. See Note 5, *Nonrecurring Compensation and General and Administrative Expenses*, for more information.

Note: This Report of Independent Public Accountants is a copy of a previously issued Report of Arthur Andersen LLP, Independent Public Accountants and has not been reissued by Arthur Andersen LLP. This Report was filed as part of the Form 10-K of Heidrick & Struggles International, Inc. for the year ended December 31, 2001. The registrant has been unable to obtain a reissued Report of Arthur Andersen LLP or a currently dated consent to the incorporation of this previously issued Report of Arthur Andersen LLP into the registrant's current registration statements. While the extent of any resulting limitations on recovery by investors is unclear, the lack of a currently dated consent could limit the time within which any actions against Arthur Andersen LLP for violations of securities laws may be brought.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholder and Board of Directors of Heidrick & Struggles International, Inc. and Subsidiaries:

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of **HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES** included in this Form 10-K report and have issued our report thereon dated February 6, 2002. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule II—Heidrick & Struggles International, Inc. Valuation and Qualifying Accounts is the responsibility of the company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Chicago, Illinois
February 6, 2002

SCHEDULE II
HEIDRICK & STRUGGLES INTERNATIONAL, INC.
VALUATION AND QUALIFYING ACCOUNTS

| <u>Allowance for doubtful accounts:</u> | <u>Balance at Beginning of Year</u> | <u>Charged to Costs & Expenses</u> | <u>Deduction Including Currency Translation</u> | <u>Balance at End of Year</u> |
|---|---|--|---|---------------------------------------|
| <u>Year Ended December 31,</u> | | | | |
| 2002 | \$ 13,749 | 1,871 | (8,157) | \$ 7,463 |
| 2001 | \$ 16,452 | 20,494 | (23,197) | \$ 13,749 |
| 2000 | \$ 12,435 | 26,322 | (22,305) | \$ 16,452 |

See accompanying Reports of Independent Public Accountants.

PART II (continued)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Prior to April 17, 2002, Arthur Andersen LLP (“Andersen”) served as our independent auditors. On March 14, 2002, Andersen was indicted on a charge of federal obstruction of justice arising from the government’s investigation of Enron Corporation. On June 15, 2002, Andersen was convicted of that charge and the firm ceased practicing before the SEC on August 31, 2002. On April 17, 2002, based upon the recommendation of our audit committee we retained KPMG LLP (“KPMG”) as our independent auditors for our fiscal year ended December 31, 2002.

The audit report of Andersen on our financial statements as of and for the years ended December 31, 2001 and 2000 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles. During the years ended December 31, 2001 and 2000, and the interim period ended April 17, 2002, there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Andersen, would have caused it to make reference to the subject matter of the disagreement in connection with its report.

During the Company’s two fiscal years ended December 31, 2001 and 2000, and through April 17, 2002, the Company did not consult with KPMG with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company’s consolidated financial statements, or any other matters or reportable events as set forth in Items 304 (a) (2) (i) and (ii) of Regulation S-K.

SEC rules require us to present historical audited financial statements in the annual report on Form 10-K and registration statements we file with the SEC along with Andersen’s consent to the incorporation by reference of its audit report in those registration statements. Since our former engagement partner and audit manager have left Andersen and in light of the cessation of Andersen’s SEC practice, we have not been able to obtain the consent of Andersen to the incorporation by reference of its audit report in our relevant current registration statements and will not be able to obtain Andersen’s consent with respect to our future registration statements. The absence of this consent may limit the ability to recover any damages from Andersen under Section 11 of the Securities Act of 1933.

PART III**ITEM 10. OUR DIRECTORS AND EXECUTIVE OFFICERS**

The information required by this Item will be included under the captions “Election of Directors,” “Nominees for Director,” “Class 2004 Directors,” and “Class 2005 Directors” in our 2003 Proxy Statement, and is incorporated herein by reference. See also “Our Executive Officers” included in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item will be included under the captions “Executive Compensation—Summary Compensation Table,” “Executive Compensation—Option Grant Table,” “Executive Compensation—Aggregated Option Exercises and Year-End Option Values” and “Employment Agreements” in our 2003 Proxy Statement, and is incorporated herein by reference.

ITEM 12. VOTING SECURITIES OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item will be included under the caption “Voting Securities of Certain Beneficial Owners and Management” in our 2003 Proxy Statement, and is incorporated herein by reference.

Equity Compensation Plan Information

The following table sets forth additional information as of December 31, 2002, about shares of our common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements, divided between plans approved by our stockholders and plans or arrangements not submitted to the stockholders for approval.

| Plan Category | (a) Number of Securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted-average exercise price of outstanding options, warrants and rights | (c) Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|--|--|--|
| Equity compensation plans approved by stockholders (1) | 4,548,660(2) | \$ 27.44 | 2,455,518 |
| Equity compensation plans not approved by stockholders (3) | 682,019(4) | — | — |
| Total equity compensation plans | 5,230,679 | \$ 27.44 | 2,455,518 |

(1) For a description of the types of securities that may be issued under our GlobalShare Program I and GlobalShare Program II (collectively, the “Plan”), please read Note 16, *Stock-Based Compensation*, in the Notes to Consolidated Financial Statements contained in Item 8 to this annual report on Form 10-K. The amount of any type of security to be issued under the Plan is to be determined by the Compensation Committee at the date of grant.

(2) Includes 446,791 restricted stock units.

(3) For a description of the material terms of our Restricted Stock Unit Plan (the “RSU Plan”), please read Note 16, *Stock-Based Compensation*, in the Notes to Consolidated Financial Statements contained in Item 8 to this annual report on Form 10-K.

(4) The RSU Plan provides only for the issuance of restricted stock units. No additional restricted stock units are contemplated to be issued under the RSU Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item will be included under the caption “Certain Relationships and Related Transactions” in our 2003 Proxy Statement, and is incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES

(a) Evaluation of 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.

Within 90 days prior to the filing of this report, 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 IV**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K**

(a) THE FOLLOWING DOCUMENTS ARE FILED AS PART OF THIS REPORT:

1. Index to Consolidated Financial Statements:

See Consolidated Financial Statements included as part of this Form 10-K beginning at page 33.

2. Financial Statement Schedules:

| | |
|---|----|
| Report of Independent Public Accountants | 64 |
| Schedule II—Valuation and Qualifying Accounts | 65 |

3. 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 | 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 | Amended and Restated By-laws of the Registrant |
| 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 | Credit Agreement among Heidrick & Struggles International, Inc., the Lenders Party thereto and JPMorgan Chase Bank, as Administrative Agent |
| *10.01.01 | Amendment No. 1 to Credit Agreement |
| *10.01.02 | Amendment No. 2 to Credit Agreement |
| *10.02 | Demand Loan Agreement among Heidrick & Struggles International, Inc., the Borrower and Bank of America, the Lender |
| 10.03 | Retirement Agreement of Patrick S. Pittard (Incorporated by reference to Exhibit 10.01 of the Registrant's Form 10-K filed on March 29, 2002) |
| 10.04 | Employment Agreement of Piers Marmion (Incorporated by reference to Exhibit 10.16 of the Registrant's Form 10-Q filed on August 14, 2002) |
| 10.05 | Employment Agreement of David C. Anderson (Incorporated by reference to Exhibit 10.13 of the Registrant's Form 10-Q filed on May 15, 2002) |
| 10.06 | Employment Agreement of Kevin J. Smith (Incorporated by reference to Exhibit 10.14 of the Registrant's Form 10-Q filed on May 15, 2002) |
| 10.07 | Employment Agreement of Knox J. Millar (Incorporated by reference to Exhibit 10.17 of the Registrant's Form 10-Q filed on August 14, 2002) |
| *10.08 | Amended and Restated 1998 Heidrick & Struggles Global Share Program I and 1998 Heidrick & Struggles Global Share Program II |
| 10.09 | Heidrick & Struggles International, Inc. Restricted Stock Unit Plan (Incorporated by reference to Exhibit 4.03 of this Registrant's Registration Statement on Form S-8 (File No. 333-32544)) |

Table of Contents

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|---|
| 10.10 | Amendment No. 1 to the Heidrick & Struggles Restricted Stock Unit Plan |
| 10.11 | Heidrick & Struggles International, Inc. Deferred Compensation Plan (Incorporated by reference to Exhibit 4.1 of this Registrant's Registration Statement on Form S-8 (File No. 333-82424)) |
| 10.12 | Heidrick & Struggles International, Inc. Change in Control Severance Plan (Incorporated by reference to Exhibit 99.07 of the Registrant's Form 10-K filed on March 29, 2002) |
| *21.01 | Subsidiaries of the Registrant |
| *23.01 | Independent Auditors' Consent |
| *99.01 | 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 |
| *99.02 | 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.

(b) REPORTS ON FORM 8-K

During the quarter ended December 31, 2002, no reports on Form 8-K were filed by the Registrant

(c) SEE EXHIBIT INDEX ABOVE

(d) FINANCIAL STATEMENTS NOT PART OF ANNUAL REPORT

None

Annual Certification
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(Rule 13a-14 and 15d-14)

I, Piers Marmion, certify that:

1. I have reviewed this annual report on Form 10-K of Heidrick and Struggles International, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrants disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusion about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ PIERS MARMION

Chief Executive Officer

Dated March 21, 2003

Annual Certification
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(Rule 13a-14 and 15d-14)

I, Kevin J. Smith, certify that:

1. I have reviewed this annual report on Form 10-K of Heidrick and Struggles International, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrants disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusion about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ KEVIN J. SMITH

Chief Financial Officer

Dated March 21, 2003

AMENDED AND RESTATED

BY-LAWS

OF

HEIDRICK & STRUGGLES INTERNATIONAL, INC.
(effective October 28, 2002)

ARTICLE I.

STOCKHOLDERS

Section 1. The annual meeting of the stockholders of the corporation for the purpose of electing directors and for the transaction of such other business as may properly be brought before the meeting shall be held on such date, and at such time and place within or without the State of Delaware as may be designated from time to time by the Board of Directors.

Section 2. Special meetings of the stockholders shall be called at any time only by the Chairman of the Board, if there be one, or the President of the Corporation and shall be called by the Chairman of the Board or the President of the Corporation, only at the request in writing of a majority of the Board of Directors, pursuant to a resolution adopted by a majority of the total number of directors. The purpose or purposes of the proposed meeting shall be included in the notice setting forth such call.

Section 3. Except as otherwise provided by law, notice of the time, place and, in the case of a special meeting, the purpose or purposes of the meeting of stockholders shall be delivered personally or mailed not earlier than sixty, nor less than ten days previous thereto, to each stockholder of record entitled to vote at the meeting at such address as appears on the records of the corporation.

Section 4. The holders of a majority in voting power of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business, except as otherwise provided by statute or by the Amended and Restated Certificate of Incorporation; but if at any regularly called meeting of stockholders there be less than a quorum present, the stockholders present may adjourn the meeting from time to time without further notice other than announcement at the meeting until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if, after the adjournment, a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 5. The Chairman of the Board, or if there be no Chairman or in the Chairman's absence or at the Chairman's direction, the President, or in the President's absence or at the President's direction, any officer of the corporation shall call all meetings of the

stockholders to order and shall act as Chairman of such meeting. The Secretary of the corporation or, in such officer's absence, an Assistant Secretary shall act as secretary of the meeting. If neither the Secretary nor an Assistant Secretary is present, the Chairman of the meeting shall appoint a secretary of the meeting. Unless otherwise determined by the Board of Directors prior to the meeting, the Chairman of the meeting shall determine the order of business and shall have the authority in his or her discretion to regulate the conduct of any such meeting, including, without limitation, by imposing restrictions on the persons (other than stockholders of the corporation or their duly appointed proxies) who may attend any such meeting, whether any stockholder or stockholders' proxy may be excluded from any meeting of stockholders based upon any determination by the Chairman, in his or her sole discretion, that any such person has unduly disrupted or is likely to disrupt the proceedings thereat, and the circumstances in which any person may make a statement or ask questions at any meeting of stockholders. The Chairman of the meeting shall have authority to adjourn any meeting of stockholders.

Section 6. At all meetings of stockholders, any stockholder entitled to vote thereat shall be entitled to vote in person or by proxy, but no proxy shall be voted after three years from its date, unless such proxy provides for a longer period. Without limiting the manner in which a stockholder may authorize another person or persons to act for the stockholder as proxy pursuant to the General Corporation Law of the State of Delaware, the following shall constitute a valid means by which a stockholder may grant such authority: (1) a stockholder may execute a writing authorizing another person or persons to act for the stockholder as proxy, and execution of the writing may be accomplished by the stockholder or the stockholder's authorized officer, director, employee or agent signing such writing or causing his or her signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature; or (2) a stockholder may authorize another person or persons to act for the stockholder as proxy by transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that any such telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder. If it is determined that such telegrams, cablegrams or other electronic transmissions are valid, the judge or judges of stockholder votes or, if there are no such judges, such other persons making that determination shall specify the information upon which they relied.

Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to the preceding paragraph of this Section 6 may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

Proxies shall be filed with the Secretary of the meeting prior to or at the commencement of the meeting to which they relate.

Section 7. When a quorum is present at any meeting, the vote of the holders of a majority in voting power of the stock present in person or represented by proxy and entitled to vote on the matter shall decide any question brought before such meeting, unless the question is one upon which by express provision of statute or of the Amended and Restated Certificate of Incorporation or these By-Laws, a different vote is required, in which case such express provision shall govern and control the decision of such question.

Section 8. In order that the corporation may determine the stockholders (a) entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or (b) if and to the extent permitted by the Amended and Restated Certificate of Incorporation, entitled to consent to corporate action in writing without a meeting, or (c) entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date (i) in the case of clause (a) above, shall not be more than sixty nor less than ten days before the date of such meeting, (ii) in the case of clause (b) above, shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the board of directors, and (iii) in the case of clause (c) above, shall not be more than sixty days prior to such action. If for any reason the Board of Directors shall not have fixed a record date for any such purpose, the record date for such purpose shall be determined as provided by law. Only those stockholders of record on the date so fixed or determined shall be entitled to any of the foregoing rights, notwithstanding the transfer of any such stock on the books of the corporation after any such record date so fixed or determined.

Section 9. The officer who has charge of the stock ledger of the corporation shall prepare and make at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced at the time and kept at the place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 10. The Board of Directors, in advance of all meetings of the stockholders, shall appoint one or more judges of stockholder votes, who may be stockholders or their proxies, but not directors of the corporation or candidates for office. In the event that the Board of Directors fails to so appoint judges of stockholder votes or, in the event that one or more judges of stockholder votes previously designated by the Board of Directors fails to appear or act at the meeting of stockholders, the Chairman of the meeting may appoint one or more judges of stockholder votes to fill such vacancy or vacancies. Judges of stockholder votes appointed to act at any meeting of the stockholders, before entering upon the discharge of their duties, shall be sworn faithfully to execute the duties of judge of stockholder votes with strict impartiality and according to the best of their ability and the oath so taken shall be subscribed by

them. Judges of stockholder votes shall, subject to the power of the Chairman of the meeting to open and close the polls, take charge of the polls, and, after the voting, shall make a certificate of the result of the vote taken.

Section 11. (A) Annual Meetings of Stockholders. (1) Nominations of persons for election to the Board of Directors of the corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the corporation's notice of meeting delivered pursuant to Article 1, Section 3 of these By-Laws, (b) by or at the direction of the Board of Directors or of the Chairman of the Board or (c) by any stockholder of the corporation who is entitled to vote at the meeting, who complied with the notice procedures set forth in subparagraphs (2) and (3) of this paragraph (A) of this By-Law and who was a stockholder of record at the time such notice is delivered to the Secretary of the corporation.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A)(1) of this By-Law, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation, and, in the case of business other than nominations, such other business must be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the corporation not less than sixty days nor more than ninety days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than thirty days, or delayed by more than sixty days, from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the ninetieth day prior to such annual meeting and not later than the close of business on the later of the sixtieth day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner and (ii) the class and number of shares of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this By-Law to the contrary, in the event that the number of directors to be elected to the Board of Directors of the corporation is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the corporation at least seventy days prior to the first anniversary of the preceding year's annual

meeting, a stockholder's notice required by this By-Law shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the corporation.

(B) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting pursuant to Article I, Section 2 of these By-Laws. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the corporation's notice of meeting (a) by or at the direction of the Board of Directors or (b) by any stockholder of the corporation who is entitled to vote at the meeting, who complies with the notice procedures set forth in this By-Law and who is a stockholder of record at the time such notice is delivered to the Secretary of the corporation. Nominations by stockholders of persons for election to the Board of Directors may be made at such a special meeting of stockholders if the stockholder's notice as required by paragraph (A)(2) of this By-Law shall be delivered to the Secretary at the principal executive offices of the corporation not earlier than the ninetieth day prior to such special meeting and not later than the close of business on the later of the sixtieth day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

(C) General. (1) Only persons who are nominated in accordance with the procedures set forth in this By-Law shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this By-Law. Except as otherwise provided by law, the Amended and Restated Certificate of Incorporation or these By-Laws, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this By-Law and, if any proposed nomination or business is not in compliance with this By-Law, to declare that such defective nomination shall be disregarded or that such proposed business shall not be transacted.

(2) For purposes of this By-Law, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) For purposes of this By-Law, no adjournment nor notice of adjournment of any meeting shall be deemed to constitute a new notice of such meeting for purposes of this Section 11, and in order for any notification required to be delivered by a stockholder pursuant to this Section 11 to be timely, such notification must be delivered within the periods set forth above with respect to the originally scheduled meeting.

(4) Notwithstanding the foregoing provisions of this By-Law, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this By-Law. Nothing in this By-Law shall be deemed to affect any rights of stockholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

ARTICLE II.

BOARD OF DIRECTORS

Section 1. The Board of Directors of the corporation shall consist of such number of directors, not less than six directors and not more than fifteen directors, as shall from time to time be fixed exclusively by resolution adopted by affirmative vote of a majority of the total number of Directors that the Corporation would have if there are no vacancies on the Board of Directors. The directors shall be divided into three classes in the manner set forth in the Amended and Restated Certificate of Incorporation of the corporation, each class to be elected for the term set forth therein. Directors shall (except as hereinafter provided for the filling of vacancies and newly created directorships) be elected by the holders of a plurality of the voting power present in person or represented by proxy and entitled to vote. A majority of the total number of directors then in office (but not less than one-third of the number of directors constituting the entire Board of Directors) shall constitute a quorum for the transaction of business and, except as otherwise provided by law or by the corporation's Amended and Restated Certificate of Incorporation, the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. Directors need not be stockholders.

Section 2. Any newly created directorship on the Board of Directors that results from an increase in the number of directors shall, subject to the rights of holders of any shares of Preferred Stock, be filled only by a majority of the directors then in office, provided that a quorum is present. Any other vacancy may, subject to the rights of holders of any shares of Preferred Stock, be filled only by a majority of the Directors, although less than a quorum, or by a sole remaining director; and the directors so chosen shall hold office for a term as set forth in the Amended and Restated Certificate of Incorporation of the corporation. If any applicable provision of the General Corporation Law of the State of Delaware expressly confers power on stockholders to fill such a directorship at a special meeting of stockholders, such a directorship may be filled at such meeting only by the affirmative vote of at least 75 percent in voting power of all shares of the corporation entitled to vote generally in the election of directors, voting as a single class.

Section 3. Meetings of the Board of Directors shall be held at such place within or without the State of Delaware as may from time to time be fixed by resolution of the Board or as may be specified in the notice of any meeting. Regular meetings of the Board of Directors shall be held at such times as may from time to time be fixed by resolution of the Board and special meetings may be held at any time upon the call of the Chairman of the Board or the President, by oral, or written notice including, telegraph, telex or transmission of a telecopy,

e-mail or other means of transmission, duly served on or sent or mailed to each director to such director's address or telecopy number as shown on the books of the corporation not less than one day before the meeting. The notice of any meeting need not specify the purposes thereof. A meeting of the Board may be held without notice immediately after the annual meeting of stockholders at the same place at which such meeting is held. Notice need not be given of regular meetings of the Board held at times fixed by resolution of the Board. Notice of any meeting need not be given to any director who shall attend such meeting in person (except when the director attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened), or who shall waive notice thereof, before or after such meeting, in writing.

Section 4. Notwithstanding the foregoing, whenever the holders of any one or more series of Preferred Stock issued by the corporation shall have the right, voting separately by series, to elect directors at an annual or special meeting of stockholders, the election, term of office, removal, filling of vacancies and other features of such directorships shall be governed by the terms of the Amended and Restated Certificate of Incorporation applicable thereto, and such directors so elected shall not be divided into classes pursuant to Article SEVENTH of the Amended and Restated Certificate of Incorporation unless expressly provided by such terms. The number of directors that may be elected by the holders of any such series of Preferred Stock shall be in addition to the number fixed by or pursuant to the By-Laws. Except as otherwise expressly provided in the terms of such series, the number of directors that may be so elected by the holders of any such series of stock shall be elected for terms expiring at the next annual meeting of stockholders and without regard to the classification of the members of the Board of Directors as set forth in Section 1 hereof, and vacancies among directors so elected by the separate vote of the holders of any such series of Preferred Stock shall be filled by the affirmative vote of a majority of the remaining directors elected by such series, or, if there are no such remaining directors, by the holders of such series in the same manner in which such series initially elected a director.

Section 5. If at any meeting for the election of directors, the corporation has outstanding more than one class of stock, and one or more such classes or series thereof are entitled to vote separately as a class, and there shall be a quorum of only one such class or series of stock, that class or series of stock shall be entitled to elect its quota of directors notwithstanding absence of a quorum of the other class or series of stock.

Section 6. The Board of Directors may designate three or more directors to constitute an executive committee, one of whom shall be designated Chairman of such committee. The members of such committee shall hold such office until their successors are elected and qualify. Any vacancy occurring in the committee shall be filled by the Board of Directors. Regular meetings of the committee shall be held at such times and on such notice and at such places as it may from time to time determine. The committee shall act, advise with and aid the officers of the corporation in all matters concerning its interest and the management of its business, and shall generally perform such duties and exercise such powers as may from time to time be delegated to it by the Board of Directors, and shall have authority to exercise all the powers of the Board of Directors, so far as may be permitted by law, in the management of the business and the affairs of the corporation whenever the Board of Directors is not in session or

whenever a quorum of the Board of Directors fails to attend any regular or special meeting of such Board. The committee shall have power to authorize the seal of the corporation to be affixed to all papers which are required by the Delaware General Corporation Law to have the seal affixed thereto. The fact that the executive committee has acted shall be conclusive evidence that the Board of Directors was not in session at such time or that a quorum of the Board had failed to attend the regular or special meeting thereof.

The executive committee shall keep regular minutes of its transactions and shall cause them to be recorded in a book kept in the office of the corporation designated for that purpose, and shall report the same to the Board of Directors at their regular meeting. The committee shall make and adopt its own rules for the government thereof and shall elect its own officers.

Section 7. The Board of Directors may from time to time establish such other committees to serve at the pleasure of the Board which shall be comprised of such members of the Board and have such duties as the Board shall from time to time establish. Any director may belong to any number of committees of the Board. The Board may also establish such other committees with such members (whether or not directors) and such duties as the Board may from time to time determine.

Section 8. Unless otherwise restricted by the Amended and Restated Certificate of Incorporation or these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors.

Section 9. The members of the Board of Directors or any committee thereof may participate in a meeting of such Board or committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this subsection shall constitute presence in person at such a meeting.

Section 10. The Board of Directors may establish policies for the compensation of directors and for the reimbursement of the expenses of directors, in each case, in connection with services provided by directors to the corporation.

ARTICLE III.

OFFICERS

Section 1. The Board of Directors, as soon as may be after each annual meeting of the stockholders, shall elect officers of the corporation, including a Chairman of the Board or President and a Secretary. The Board of Directors may also from time to time elect such other officers (including one or more Vice Presidents, a Treasurer, one or more Assistant Vice Presidents, one or more Assistant Secretaries and one or more Assistant Treasurers) as it may

deem proper or may delegate to any elected officer of the corporation the power to appoint and remove any such other officers and to prescribe their respective terms of office, authorities and duties. Any Vice President may be designated Executive, Senior or Corporate, or may be given such other designation or combination of designations as the Board of Directors may determine. Any two or more offices may be held by the same person.

Section 2. All officers of the corporation elected by the Board of Directors shall hold office for such term as may be determined by the Board of Directors or until their respective successors are chosen and qualified. Any officer may be removed from office at any time either with or without cause by the affirmative vote of a majority of the members of the Board then in office, or, in the case of appointed officers, by any elected officer upon whom such power of removal shall have been conferred by the Board of Directors.

Section 3. Each of the officers of the corporation elected by the Board of Directors or appointed by an officer in accordance with these By-laws shall have the powers and duties prescribed by law, by the By-Laws or by the Board of Directors and, in the case of appointed officers, the powers and duties prescribed by the appointing officer, and, unless otherwise prescribed by the By-Laws or by the Board of Directors or such appointing officer, shall have such further powers and duties as ordinarily pertain to that office. The Chairman of the Board or the President, as determined by the Board of Directors, shall be the Chief Executive Officer and shall have the general direction of the affairs of the corporation.

Section 4. Unless otherwise provided in these By-Laws, in the absence or disability of any officer of the corporation, the Board of Directors may, during such period, delegate such officer's powers and duties to any other officer or to any director and the person to whom such powers and duties are delegated shall, for the time being, hold such office.

ARTICLE IV.

CERTIFICATES OF STOCK

Section 1. The shares of stock of the corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of the corporation's stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by the Chairman of the Board of Directors, or the President or a Vice President, and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the corporation, or as otherwise permitted by law, representing the number of shares registered in certificate form. Any or all the signatures on the certificate may be a facsimile.

Section 2. Transfers of stock shall be made on the books of the corporation by the holder of the shares in person or by such holder's attorney upon surrender and cancellation of

certificates for a like number of shares, or as otherwise provided by law with respect to uncertificated shares.

Section 3. No certificate for shares of stock in the corporation shall be issued in place of any certificate alleged to have been lost, stolen or destroyed, except upon production of such evidence of such loss, theft or destruction and upon delivery to the corporation of a bond of indemnity in such amount, upon such terms and secured by such surety, as the Board of Directors in its discretion may require.

ARTICLE V.

CORPORATE BOOKS

The books of the corporation may be kept outside of the State of Delaware at such place or places as the Board of Directors may from time to time determine.

ARTICLE VI.

CHECKS, NOTES, PROXIES, ETC.

All checks and drafts on the corporation's bank accounts and all bills of exchange and promissory notes, and all acceptances, obligations and other instruments for the payment of money, shall be signed by such officer or officers or agent or agents as shall be hereunto authorized from time to time by the Board of Directors. Proxies to vote and consents with respect to securities of other corporations owned by or standing in the name of the corporation may be executed and delivered from time to time on behalf of the corporation by the Chairman of the Board, the President, or by such officers as the Board of Directors may from time to time determine.

ARTICLE VII.

FISCAL YEAR

The fiscal year of the corporation shall begin on the first day of January in each year and shall end on the thirty-first day of December following.

ARTICLE VIII.

CORPORATE SEAL

The corporate seal shall have inscribed thereon the name of the corporation. In lieu of the corporate seal, when so authorized by the Board of Directors or a duly empowered committee thereof, a facsimile thereof may be impressed or affixed or reproduced.

ARTICLE IX.

AUDITS

The accounts, books and records of the Corporation shall be audited upon the conclusion of each fiscal year by an independent certified public accountant, and it shall be the duty of the Board of Directors to cause such audit to be made annually.

ARTICLE X.

AMENDMENTS

These By-Laws may be amended, added to, rescinded or repealed at any meeting of the Board of Directors or of the stockholders, provided notice of the proposed change was given in the notice of the meeting of the stockholders or, in the case of a meeting of the Board of Directors, in a notice given not less than two days prior to the meeting; provided, however, that, notwithstanding any other provisions of these By-Laws or any provision of law which might otherwise permit a lesser vote of the stockholders, the affirmative vote of the holders of at least 75 percent in voting power of all shares of the corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required in order for the stockholders to alter, amend or repeal Section 2 and Section 11 of Article I, Sections 1 and 2 of Article II or this proviso to this Article X of these By-Laws or to adopt any provision inconsistent with any of such Sections or with this proviso.

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[LOGO OF JPMORGAN]

CREDIT AGREEMENT

dated as of

December 28, 2001

among

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

The Lenders Party Hereto

and

JPMORGAN CHASE BANK,
as Administrative Agent

JPMORGAN CHASE BANK,
as Arranger

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EXHIBITS:

- Exhibit A -- Form of Assignment and Acceptance
- Exhibit B -- Form of Opinion of Borrower's Counsel
- Exhibit C -- Form of Subsidiary Guaranty

CREDIT AGREEMENT dated as of December 28, 2001, among HEIDRICK & STRUGGLES INTERNATIONAL, INC., the LENDERS party hereto, and JPMORGAN CHASE BANK, as Administrative Agent.

The parties hereto agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"ABR", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Acquisition Amount" means (i) \$15,000,000 during such time when the Fixed Charge Coverage Ratio, computed on a pro forma basis immediately before and immediately after giving effect to the relevant Permitted Acquisition, is equal to or greater than 1.25 to 1.00 and (ii) \$10,000,000 at all other times.

"Adjusted LIBO Rate" means, with respect to any Eurocurrency Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

"Administrative Agent" means JPMorgan Chase Bank, in its capacity as administrative agent for the Lenders hereunder.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Agreed Currencies" means (i) Dollars, (ii) the Euro, and (iii) any other Eligible Currency which the Borrower requests the Administrative Agent to include as an Agreed Currency hereunder and which is acceptable to all of the Lenders.

"Alternate Base Rate" means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate, respectively.

"Applicable Percentage" means, with respect to any Lender, the percentage of the total Commitments represented by such Lender's Commitment. If the Commitments have terminated or expired, the Applicable Percentages shall be determined based upon the Commitments most recently in effect, giving effect to any assignments.

"Applicable Rate" means, for any day, with respect to any ABR Loan or Eurocurrency Revolving Loan, or with respect to the facility fees payable hereunder, as the case may be, the applicable rate per annum set forth below under the caption "ABR Spread", "Eurocurrency Spread" or "Facility Fee Rate", as the case may be, based upon the Fixed Charge Coverage Ratio as reflected in the then most recently delivered Financials:

| Fixed Charge Coverage Ratio: | ABR Spread | Eurocurrency Spread | Facility Fee Rate |
|--|------------|---------------------|-------------------|
| Category 1: Less than 1.75:1.00 | 0.125% | 1.125% | 0.375% |
| Category 2: Greater than or equal to 1.75:1.00 but less than 2.5:1.00 | 0% | 1.000% | 0.25% |
| Category 3: Greater than or equal to 2.50:1.00 | 0% | 0.80% | 0.20% |

For purposes of the foregoing,

(i) if the Borrower fails to deliver the Financials to the Administrative Agent at the time required pursuant to Section 5.01, then the Fixed Charge Coverage Ratio shall be deemed to be Category 1 above until five Business Days after such Financials are so received;

(ii) adjustments, if any, to the Applicable Rate shall be effective five Business Days after the Administrative Agent has received the applicable Financials (it being understood and agreed that each change in the Applicable Rate shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change);

(iii) notwithstanding the foregoing, during the period commencing on the date hereof and ending on the date the Borrower has delivered to the Administrative Agent the Financials for the Borrower's fiscal quarter ending June 30, 2002, the Fixed Charge Coverage Ratio shall be deemed to be Category 1 above; and

(iv) each determination of the Applicable Rate made by the Administrative Agent in accordance with the foregoing shall be conclusive and binding on the Borrower and each Lender if reasonably determined.

"Approximate Equivalent Amount" of any currency with respect to any amount of Dollars shall mean the Equivalent Amount of such currency with respect to such amount of

Dollars on or as of such date, rounded up to the nearest amount of such currency as determined by the Administrative Agent from time to time.

"Assessment Rate" means, for any day, the annual assessment rate in effect on such day that is payable by a member of the Bank Insurance Fund classified as "well-capitalized" and within supervisory subgroup "B" (or a comparable successor risk classification) within the meaning of 12 C.F.R. Part 327 (or any successor provision) to the Federal Deposit Insurance Corporation for insurance by such Corporation of time deposits made in the relevant currency at the offices of such member in the United States; provided that if, as a result of any change in any law, rule or regulation, it is no longer possible to determine the Assessment Rate as aforesaid, then the Assessment Rate shall be such annual rate as shall be determined by the Administrative Agent to be representative of the cost of such insurance to the Lenders.

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

"Availability Period" means the period from and including the Effective Date to but excluding the earlier of the Maturity Date and the date of termination of the Commitments.

"Base CD Rate" means the sum of (a) the Three-Month Secondary CD Rate multiplied by the Statutory Reserve Rate plus (b) the Assessment Rate.

"Board" means the Board of Governors of the Federal Reserve System of the United States of America.

"Borrower" means Heidrick & Struggles International, Inc., a Delaware corporation.

"Borrowing" means Revolving Loans of the same Type, made, converted or continued on the same date and, in the case of Eurocurrency Loans, in the same Agreed Currency and as to which a single Interest Period is in effect.

"Borrowing Request" means a request by the Borrower for a Revolving Borrowing in accordance with Section 2.03.

"Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided that, when used in connection with a Eurocurrency Loan, the term "Business Day" shall also include any day on which banks are not open for dealings in Dollars and other Agreed Currencies in the London interbank market (and, if the Borrowings or LC Disbursements which are the subject of a borrowing, drawing, payment, reimbursement or rate selection are denominated in Euro, a day upon which such clearing system as is determined by the Administrative Agent to be suitable for clearing or settlement of Euro is open for business).

"Capital Expenditures" means, without duplication, any expenditures for any purchase or other acquisition of any asset which would be classified as a fixed or capital asset on a consolidated balance sheet of the Borrower and its Subsidiaries prepared in accordance with GAAP.

"Capital Lease Obligations" of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"Capital Stock" means (i) in the case of a corporation, corporate stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, (iii) in the case of a partnership, partnership interests (whether general or limited) and (iv) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Change in Control" means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof), of shares representing more than 20% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Borrower, (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of the Borrower by Persons who were neither (i) nominated by the board of directors of the Borrower nor (ii) appointed by directors so nominated; or (c) the acquisition of direct or indirect Control of the Borrower by any Person or group.

"Change in Law" means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or the Issuing Bank (or, for purposes of Section 2.15(b), by any lending office of such Lender or by such Lender's or the Issuing Bank's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"Class", when used in reference to any Loan or Borrowing, refers to such Loan, or the Loans comprising such Borrowing, as Revolving Loans.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" means all pledged Capital Stock in or upon which a security interest or Lien is from time to time granted to the Administrative Agent, for the benefit of the Holders of Secured Obligations, whether under the Pledge Agreements, under any of the other Collateral Documents or under any of the other Loan Documents.

"Collateral Documents" means all agreements, instruments and documents executed in connection with this Agreement, including, without limitation, the Pledge Agreements and all other security agreements, loan agreements, notes, guarantees, subordination agreements, pledges, powers of attorney, consents, assignments, contracts, fee letters, notices, leases, financing statements and all other written matter whether heretofore, now, or hereafter executed by or on behalf of the Borrower or any of its Subsidiaries and delivered to the Administrative Agent or any of the Lenders, together with all agreements and documents referred to therein or contemplated thereby.

"Commitment" means, with respect to each Lender, the commitment of such Lender to make Revolving Loans and to acquire participations in Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's Revolving Credit Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Commitment is set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Commitment, as applicable. The initial aggregate amount of the Lenders' Commitments is \$ 50,000,000.

"Computation Date" is defined in Section 2.04.

"Consolidated Capital Expenditures" means, with reference to any period, the Capital Expenditures of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

"Consolidated EBITDA" means Consolidated Operating Income plus, (i) Consolidated Interest Income, (ii) depreciation, (iii) amortization and (iv) the Designated Charges, all calculated for the Borrower and its Subsidiaries in accordance with GAAP on a consolidated basis.

"Consolidated Interest Expense" means, with reference to any period, the interest expense (including without limitation interest expense under Capital Lease Obligations that is treated as interest in accordance with GAAP) of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

"Consolidated Interest Income" means, with reference to any period, the interest income of the Borrower and its Subsidiaries calculated in accordance with GAAP on a consolidated basis.

"Consolidated Operating Expenses" means, with reference to any period, expenses related to salaries, employee benefits and general and administrative expenses, all calculated for the Borrower and its Subsidiaries on a consolidated basis for such period and otherwise in accordance with GAAP.

"Consolidated Operating Income" means, with reference to any period, the gross revenues less Consolidated Operating Expenses, all calculated for the Borrower and its Subsidiaries on a consolidated basis for such period and as calculated in the manner disclosed by the Borrower in its Annual Report on Form 10-K for the fiscal year ended December 31, 2000..

"Consolidated Tangible Net Worth" means at any time the consolidated stockholders' equity of the Borrower and its Subsidiaries, less the amount of goodwill and all other intangible assets under GAAP, in each case calculated on a consolidated basis as of such time.

"Consolidated Total Indebtedness" means at any time the aggregate Indebtedness of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Country Risk Event" means:

(i) any law, action or failure to act by any Governmental Authority in the Borrower's or Letter of Credit beneficiary's country which has the effect of:

(a) changing the obligations under the relevant Letter of Credit, the Credit Agreement or any of the other Loan Documents as originally agreed,

(b) changing the ownership or control by the Borrower or Letter of Credit beneficiary of its business, or

(c) preventing or restricting the conversion into or transfer of the applicable Agreed Currency;

(ii) force majeure; and

(iii) any similar event

which, in relation to (i), (ii) and (iii), directly or indirectly, prevents or restricts the payment or transfer or any amounts owing under the relevant Letter of Credit in the applicable Agreed Currency into an account designated by the Administrative Agent or the Issuing Bank and freely available to the Administrative Agent or the Issuing Bank.

"Credit Event" means a Borrowing, a LC Disbursement or both.

"Default" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Designated Charges" means, to the extent deducted from gross revenues in computing Consolidated Operating Income, the aggregate of (i) nonrecurring compensation charges, (ii) nonrecurring general and administrative charges, (iii) special charges, all calculated for the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP; provided that at no time shall the aggregate amount of Designated Charges exceed \$65,435,000 for all fiscal periods on and after January 1, 2001.

"Disclosed Matters" means the actions, suits and proceedings and the environmental matters disclosed in Schedule 3.06.

"Dollar Amount" of any currency at any date shall mean (i) the amount of such currency if such currency is Dollars or (ii) the equivalent in such currency of such amount of Dollars if such currency is any currency other than Dollars, calculated on the basis of the arithmetical mean of the buy and sell spot rates of exchange of the Administrative Agent for such currency on the London market at 11:00 a.m., London time, on or as of the most recent Computation Date provided for in Section 2.04.

"Dollars" or "\$" refers to lawful money of the United States of America.

"Domestic Subsidiary" means a Subsidiary organized under the laws of a jurisdiction located in the United States of America.

"Effective Date" means the date on which the conditions specified in Section 4.01 are satisfied (or waived in accordance with Section 9.02).

"Eligible Currency" means any currency other than Dollars (i) that is the lawful currency of a country located in Europe, (ii) that is readily available, (iii) that is freely traded, (iv) in which deposits are customarily offered to banks in the London interbank market, (v) which is convertible into Dollars in the international interbank market and (vi) as to which an Equivalent Amount may be readily calculated. If, after the designation by the Lenders of any currency as an Agreed Currency, (x) currency control or other exchange regulations are imposed in the country in which such currency is issued with the result that different types of such currency are introduced, (y) such currency is, in the commercially reasonable determination of the Administrative Agent, no longer readily available or freely traded or (z) in the commercially reasonable determination of the Administrative Agent, an Equivalent Amount of such currency is not readily calculable, the Administrative Agent shall promptly notify the Lenders and the Borrower, and such currency shall no longer be an Agreed Currency until such time as all of the Lenders agree to reinstate such currency as an Agreed Currency and promptly, but in any event within five (5) Business Days of receipt of such notice from the Administrative Agent, the Borrower shall repay all Loans and reimburse all LC Disbursements in such affected currency or convert such Loans and LC Disbursements into Loans and LC Disbursements in Dollars or another Agreed Currency, subject to the other terms set forth in Article II.

"Environmental Laws" means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or

threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"Equivalent Amount" of any currency with respect to any amount of Dollars at any date shall mean the equivalent in such currency of such amount of Dollars, calculated on the basis of the arithmetical mean of the buy and sell spot rates of exchange of the Administrative Agent for such other currency at 11:00 a.m., London time, on the date on or as of which such amount is to be determined.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"Euro" and/or "EUR" means the euro referred to in Council Regulation (EC) No. 1103/97 dated June 17, 1997 passed by the Council of the European Union, or, if different, the then lawful currency of the member states of the European Union that participate in the third stage of Economic and Monetary Union.

"Euro Implementation Date" means January 1, 1999.

"Eurocurrency", when used in reference to a currency means any Agreed Currency and when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"Eurocurrency Payment Office" of the Administrative Agent shall mean, for each of the Agreed Currencies, the office, branch, affiliate or correspondent bank of the Administrative Agent for such currency as specified from time to time by the Administrative Agent to the Borrower and each Lender. On the date hereof, the Eurocurrency Payment Office for each Agreed Currency is 270 Park Avenue, New York, New York.

"Event of Default" has the meaning assigned to such term in Article VII.

"Excluded Taxes" means, with respect to the Administrative Agent, any Lender, the Issuing Bank or any other recipient of any payment to be made by or for, account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.19(b)), any withholding tax that (i) is in effect and would apply to amounts payable under the Loan Documents to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.17(a) or (ii) is attributable to such Foreign Lender's failure to comply with Section 2.17(e).

"Existing Credit Agreement" means that certain Revolving Credit Agreement dated as of December 14, 1998 between the Borrower, the lenders party thereto and The Northern Trust Company as administrative agent.

"Federal Funds Effective Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Financial Officer" means the chief financial officer, principal accounting officer, treasurer or controller of the Borrower.

"Financials" means the annual or quarterly financial statements of the Borrower required to be delivered pursuant to Section 5.01(a) or 5.01(b).

"First Tier Foreign Subsidiary" means each Foreign Subsidiary with respect to which any one or more of the Borrower and its Domestic Subsidiaries directly owns or controls more than 50% of such Foreign Subsidiary's Capital Stock.

"Fixed Charge Coverage Ratio" is defined in Section 6.12.2.

"Foreign Lender" means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"Foreign Pledge Event" means any time when (i) the consolidated gross revenues for the most recent fiscal quarter of the Borrower for which financial statements have been delivered pursuant to Section 5.01, or the consolidated tangible assets as of the end of such fiscal quarter, of any Unpledged Subsidiary exceed five percent (5%) of the Borrower's consolidated gross revenues for such quarter or five percent (5%) of the Borrower's consolidated tangible assets as of such date or (ii) the aggregate amount of the consolidated gross revenues or consolidated tangible assets of Unpledged Subsidiaries shall at any time exceed twenty-five percent (25%) of the Borrower's consolidated gross revenues for any such fiscal quarter or twenty-five percent (25%) of the Borrower's consolidated tangible assets as of such time.

"Foreign Subsidiary" means a Subsidiary of the Borrower which is not a Domestic Subsidiary.

"GAAP" means generally accepted accounting principles in the United States of America.

"German Subsidiary" means Heidrick & Struggles Unternehmensberatung GmbH & Co. KG, a limited partnership organized under the laws of German and a wholly-owned Subsidiary of the Borrower.

"Governmental Authority" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Guarantee" of or by any Person (the "guarantor") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; provided, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Hedging Agreement" means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

"Holders of Secured Obligations" means the holders of the Obligations from time to time and shall include (i) each Lender and the Issuing Bank in respect of its Credit Events, (ii) the Administrative Agent and the Lenders in respect of all other present and future obligations and liabilities of the Borrower and each Subsidiary of every type and description arising under or in connection with the Credit Agreement or any other Loan Document, (iii) each Lender and affiliate of such Lender in respect of Hedging Agreements entered into with such Person by the Borrower or any Subsidiary, (iv) each indemnified party under Section 9.03 in respect of the obligations and liabilities of the Borrower to such Person hereunder and under the other Loan Documents, and (v) their respective successors, transferees and assigns.

"Hostile Acquisition" means (x) the acquisition of the Capital Stock of a Person through a tender offer or similar solicitation of the owners of such Capital Stock which has not been approved (prior to such acquisition) by resolutions of the Board of Directors of such Person or by similar action if such Person is not a corporation and (y) any such acquisition as to which such approval has been withdrawn.

"Indebtedness" of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (j) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor.

"Indemnified Taxes" means Taxes other than Excluded Taxes.

"Information Memorandum" means the Confidential Information Memorandum dated November 26, 2001 relating to the Borrower and the Transactions.

"Initial Subsidiary Guarantor" means Heidrick & Struggles, Inc., a Delaware corporation and a Subsidiary.

"Interest Election Request" means a request by the Borrower to convert or continue a Revolving Borrowing in accordance with Section 2.08.

"Interest Payment Date" means (a) with respect to any ABR Loan, the last day of each March, June, September and December and (b) with respect to any Eurocurrency Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurocurrency Borrowing with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period.

"Interest Period" means with respect to any Eurocurrency Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months (or, with the consent of each Lender, nine or twelve months) thereafter, as the Borrower may elect, provided, that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (ii) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and, in the case of a Revolving Borrowing, thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

"Issuing Bank" means JPMorgan Chase Bank, in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.06(i). The Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term "Issuing Bank" shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

"LC Disbursement" means a payment made by the Issuing Bank pursuant to a Letter of Credit.

"LC Exposure" means, at any time, the sum of (a) the aggregate undrawn Dollar Amount of all outstanding Letters of Credit at such time plus (b) the aggregate Dollar Amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Lender at any time shall be its Applicable Percentage of the total LC Exposure at such time.

"LeadersOnline" means LeadersOnline, Inc., a Delaware corporation and a Subsidiary.

"Lenders" means the Persons listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance.

"Lender Affiliate" means, (a) with respect to any Lender, (i) an Affiliate of such Lender or (ii) any entity (whether a corporation, partnership, trust or otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by a Lender that is a fund which invests in bank loans and similar extensions of credit, any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

"Letter of Credit" means any letter of credit issued pursuant to this Agreement.

"LIBO Rate" means, with respect to any Eurocurrency Borrowing for any Interest Period, the rate appearing on the appropriate page of the Telerate Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to deposits in the relevant Agreed Currency in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for deposits in the relevant Agreed Currency with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the "LIBO Rate" with respect to such Eurocurrency Borrowing for such Interest Period shall be the rate at which deposits in the relevant Agreed Currency of \$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Loan Documents" mean this Agreement, any promissory notes executed and delivered pursuant to Section 2.10(e), the Subsidiary Guaranty, the Collateral Documents and any and all other instruments and documents executed and delivered in connection with any of the foregoing.

"Loans" means the loans made by the Lenders to the Borrower pursuant to this Agreement.

"Material Adverse Change" means any event, development or circumstance that has or could reasonably be expected to have a Material Adverse Effect.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, property, operations, prospects or condition, financial or otherwise, of the Borrower and the Subsidiaries taken as a whole, (b) the ability of the Borrower to perform any of its obligations under this Agreement or (c) the validity or enforceability of any of the Loan Documents or the rights of or benefits available to the Administrative Agent and the Lenders under this Agreement and the other Loan Documents.

"Material Indebtedness" means Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Hedging Agreements, of any one or more of the Borrower and its Subsidiaries in an aggregate principal amount exceeding \$2,500,000. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of the Borrower or any Subsidiary in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Borrower or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

"Maturity Date" means December 28, 2004.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"National Currency Unit" means the unit of currency (other than a Euro unit) of each member state of the European Union that participates in the third stage of Economic and Monetary Union.

"Net Cash Proceeds" means cash and cash equivalent proceeds received by or for a Person's account with respect to any offering of equity securities of such Person, net of reasonable legal fees, underwriting discounts or commissions, and other reasonable and customary fees and expenses incurred as a direct result thereof.

"New Money Credit Event" means with respect to the Issuing Bank, any increase (directly or indirectly) in the Issuing Bank's exposure (whether by way of additional credit or banking facilities or otherwise, including as part of a restructuring) to the Borrower, any Governmental Authority in the Borrower's or any applicable Letter of Credit beneficiary's country occurring by reason of (i) any law, action or requirement of any Governmental Authority in the Borrower's or such Letter of Credit beneficiary's country, or (ii) any request in respect of external indebtedness of borrowers in the Borrower's or such Letter of Credit beneficiary's country applicable to banks generally which conduct business with such borrowers, or (iii) any agreement in relation to clause (i) or (ii), in each case to the extent calculated by reference to the aggregate Revolving Credit Exposures outstanding prior to such increase.

"Obligations" means all Loans, LC Disbursements, advances, debts, liabilities, obligations, covenants and duties owing by the Borrower or any Subsidiary Guarantor to the Administrative Agent, any Lender, the Issuing Bank, any Affiliate of the Agent or any Lender, the Issuing Bank, or any indemnified Person hereunder, of any kind or nature, present or future, arising under this Agreement, the Subsidiary Guaranty, any Collateral Document or any other Loan Document, whether or not evidenced by any note, guaranty or other instrument, whether or

not for the payment of money, whether arising by reason of an extension of credit, loan, guaranty, indemnification, or in any other manner, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, all interest, charges, expenses, fees, attorneys' fees and disbursements, paralegals' fees (in each case whether or not allowed), and any other sum chargeable to the Borrower or any Subsidiary Guarantor under this Agreement or any other Loan Document.

"Operating Lease" of a Person means any lease of property (other than a capital lease under GAAP) by such Person as lessee which has an original term (including any required renewals and any renewals effective at the option of the lessor) of one year or more.

"Operating Lease Obligations" means, as at any date of determination, the amount obtained by aggregating the present values, determined in the case of each particular Operating Lease by applying a discount rate (which discount rate shall equal the discount rate which would be applied under GAAP if such Operating Lease were a capital lease under GAAP) from the date on which each fixed lease payment is due under such Operating Lease to such date of determination, of all fixed lease payments due under all Operating Leases of the Borrower and its Subsidiaries.

"Other Taxes" means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"Permitted Acquisition" means any acquisition (whether by purchase, merger, consolidation or otherwise but excluding in any event a Hostile Acquisition) by the Borrower or any Subsidiary of all or substantially all the assets of, or all the Capital Stock in, a Person or division or line of business of a Person if, at the time of and immediately after giving effect thereto, (a) no Default has occurred and is continuing or would result therefrom, (b) the principal business of such Person shall be reasonably related to a business in which the Borrower and the Subsidiaries were engaged on the Effective Date, (c) each Subsidiary formed for the purpose of or resulting from such acquisition shall, to the extent required by the definition of Subsidiary Guarantor (in the case of a Domestic Subsidiary) or by the definition of Foreign Pledge Event (in the case of a Foreign Subsidiary) be a Subsidiary Loan Party and all of the Capital Stock of such Subsidiary Loan Party shall be owned directly by the Borrower or, to the extent so required by such definitions, a Subsidiary Loan Party, and all actions required to be taken with respect to such acquired or newly formed Subsidiary under Sections 5.9 and 5.10 shall have been taken, (d) the Borrower and the Subsidiaries are in compliance, on a pro forma basis after giving effect to such acquisition (without giving effect to any cost savings other than those actually realized as of the date of such acquisition or otherwise approved in writing by the Administrative Agent), with the covenants contained in Section 6.12 recomputed as of the last day of the most recently ended fiscal quarter of the Borrower for which financial statements are available, as if such acquisition (and any related incurrence or repayment of Indebtedness, with any new Indebtedness being

deemed to be amortized over the applicable testing period in accordance with its terms) had occurred on the first day or each relevant period for testing such compliance and (e) the Borrower has delivered to the Administrative Agent an officers' certificate to the effect set forth in clauses (a), (b), (c) and (d) above, together with all relevant financial information for the Person or assets to be acquired and reasonably detailed calculations demonstrating satisfaction of the requirement set forth in clause (d) above.

"Permitted Encumbrances" means:

(a) Liens imposed by law for taxes that are not yet due or are being contested in compliance with Section 5.04;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than 45 days or are being contested in compliance with Section 5.04;

(c) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations;

(d) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;

(e) judgment liens in respect of judgments that do not constitute an Event of Default under clause (k) of Article VII; and

(f) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of the Borrower or any Subsidiary; provided that the term "Permitted Encumbrances" shall not include any Lien securing Indebtedness other than the Liens permitted under Section 6.02.

"Permitted Investments" means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;

(b) investments in commercial paper maturing within 270 days from the date of acquisition thereof and having, at such date of acquisition, the highest credit rating obtainable from S&P or from Moody's;

(c) investments in certificates of deposit, banker's acceptances and time deposits maturing within 180 days from the date of acquisition thereof issued or guaranteed by or placed

with, and money market deposit accounts issued or offered by, any office of any commercial bank; provided that such investments shall not constitute Permitted Investments if, by no later than 120 days from the date hereof, any such commercial bank issuing or offering such deposit accounts has a combined capital and surplus and undivided profits of less than \$500,000,000;

(d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria described in clause (c) above;

(e) securities issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof having maturities of not more than six months from the date of acquisition thereof and, at the time of acquisition, having one of the two highest credit ratings obtainable from S&P or from Moody's; and

(f) securities issued by any foreign government or any political subdivision of any foreign government or any public instrumentality thereof having maturities of not more than six months from the date of acquisition thereof and, at the time of acquisition thereof and, at the time of acquisition, having one of the two highest credit ratings obtainable from S&P or from Moody's and

(g) investments in the funds that invest solely in one or more types of securities described in clauses (a), (b), (c), (d), (e) and (f) above.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Pledge Agreements" means the pledge agreements, share mortgages, charges and comparable instruments and documents from time to time executed pursuant to the terms of Section 5.10 in favor of the Administrative Agent for the benefit of the Holders of Secured Obligations as amended, restated, supplemented or otherwise modified from time to time.

"Pledged Subsidiary" means each Foreign Subsidiary a portion of the Capital Stock of which has been pledged pursuant to a Pledge Agreement in accordance with Section 5.10.

"Prime Rate" means the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

"Register" has the meaning set forth in Section 9.04.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to member banks of the Federal Reserve System.

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"Required Lenders" means, at any time, Lenders having Revolving Credit Exposures and unused Commitments representing at least 66 2/3% of the sum of the total Revolving Credit Exposures and unused Commitments at such time.

"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other property) with respect to any shares of any class of capital stock of the Borrower or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such shares of capital stock of the Borrower or any option, warrant or other right to acquire any such shares of capital stock of the Borrower.

"Revolving Credit Exposure" means, with respect to any Lender at any time, the sum of the outstanding principal Dollar Amount of such Lender's Revolving Loans and its LC Exposure at such time.

"Revolving Loan" means a Loan made pursuant to Section 2.03.

"S&P" means Standard & Poor's.

"Secured Obligations" means, collectively, (i) the Obligations and (ii) all indebtedness, obligations and liabilities under Hedging Agreements to any Lender or any Affiliate of a Lender.

"Statutory Reserve Rate" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject (a) with respect to the Base CD Rate, for new negotiable nonpersonal time deposits in the relevant currency of over \$100,000 (or the Approximate Equivalent Amount in the case of a currency other than Dollars) with maturities approximately equal to three months and (b) with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurocurrency Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable

regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Subordinated Indebtedness" of a Person means Indebtedness of a Person the payment of which is subordinated to the payment of the Indebtedness hereunder to the reasonable written satisfaction of the Required Lenders.

"subsidiary" means, with respect to any Person (the "parent") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Subsidiary" means any subsidiary of the Borrower.

"Subsidiary Guarantor" means each Domestic Subsidiary (i) the consolidated gross revenues of which for the most recent fiscal quarter of the Borrower for which financial statements have been delivered pursuant to Section 5.01 were greater than five percent (5%) of the Borrower's consolidated gross revenues for such fiscal quarter or (ii) the consolidated tangible assets of which as of the end of such fiscal quarter were greater than five percent (5%) of the Borrower's consolidated tangible assets as of such date; provided that, if at any time the aggregate amount of the consolidated gross revenues or consolidated tangible assets of all Domestic Subsidiaries that are not Subsidiary Guarantors exceeds fifteen percent (15%) of the Borrower's consolidated gross revenues for any such fiscal quarter or fifteen percent (15%) of the Borrower's consolidated tangible assets as of the end of any such fiscal quarter, the Borrower (or, in the event the Borrower has failed to do so within ten days, the Administrative Agent) shall designate sufficient Domestic Subsidiaries as "Subsidiary Guarantors" to eliminate such excess, and such designated Domestic Subsidiaries shall for all purposes of this Agreement constitute Subsidiary Guarantors. Notwithstanding the foregoing, and subject to Section 5.09, LeadersOnline shall not be required to execute and deliver the Subsidiary Guaranty if LeadersOnline is merged, by no later than 30 days from the date hereof, with and into the Initial Subsidiary Guarantor. The Subsidiary Guarantors on the Effective Date are identified in Schedule 3.02 hereto.

"Subsidiary Guaranty" means that certain Guaranty (and any and all supplements thereto) executed by each Subsidiary Guarantor, in substantially the form of Exhibit C attached hereto, as amended, restated, supplemented or otherwise modified from time to time.

"Subsidiary Loan Party" means a Subsidiary Guarantor or a Pledged Subsidiary.

"Taxes" means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"Three-Month Secondary CD Rate" means, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day is not a Business Day, the next preceding Business Day) by the Board through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day) or, if such rate is not so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 a.m., New York City time, on such day (or, if such day is not a Business Day, on the next preceding Business Day) by the Administrative Agent from three negotiable certificate of deposit dealers of recognized standing selected by it.

"Transactions" means the execution, delivery and performance by the Borrower of this Agreement and by the Subsidiary Guarantors of the Subsidiary Guaranty, the borrowing of Loans, the use of the proceeds thereof and the issuance of Letters of Credit hereunder.

"Type", when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate.

"Unpledged Subsidiary" means each Foreign Subsidiary which is not a Pledged Subsidiary.

"Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a "Revolving Loan") or by Type (e.g., a "Eurocurrency Loan") or by Class and Type (e.g., a "Eurocurrency Revolving Loan"). Borrowings also may be classified and referred to by Class (e.g., a "Revolving Borrowing") or by Type (e.g., a "Eurocurrency Borrowing") or by Class and Type (e.g., a "Eurocurrency Revolving Borrowing").

SECTION 1.03. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and

Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.04. Accounting Terms;GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

ARTICLE II

The Credits

SECTION 2.01. Commitments. Subject to the terms and conditions set forth herein, each Lender agrees to make Revolving Loans to the Borrower in Agreed Currencies from time to time during the Availability Period in an aggregate principal amount that will not result in (a) such Lender's Revolving Credit Exposure exceeding the Dollar Amount of such Lender's Commitment or (b) the Dollar Amount of the sum of the total Revolving Credit Exposures exceeding the total Commitments for all the Lenders. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Loans.

SECTION 2.02. Loans and Borrowings.

(a) Each Revolving Loan shall be made as part of a Borrowing consisting of Revolving Loans made by the Lenders ratably in accordance with their respective Commitments. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 2.14, each Revolving Borrowing shall be comprised entirely of ABR Loans or Eurocurrency Loans as the Borrower may request in accordance herewith. Each ABR Loan shall only be made in Dollars. Each Lender at its option may make any Eurocurrency Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) At the commencement of each Interest Period for any Eurocurrency Revolving Borrowing, such Borrowing shall be in an aggregate amount that is an integral

multiple of \$250,000 and not less than \$1,000,000 (or the Approximate Equivalent Amount of each such amount if such Borrowing is denominated in an Agreed Currency other than Dollars). At the time that each ABR Revolving Borrowing is made, such Borrowing shall be in an aggregate amount that is an integral multiple of \$250,000 and not less than \$1,000,000; provided that an ABR Revolving Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Commitments or that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.06(e). Borrowings of more than one Type and Class may be outstanding at the same time; provided that (i) there shall not at any time be more than a total of five Eurocurrency Revolving Borrowings outstanding and (ii) the Borrower shall not be required to make any greater payment under Section 2.17 to the applicable Lender than such Lender would have been entitled to receive if such Lender had not exercised such option.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

SECTION 2.03. Requests for Revolving Borrowings. To request a Revolving Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurocurrency Borrowing, not later than 11:00 a.m., New York City time, three Business Days (in the case of a Eurocurrency Borrowing denominated in Dollars) or four Business Days (in the case of a Eurocurrency Borrowing denominated in an Agreed Currency other than Dollars) before the date of the proposed Borrowing or (b) in the case of an ABR Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of the proposed Borrowing; provided that any such notice of an ABR Revolving Borrowing to finance the reimbursement of an LC Disbursement as contemplated by Section 2.06(e) may be given not later than 10:00 a.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

- (i) the aggregate amount of the requested Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;
- (iii) whether such Borrowing is to be an ABR Borrowing or a Eurocurrency Borrowing;
- (iv) in the case of a Eurocurrency Borrowing, the Agreed Currency and initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period"; and
- (v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.07.

If no election as to the Type of Revolving Borrowing is specified, then the requested Revolving Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any

requested Eurocurrency Revolving Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

SECTION 2.04. Determination of Dollar Amounts; Required Payments. The Administrative Agent will determine the Dollar Amount of:

(a) each Borrowing as of the date three Business Days prior to the date of such Borrowing or, if applicable, date of conversion/continuation of such Advance, and

(b) all outstanding Credit Events on and as of the last Business Day of each quarter and on any other Business Day elected by the Administrative Agent in its discretion or upon instruction by the Required Lenders.

Each day upon or as of which the Administrative Agent determines Dollar Amounts as described in the preceding clauses (a) and (b) is herein described as a "Computation Date" with respect to each Credit Event for which a Dollar Amount is determined on or as of such day. If at any time the Dollar Amount of the sum of the aggregate principal amount of all outstanding Credit Events (calculated, with respect to those Credit Events denominated in Agreed Currencies other than Dollars, as of the most recent Computation Date with respect to each such Credit Event) exceeds the total Commitments for all the Lenders, the Borrower shall immediately repay Borrowings and cash collateralize LC Disbursements in an aggregate principal amount sufficient to eliminate any such excess.

SECTION 2.05. Reserved.

SECTION 2.06. Letters of Credit.

(a) General. Subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit denominated in an Agreed Currency for its own account, in a form reasonably acceptable to the Administrative Agent and the Issuing Bank, at any time and from time to time during the Availability Period. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control; provided, however, if the Issuing Bank is requested to issue Letters of Credit with respect to a jurisdiction the Issuing Bank deems, in its sole discretion, may at any time subject it to a New Money Credit Event, the Borrower shall, at the request of the Issuing Bank, guaranty and indemnify the Issuing Bank against any and all costs, liabilities and losses resulting from any New Money Credit Event in a form and substance satisfactory to the Issuing Bank.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing

Bank) to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the Dollar Amount of such Letter of Credit, the Agreed Currency applicable thereto, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the Dollar Amount of the sum of the LC Exposure shall not exceed \$15,000,000 and (ii) the total Revolving Credit Exposures shall not exceed the total Commitments.

(c) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date one year after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (ii) the date that is five Business Days prior to the Maturity Date.

(d) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Lender, and each Lender hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate Dollar Amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Lender's Applicable Percentage of each LC Disbursement made by the Issuing Bank and not reimbursed by the Borrower on the date due as provided in paragraph (e) of this Section, or of any reimbursement payment required to be refunded to the Borrower for any reason. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, New York City time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York City time, on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 12:00 noon, New York City time, on (i) the Business Day that the Borrower receives such notice, if such notice is received prior to 10:00 a.m., New York City time, on the day of receipt, or (ii) the Business Day immediately following the day that the Borrower receives such

notice, if such notice is not received prior to such time on the day of receipt; provided that the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 or 2.05 that such payment be financed with an ABR Revolving Borrowing in its Dollar Amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Revolving Borrowing. If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable Percentage thereof. Promptly following receipt of such notice, each Lender shall pay to the Administrative Agent its Applicable Percentage of the payment then due from the Borrower, in the same manner as provided in Section 2.07 with respect to Loans made by such Lender (and Section 2.07 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Lenders have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear. Any payment made by a Lender pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of ABR Revolving Loans as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of

(i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein,

(ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect,

(iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or

(iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. Neither the Administrative Agent, the Lenders nor the Issuing Bank, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in

interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by telecopy) of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Lenders with respect to any such LC Disbursement.

(h) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Revolving Loans (or in the case such LC Disbursement is denominated in an Agreed Currency other than Dollars, at the rate determined in good faith by the Issuing Bank to represent the Issuing Bank's cost of overnight or short-term funds in the applicable Agreed Currency plus the then effective Applicable Rate with respect to Eurocurrency Revolving Loans); provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section, then Section 2.13(c) shall apply. Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Lender pursuant to paragraph (e) of this Section to reimburse the Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) Replacement of the Issuing Bank. The Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of the Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 2.12(b). From and after the effective date of any such replacement, (i)

the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(j) Cash Collateralization. If any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Lenders with LC Exposure representing at least 51% of the total LC Exposure) demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall deposit in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Lenders, an amount in cash equal to the LC Exposure as of such date plus any accrued and unpaid interest thereon; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (h) or (i) of Article VII. Such deposit shall be held by the Administrative Agent as collateral for the payment and performance of the obligations of the Borrower under this Agreement. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse the Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or, if the maturity of the Loans has been accelerated (but subject to the consent of Lenders with LC Exposure representing at least 51% of the total LC Exposure), be applied to satisfy other obligations of the Borrower under this Agreement. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived.

SECTION 2.07. Funding of Borrowings.

(a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds (i) in the case of each Loan denominated in Dollars, by 12:00 noon, New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders and (ii) in the case of each Loan denominated in an Agreed Currency other than Dollars, by 12:00 noon, local time, in the city of the Administrative Agent's Eurocurrency Payment Office for such currency and at such Eurocurrency Payment Office for such currency. If any Borrowing made (or to be made) on or after the Euro Implementation Date would, but for the provisions of

this Section 2.07, be capable of being made in either the Euro or in a National Currency Unit, such Borrowing shall be made in the Euro. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower maintained with the Administrative Agent in New York City and designated by the Borrower in the applicable Borrowing Request; provided that ABR Revolving Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.06(e) shall be remitted by the Administrative Agent to the Issuing Bank.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

SECTION 2.08. Interest Elections.

(a) Each Revolving Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurocurrency Revolving Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurocurrency Revolving Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Revolving Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurocurrency Borrowing; and

(iv) if the resulting Borrowing is a Eurocurrency Borrowing, the Agreed Currency and Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurocurrency Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurocurrency Revolving Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period (i) in the case of a Borrowing denominated in Dollars, such Borrowing shall be converted to an ABR Borrowing and (ii) in the case of a Borrowing denominated in an Agreed Currency other than Dollars, such Borrowing shall automatically continue as a Eurocurrency Borrowing in the same Agreed Currency with an Interest Period of one month unless (x) such Eurocurrency Borrowing is or was repaid in accordance with Section 2.7 or (y) the Borrower shall have given the Administrative Agent an Interest Election Request requesting that, at the end of such Interest Period, such Eurocurrency Borrowing continue as a Eurocurrency Borrowing for the same or another Interest Period. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Revolving Borrowing may be converted to or continued as a Eurocurrency Borrowing and (ii) unless repaid, each Eurocurrency Revolving Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

SECTION 2.09. Termination and Reduction of Commitments.

(a) Unless previously terminated, the Commitments shall terminate on the Maturity Date.

(b) The Borrower may at any time terminate, or from time to time reduce, the Commitments; provided that (i) each reduction of the Commitments shall be in an amount that is

an integral multiple of \$1,000,000 and not less than \$5,000,000 and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans and reimbursement of LC Disbursements in accordance with Section 2.11, the Dollar Amount of the sum of the Revolving Credit Exposures would exceed the total Commitments.

(c) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Commitments under paragraph (b) of this Section at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Commitments shall be permanent. Each reduction of the Commitments shall be made ratably among the Lenders in accordance with their respective Commitments.

SECTION 2.10. Repayment of Loans; Evidence of Debt.

(a) The Borrower hereby unconditionally promises to pay (i) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Revolving Loan on the Maturity Date.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class, Agreed Currency and Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times

(including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.11. Prepayment of Loans.

(a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to (i) prior notice in accordance with paragraph (b) of this Section and (ii) the payment of the funding compensation required by Section 2.16.

(b) The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment hereunder (i) in the case of prepayment of a Eurocurrency Revolving Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of prepayment or (ii) in the case of prepayment of an ABR Revolving Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid, provided that, if a notice of prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.09, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.09. Promptly following receipt of any such notice relating to a Revolving Borrowing, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Revolving Borrowing shall be in an amount that would be permitted in the case of an advance of a Revolving Borrowing of the same Type as provided in Section 2.02. Each prepayment of a Revolving Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.13.

SECTION 2.12. Fees.

(a) (i) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a facility fee, which shall accrue at the Applicable Rate on the daily amount of the Commitment of such Lender (whether used or unused) during the period from and including the date hereof but excluding the date on which such Commitment terminates; provided that, if such Lender continues to have any Revolving Credit Exposure after its Commitment terminates, then such facility fee shall continue to accrue on the daily amount of such Lender's Revolving Credit Exposure from and including the date on which its Commitment terminates to but excluding the date on which such Lender ceases to have any Revolving Credit Exposure. Accrued facility fees shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which the Commitments terminate, commencing on the first such date to occur after the date hereof; provided that any facility fees accruing after the date on which the Commitments terminate shall be payable on demand. All facility fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(ii) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a utilization fee, which shall accrue at the rate of 0.125% on the average daily

Revolving Credit Exposures for such Lender during the period from and including the date when the total Revolving Credit Exposures for all the Lenders exceeds 50% of the total Commitments for all the Lenders to but excluding the date on which such Lender's Commitment terminates; provided that, if such Lender continues to have any Revolving Credit Exposure after its Commitment terminates, then such utilization fee shall continue to accrue on the daily amount of such Lender's Revolving Credit Exposure from and including the date on which its Commitment terminates to but excluding the date on which such Lender ceases to have any Revolving Credit Exposure. Accrued utilization fees shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which the Commitments terminate, commencing on the first such date to occur after the date hereof; provided that any utilization fee accruing after the date on which the Commitments terminate shall be payable on demand. All utilization fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(b) The Borrower agrees to pay (i) to the Administrative Agent for the account of each Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at the same Applicable Rate as interest on Eurocurrency Revolving Loans on the average daily amount of such Lender's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date on which such Lender's Commitment terminates and the date on which such Lender ceases to have any LC Exposure, and (ii) to the Issuing Bank a fronting fee, which shall accrue at the rate of 0.125% per annum on the average daily amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date of termination of the Commitments and the date on which there ceases to be any LC Exposure, as well as the Issuing Bank's standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including the last day of March, June, September and December of each year shall be payable on the third Business Day following such last day, commencing on the first such date to occur after the Effective Date; provided that all such fees shall be payable on the date on which the Commitments terminate and any such fees accruing after the date on which the Commitments terminate shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(d) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the Issuing Bank, in the case of fees payable to it) for distribution, in the case of facility fees and participation fees, to the Lenders. Fees paid shall not be refundable under any circumstances.

SECTION 2.13. Interest.

(a) The Loans comprising each ABR Borrowing shall bear interest at the Alternate Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurocurrency Borrowing shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding paragraphs of this Section or (ii) in the case of any other amount, 2% plus the rate applicable to ABR Loans as provided in paragraph (a) of this Section.

(d) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and, in the case of Revolving Loans, upon termination of the Commitments; provided that (i) interest accrued pursuant to paragraph (c) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Revolving Loan prior to the end of the Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any Eurocurrency Revolving Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest (i) computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and (ii) for Borrowings denominated in British Pounds Sterling shall be computed on the basis of a year of 365 days, and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate, Adjusted LIBO Rate or LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.14. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurocurrency Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to such Lenders (or Lender) of making or maintaining their Loans (or its Loan) included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent

notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Revolving Borrowing to, or continuation of any Revolving Borrowing as, a Eurocurrency Borrowing shall be ineffective, (ii) if any Borrowing Request requests a Eurocurrency Revolving Borrowing, such Borrowing shall be made as an ABR Borrowing; provided that if the circumstances giving rise to such notice affect only one Type of Borrowings, then the other Type of Borrowings shall be permitted.

SECTION 2.15. Increased Costs.

(a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or the Issuing Bank; or

(ii) impose on any Lender or the Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurocurrency Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurocurrency Loan or of maintaining its obligation to make any such Loan (including, without limitation, pursuant to any conversion of any Borrowing denominated in an Agreed Currency other than Euro into a Borrowing denominated in Euro) or to increase the cost to such Lender or the Issuing Bank of participating in, issuing or maintaining any Letter of Credit (including, without limitation, pursuant to any conversion of any Borrowing denominated in an Agreed Currency other than Euro into a Borrowing denominated in Euro) or to reduce the amount of any sum received or receivable by such Lender or the Issuing Bank hereunder, whether of principal, interest or otherwise (including, without limitation, pursuant to any conversion of any Borrowing denominated in an Agreed Currency other than Euro into a Borrowing denominated in Euro), then the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or the Issuing Bank determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the Issuing Bank, to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of a Lender or the Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or the Issuing Bank or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender or the Issuing Bank, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay on the part of any Lender or the Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or the Issuing Bank pursuant to this Section for any increased costs or reductions incurred more than 270 days prior to the date that such Lender or the Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the Issuing Bank's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 270-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.16. Break Funding Payments. In the event of

(a) the payment of any principal of any Eurocurrency Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default),

(b) the conversion of any Eurocurrency Loan other than on the last day of the Interest Period applicable thereto,

(c) the failure to borrow, convert, continue or prepay any Revolving Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.11(b) and is revoked in accordance therewith), or

(d) the assignment of any Eurocurrency Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.19, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of a Eurocurrency Loan, such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of

(i) the amount of interest which would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over

(ii) the amount of interest which would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the commencement of such period, for deposits in the relevant currency of a comparable amount and period from other banks in the eurocurrency market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive

pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.17. Taxes.

(a) Any and all payments by or on account of any obligation of the Borrower hereunder shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then

(i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or Issuing Bank (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made,

(ii) the Borrower shall make such deductions and

(iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent, each Lender and the Issuing Bank, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent, such Lender or the Issuing Bank, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or the Issuing Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or the Issuing Bank, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable

law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate.

SECTION 2.18. Payments Generally: Pro Rata Treatment: Sharing of Set-offs.

(a) The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under Section 2.15, 2.16 or 2.17, or otherwise) prior to (i) in the case of payments denominated in Dollars, 12:00 noon, New York City time and (ii) in the case of payments denominated in an Agreed Currency other than Dollars, 12:00 noon, local time, in the city of the Administrative Agent's Eurocurrency Payment Office for such currency, in each case on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made (i) in the same currency in which the applicable Credit Event was made (or where such currency has been converted to the Euro, in the Euro) and (ii) to the Administrative Agent at its offices at 270 Park Avenue, New York, New York or, in the case of a Borrowing denominated in an Agreed Currency other than Dollars, the Administrative Agent's Eurocurrency Payment Office, except payments to be made directly to the Issuing Bank as expressly provided herein and except that payments pursuant to Sections 2.15, 2.16, 2.17 and 9.03 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments denominated in the same currency received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. Notwithstanding the foregoing provisions of this Section, if, after the making of any Credit Event in any currency other than Dollars, currency control or exchange regulations are imposed in the country which issues such currency with the result that the type of currency in which the Credit Event was made (the "Original Currency") no longer exists or the Borrower is not able to make payment to the Administrative Agent for the account of the Lenders in such Original Currency, then all payments to be made by the Borrower hereunder in such currency shall instead be made when due in Dollars in an amount equal to the Dollar Amount (as of the date of repayment) of such payment due, it being the intention of the parties hereto that the Borrower takes all risks of the imposition of any such currency control or exchange regulations. For purposes of this Section 2.18(a), the commencement of the third stage of European Economic and Monetary Union and the occurrence of the Euro Implementation Date shall not constitute the imposition of currency control or exchange regulations.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied

(i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and

(ii) second, towards payment of principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Revolving Loans or participations in LC Disbursements or resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Revolving Loans and participations in LC Disbursements and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Revolving Loans and participations in LC Disbursements of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Revolving Loans and participations in LC Disbursements; provided that

(i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and

(ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.05(c), 2.06(d) or (e), 2.07(b) or 2.18(d), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

SECTION 2.19. Mitigation Obligations: Replacement of Lenders.

(a) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment

(i) would eliminate or reduce amounts payable pursuant to Section 2.15 or 2.17, as the case may be, in the future and

(ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that

(i) the Borrower shall have received the prior written consent of the Administrative Agent (and, if a Commitment is being assigned, the Issuing Bank), which consent shall not unreasonably be withheld,

(ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and

(iii) in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.17, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation

if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

SECTION 2.20. Changes in Capital Adequacy Regulations. If a Lender determines the amount of capital required or expected to be maintained by such Lender, any relevant office, branch, subsidiary or affiliate of such Lender or any corporation controlling such Lender is increased as a result of a Change, then, within 15 days of demand by such Lender, the Borrower shall pay such Lender the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender determines is attributable to this Agreement, its Loans or its Commitment to make Loans hereunder (after taking into account such Lender's policies as to capital adequacy). "Change" means (i) any change after the date of this Agreement in the Risk-Based Capital Guidelines or (ii) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Lender or any Lending Installation or any corporation controlling any Lender. "Risk-Based Capital Guidelines" means (i) the risk-based capital guidelines in effect in the United States on the date of this Agreement, including transition rules, and (ii) the corresponding capital regulations promulgated by regulatory authorities outside the United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices Entitled "International Convergence of Capital Measurements and Capital Standards," including transition rules, and any amendments to such regulations adopted prior to the date of this Agreement.

SECTION 2.21. Market Disruption. Notwithstanding the satisfaction of all conditions referred to in Article II and Article IV with respect to any Credit Event to be effected in any Agreed Currency other than Dollars, if (i) there shall occur on or prior to the date of such Credit Event any change in national or international financial, political or economic conditions or currency exchange rates or exchange controls which would in the reasonable opinion of the Administrative Agent, the Issuing Bank (if such Credit Event is a Letter of Credit) or the Required Lenders make it impracticable for the Eurocurrency Borrowings or Letters of Credit comprising such Credit Event to be denominated in the Agreed Currency specified by the Borrower, (ii) such currency is no longer an Eligible Currency or (iii) an Equivalent Amount of such currency is not readily calculable, then the Administrative Agent shall forthwith give notice thereof to the Borrower, the Lenders and, if such Credit Event is a Letter of Credit, the Issuing Bank, and such Credit Events shall not be denominated in such Agreed Currency but shall, except as otherwise set forth in Section 2.07, be made on the date of such Credit Event in Dollars, (a) if such Credit Event is a Borrowing, in an aggregate principal amount equal to the Dollar Amount of the aggregate principal amount specified in the related Credit Event Request or Interest Election Request, as the case may be, as ABR Loans, unless the Borrower notifies the Administrative Agent at least one Business Day before such date that (i) it elects not to borrow on such date or (ii) it elects to borrow on such date in a different Agreed Currency, as the case may be, in which the denomination of such Loans would in the opinion of the Administrative Agent and the Required Lenders be practicable and in an aggregate principal amount equal to the Dollar Amount of the aggregate principal amount specified in the related Credit Event Request or Interest Election Request, as the case may be or (b) if such Credit Event is a Letter of Credit, in a face amount equal to the Dollar Amount of the face amount specified in the related request

or application for such Letter of Credit, unless the Borrower notifies the Administrative Agent at least one Business Day before such date that (i) it elects not to request the issuance of such Letter of Credit on such date or (ii) it elects to have such Letter of Credit issued on such date in a different Agreed Currency, as the case may be, in which the denomination of such Letter of Credit would in the opinion of the Issuing Bank, the Administrative Agent and the Required Lenders be practicable and in face amount equal to the Dollar Amount of the face amount specified in the related request or application for such Letter of Credit, as the case may be.

SECTION 2.22. Judgment Currency. If for the purposes of obtaining judgment in any court it is necessary to convert a sum due from the Borrower hereunder in the currency expressed to be payable herein (the "specified currency") into another currency, the parties hereto agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Administrative Agent could purchase the specified currency with such other currency at the Administrative Agent's main New York City office on the Business Day preceding that on which final, non-appealable judgment is given. The obligations of the Borrower in respect of any sum due to any Lender or the Administrative Agent hereunder shall, notwithstanding any judgment in a currency other than the specified currency, be discharged only to the extent that on the Business Day following receipt by such Lender or the Administrative Agent (as the case may be) of any sum adjudged to be so due in such other currency such Lender or the Administrative Agent (as the case may be) may in accordance with normal, reasonable banking procedures purchase the specified currency with such other currency. If the amount of the specified currency so purchased is less than the sum originally due to such Lender or the Administrative Agent, as the case may be, in the specified currency, the Borrower agrees, to the fullest extent that it may effectively do so, as a separate obligation and notwithstanding any such judgment, to indemnify such Lender or the Administrative Agent, as the case may be, against such loss, and if the amount of the specified currency so purchased exceeds (a) the sum originally due to any Lender or the Administrative Agent, as the case may be, in the specified currency and (b) any amounts shared with other Lenders as a result of allocations of such excess as a disproportionate payment to such Lender under Section 2.18, such Lender or the Administrative Agent, as the case may be, agrees to remit such excess to the Borrower.

ARTICLE III

Representations and Warranties

The Borrower represents and warrants to the Lenders that:

SECTION 3.01. Organization; Powers: Subsidiaries. Each of the Borrower and its Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required. Schedule 3.02 hereto identifies each Subsidiary, the jurisdiction of its incorporation or organization, as the case may be, the percentage of issued and outstanding shares of each class of its capital stock or other

equity interests owned by the Borrower and the other Subsidiaries and, if such percentage is not 100% (excluding directors' qualifying shares as required by law), a description of each class issued and outstanding. All of the outstanding shares of capital stock and other equity interests of each Subsidiary are validly issued and outstanding and fully paid and nonassessable and all such shares and other equity interests indicated on Schedule 3.02 as owned by the Borrower or another Subsidiary are owned, beneficially and of record, by the Borrower or such Subsidiary free and clear of all Liens, other than Liens created by the Collateral Documents. There are no outstanding commitments or other obligations of any Subsidiary to issue, and no options, warrants or other rights of any Person to acquire, any shares of any class of capital stock or other equity interests of any Subsidiary.

SECTION 3.02. Authorization: Enforceability. The Transactions are within the Borrower's corporate powers and have been duly authorized by all necessary corporate and, if required, stockholder action. This Agreement has been duly executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.03. Governmental Approvals: No Conflicts. The Transactions

(a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect,

(b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of the Borrower or any of its Subsidiaries or any order of any Governmental Authority,

(c) will not violate or result in a default under any indenture, agreement or other instrument binding upon the Borrower or any of its Subsidiaries or its assets, or give rise to a right thereunder to require any payment to be made by the Borrower or any of its Subsidiaries, and

(d) will not result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries.

SECTION 3.04. Financial Condition: No Material Adverse Change.

(a) The Borrower has heretofore furnished to the Lenders its consolidated balance sheet and statements of income, stockholders equity and cash flows

(i) as of and for the fiscal year ended December 31, 2000, reported on by Arthur Andersen LLP, independent public accountants, and
(ii) as of and for the fiscal quarter and the portion of the fiscal year ended September 30, 2001, certified by its chief financial officer. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of the Borrower and its consolidated Subsidiaries as of such dates and for such periods in accordance with

GAAP, subject to yearend audit adjustments and the absence of footnotes in the case of the statements referred to in clause (ii) above.

(b) Since September 30, 2001, except as otherwise disclosed by the Borrower in its Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended September 30, 2001, there has been no Material Adverse Change.

SECTION 3.05. Properties.

(a) Each of the Borrower and its Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business, except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes.

(b) Each of the Borrower and its Subsidiaries owns, or is licensed to use, all trademarks, trade names, copyrights, patents and other intellectual property material to its business, and the use thereof by the Borrower and its Subsidiaries does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.06. Litigation, Labor Matters and Environmental Matters.

(a) There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any of its Subsidiaries (i) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect (other than the Disclosed Matters) or (ii) that involve this Agreement or the Transactions.

(b) There are no labor controversies pending against or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any of its Subsidiaries (i) which could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect, or (ii) that involve this Agreement or the Transactions.

(c) Except for the Disclosed Matters and except with respect to any other matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, neither the Borrower nor any of its Subsidiaries

(i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law,

(ii) has become subject to any Environmental Liability,

(iii) has received notice of any claim with respect to any Environmental Liability or

(iv) knows of any basis for any Environmental Liability.

(d) Since the date of this Agreement, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

SECTION 3.07. Compliance with Laws and Agreements; No Burdensome Restrictions. Each of the Borrower and its Subsidiaries is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. Neither the Borrower nor any Subsidiary is party or subject to any law, regulation, rule or order, or any obligation under any agreement or instrument, that has a Material Adverse Effect.

SECTION 3.08. Investment and Holding Company Status. Neither the Borrower nor any of its Subsidiaries is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

SECTION 3.09. Taxes. Each of the Borrower and its Subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except

(a) Taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or such Subsidiary, as applicable, has set aside on its books adequate reserves or

(b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.10. ERISA. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations under each Plan (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than \$2,500,000 the fair market value of the assets of such Plan, and the present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than \$2,500,000 the fair market value of the assets of all such underfunded Plans.

SECTION 3.11. Disclosure. The Borrower has disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. Neither the Information Memorandum nor any of the other reports, financial statements, certificates or other information furnished by or on behalf of the Borrower to the Administrative Agent or any Lender in

connection with the negotiation of this Agreement or delivered hereunder (as modified or supplemented by other information so furnished) contained, when furnished, any untrue statement of a fact or omitted to state any material fact necessary to make the statements contained therein, in the light of the circumstances under which they were made, not materially misleading; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time of such preparation.

SECTION 3.12. No Default. The Borrower is in full compliance with the terms and conditions of this Agreement, and no Default has occurred and is continuing.

SECTION 3.13. Liens. There are no Liens on any of the real or personal properties of the Borrower or any Subsidiary except for Liens created by the Collateral Documents and except as otherwise permitted by Section 6.02.

SECTION 3.14. Contingent Obligations. Other than any liability incident to any litigation, arbitration or proceeding which could not reasonably be expected to have a Material Adverse Effect, the Borrower has no material contingent obligations not provided for or disclosed in the financial statements referred to in Section 3.04.

SECTION 3.15. Regulation U. Margin stock (as defined in Regulation U) constitutes less than 25% of the value of those assets of the Borrower and its Subsidiaries which are subject to any limitation on sale, pledge, or other restriction hereunder.

ARTICLE IV

Conditions

SECTION 4.01. Effective Date. The obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 9.02):

(a) The Administrative Agent (or its counsel) shall have received from (i) each party hereto either (A) a counterpart of this Agreement signed on behalf of such party or (B) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement and (ii) each Subsidiary Guarantor either (A) a counterpart of the Subsidiary Guaranty signed on behalf of such party or (B) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of the Subsidiary Guaranty) that such party has signed a counterpart of the Subsidiary Guaranty.

(b) The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of the Chief Legal Officer for the Borrower and the Subsidiary Guarantors, substantially in the form of Exhibit B, and covering such other matters relating to the Borrower and the Subsidiary

Guarantors, this Agreement, the Subsidiary Guaranty or the Transactions as the Required Lenders shall reasonably request.

(c) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Borrower and the Subsidiary Guarantors, the authorization of the Transactions and any other legal matters relating to the Borrower, the Subsidiary Guarantors, this Agreement, the Subsidiary Guaranty or the Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel.

(d) All governmental and third-party approvals necessary in connection with the Transactions and the continuing operations of the Borrower and its Subsidiaries shall have been obtained and continuing in full force and effect.

(e) The Administrative Agent shall have received a certificate, dated the Effective Date and signed by the Chief Executive Officer or a Financial Officer of the Borrower, confirming compliance with the conditions set forth in paragraphs (a) and (b) of Section 4.02.

(f) The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Effective Date, including, (i) closing fees for the account of each Lender in an amount equal to 0.125% of such Lender's Commitment and (ii) to the extent invoiced and presented to the Borrower no less than three days prior to the Effective Date, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

(g) The Administrative Agent shall have received evidence reasonably satisfactory to it that the Existing Credit Agreement has been terminated and cancelled and all Indebtedness outstanding thereunder has been fully repaid or will be fully repaid with the initial extension of credit hereunder.

The Administrative Agent shall notify the Borrower and the Lenders of the Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to Section 9.02) at or prior to 4:00 p.m., New York City time, on the date hereof (and, in the event such conditions are not so satisfied or waived, the Commitments shall terminate at such time).

SECTION 4.02. Each Credit Event. The obligation of each Lender to make a Loan on the occasion of any Borrowing, and of the Issuing Bank to issue, amend, renew or extend any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) The representations and warranties of the Borrower set forth in this Agreement shall be true and correct on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable.

(b) At the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section.

ARTICLE V

Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that:

SECTION 5.01. Financial Statements and Other Information. The Borrower will furnish to the Administrative Agent and each Lender:

(a) within 90 days after the end of each fiscal year of the Borrower, its audited consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by Arthur Andersen LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied;

(b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, its consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(c) as soon as available, but in any event within 90 days after the beginning of each fiscal year of the Borrower, a certificate of a Financial Officer of the Borrower accompanied by a reasonably detailed business plan and forecast (including a projected consolidated balance sheet, income statement and statement of cash flows) of the Borrower for such fiscal year;

(d) concurrently with any delivery of financial statements under clause (a) or (b) above, a certificate of a Financial Officer of the Borrower (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with Sections 6.01(e), 6.01 (f), 6.01(h), 6.04, 6.06, 6,10,

6.11 and 6.13 and (iii) stating whether any change in GAAP or in the application thereof has occurred since the date of the audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(e) concurrently with any delivery of financial statements under clause (a) above, a certificate of the accounting firm that reported on such financial statements stating whether they obtained knowledge during the course of their examination of such financial statements of any Default (which certificate may be limited to the extent required by accounting rules or guidelines);

(f) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by the Borrower or any Subsidiary with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or distributed by the Borrower to its shareholders generally, as the case may be; and

(g) promptly following any reasonable request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of this Agreement, as the Administrative Agent or any Lender may reasonably request.

SECTION 5.02. Notices of Material Events. The Borrower will furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the Borrower or any Affiliate thereof that could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA A Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Borrower and its Subsidiaries in an aggregate amount exceeding \$2,500,000, and

(d) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 5.03. Existence; Conduct of Business. The Borrower will, and will cause each of its Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and business operations and the rights, licenses, permits, privileges and franchises material to the conduct of the business of the

Borrower and its Subsidiaries taken as a whole; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.03.

SECTION 5.04. Payment of Obligations. The Borrower will, and will cause each of its Subsidiaries to, pay its obligations, including Tax liabilities, that, if not paid, could result in a Material Adverse Effect before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.05. Maintenance of Properties; Insurance. The Borrower will, and will cause each of its Subsidiaries to, (a) keep and maintain all property material to the conduct of the business of the Borrower and its Subsidiaries taken as a whole in good working order and condition, ordinary wear and tear excepted, and (b) maintain, with financially sound and reputable insurance companies, insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations.

SECTION 5.06. Books and Records; Inspection Rights. The Borrower will, and will cause each of its Subsidiaries to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. The Borrower will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and in such reasonable intervals as requested.

SECTION 5.07. Compliance with Laws. The Borrower will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations and orders (including, without limitation, Environmental Laws) of any Governmental Authority applicable to it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.08. Use of Proceeds and Letters of Credit. The proceeds of the Loans will be used only for refinancing the Indebtedness under the Existing Credit Agreement and for other general corporate purposes of the Borrower and its Subsidiaries in the ordinary course of business. No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations T, U and X. Letters of Credit will be issued (i) to support or provide security for tenant lease obligations, (ii) for general corporate purposes of the Borrower and its Subsidiaries in the ordinary course of business to the extent that the Dollar Amount of the sum of the LC Exposure thereof does not exceed \$1,000,000 and (iii) for such other general corporate purposes of the Borrower and its Subsidiaries in the ordinary course of business as are approved in writing by the Administrative Agent in its sole discretion.

SECTION 5.09. Additional Subsidiary Documentation. As promptly as possible but in any event within (i) thirty (30) days after the date hereof, the Borrower shall cause each of LeadersOnline (in the event LeadersOnline has not by such time merged with and into the Initial Subsidiary Guarantor) and the German Subsidiary to execute and deliver to the Administrative Agent, for the benefit of the Holders of Secured Obligations, a supplement to the Subsidiary Guaranty (in the case of LeadersOnline) or a guarantee agreement (in the case of the German Subsidiary), accompanied by legal opinions, resolutions and such other instruments and documents as are in form and substance acceptable to the Administrative Agent (provided that, in the event the German Subsidiary is treated as a corporation for U.S. federal income tax purposes, the German Subsidiary shall be released from its obligations under such guarantee agreement one Business Day prior to the German Subsidiary being so treated and the Borrower hereby agrees that it shall, on the first Business Day the German Subsidiary is so treated, (x) execute and deliver to the Administrative Agent a Pledge Agreement with respect to the requisite Capital Stock of the German Subsidiary in the manner contemplated by Section 5.10 and (y) deliver accompanying stock certificates, stock powers, resolutions and legal opinions, in each case in form and substance acceptable to the Administrative Agent) and (ii) thirty (30) days after any Person becomes a Subsidiary, the Borrower shall provide the Administrative Agent with written notice thereof setting forth information in reasonable detail describing the material assets of such Person and shall cause (a) each such Subsidiary which also qualifies a Subsidiary Guarantor to deliver to the Administrative Agent a duly executed supplement to the Subsidiary Guaranty pursuant to which such Subsidiary agrees to be bound by the terms and provisions of the Subsidiary Guaranty, such supplement to be accompanied by appropriate corporate resolutions and legal opinions in form and substance reasonably satisfactory to the Administrative Agent and (b) such Subsidiary to comply with Section 5.10.

SECTION 5.10. Pledge Agreements. The Borrower shall execute or cause to be executed, by no later than thirty days after the Foreign Pledge Event and, on and after the Foreign Pledge Event, by no later than thirty days after any Subsidiary becomes a First Tier Foreign Subsidiary, a Pledge Agreement in favor of the Administrative Agent for the benefit of the Holders of Secured Obligations with respect to the lesser of (i) 100% (or 65% if a 100% pledge would cause disadvantageous tax implications for the Borrower or any Domestic Subsidiary under Section 956 of the Code) of all of the outstanding Capital Stock of each First Tier Foreign Subsidiary and (ii) all the outstanding Capital Stock of each First Tier Foreign Subsidiary then or thereafter owned by one or more of the Borrower and its Domestic Subsidiaries; provided that no such pledge of the Capital Stock of a First Tier Foreign Subsidiary shall be required hereunder to the extent such pledge is prohibited by applicable law or the Administrative Agent and its counsel reasonably determine that such pledge would not provide material Collateral for the benefit of the Holders of Secured Obligations pursuant to legally binding, valid and enforceable Pledge Agreements. The Borrower further agrees to deliver to the Administrative Agent all such Pledge Agreements and other Collateral Documents, together with appropriate corporate resolutions and other documentation (including legal opinions, the stock certificates representing the Capital Stock subject to such pledge, stock powers with respect thereto executed in blank, and such other documents as shall be reasonably requested to perfect the Lien of such pledge) in each case in form and substance reasonably satisfactory to the Administrative Agent, and in a manner that the Administrative Agent shall be reasonably satisfied that it has a first priority perfected pledge of or charge over the Collateral related thereto.

ARTICLE VI

Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of Credit have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that:

SECTION 6.01. Indebtedness. The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Indebtedness, except:

(a) Indebtedness created hereunder and under the other Loan Documents;

(b) Indebtedness existing on the date hereof and set forth in Schedule 6.01 and extensions, renewals, refinancings and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof;

(c) Indebtedness of the Borrower to any Subsidiary and of any Subsidiary to the Borrower or any other Subsidiary;

(d) Guarantees by the Borrower of Indebtedness of any Subsidiary and by any Subsidiary of Indebtedness of the Borrower or any other Subsidiary;

(e) Indebtedness of the Borrower or any Subsidiary incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including Capital Lease Obligations and any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, and extensions, renewals, refinancings and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof; provided that (i) such Indebtedness is incurred prior to or within 180 days after such acquisition or the completion of such construction or improvement and (ii) the aggregate principal amount of Indebtedness permitted by this clause (e) shall not exceed \$2,500,000 at any time outstanding;

(f) Indebtedness of any Person that becomes a Subsidiary, or merges into the Borrower or a Subsidiary after the date hereof; provided that (i) such Indebtedness exists at the time such Person becomes a Subsidiary, or merges into the Borrower or a Subsidiary and is not created in contemplation of or in connection with such Person becoming a Subsidiary, or merging into the Borrower or a Subsidiary and (ii) the aggregate principal amount of Indebtedness permitted by this clause (f) shall not exceed \$2,500,000 at any time outstanding;

(g) Indebtedness of the Borrower or any Subsidiary as an account party in respect of trade letters of credit;

(h) Indebtedness of the Borrower or any Subsidiary in respect of workers' compensation claims, self-insurance obligations, performance bonds, surety, appeal or similar bonds and completion guarantees provided by the Borrower and the Subsidiaries in the ordinary course of business, provided that upon the incurrence of Indebtedness with respect to

reimbursement type obligations regarding workers' compensation claims, such obligations are reimbursed within 30 days following such drawing or incurrence;

(i) Guarantees in the ordinary course of business by the Borrower or any Subsidiary of Indebtedness incurred by employees or prospective employees; provided that the aggregate principal amount of such Guarantees permitted by this clause (i) shall not exceed \$2,500,000 at any one time outstanding; and

(j) Other unsecured Indebtedness in an aggregate principal amount not exceeding \$10,000,000 at any time outstanding.

SECTION 6.02. Liens. The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(a) Permitted Encumbrances;

(b) any Lien on any property or asset of the Borrower or any Subsidiary existing on the date hereof and set forth in Schedule 6.02; provided that

(i) such Lien shall not apply to any other property or asset of the Borrower or any Subsidiary and

(ii) such Lien shall secure only those obligations which it secures on the date hereof and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(c) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any Subsidiary or existing on any property or asset of any Person that becomes a Subsidiary, or merges into the Borrower or a Subsidiary after the date hereof prior to the time such Person becomes a Subsidiary, or merges into the Borrower or a Subsidiary; provided that

(i) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming, or merging into, a Subsidiary, as the case may be,

(ii) such Lien shall not apply to any other property or assets of the Borrower or any Subsidiary and

(iii) such Lien shall secure only those obligations which it secures] on the date of such acquisition or the date such Person becomes, or merges into, a Subsidiary, as the case may be and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof; and

(d) Liens on fixed or capital assets acquired, constructed or improved by the Borrower or any Subsidiary; provided that

(i) such security interests secure Indebtedness permitted by clause (e) of Section 6.01,

(ii) such security interests and the Indebtedness secured thereby are incurred prior to or within 180 days after such acquisition or the completion of such construction or improvement,

(iii) the Indebtedness secured thereby does not exceed 100% of the cost of acquiring, constructing or improving such fixed or capital assets and

(iv) such security interests shall not apply to any other property or assets of the Borrower or any Subsidiary.

(e) Liens created by the Collateral Documents.

In addition, neither the Borrower nor any of its Subsidiaries shall become a party to any agreement, note, indenture or other instrument, or take any other action, which would prohibit the creation of a Lien on any of its properties or other assets in favor of the Administrative Agent for the benefit of itself and the Holders of Secured Obligations, as additional collateral for the Secured Obligations.

SECTION 6.03. Fundamental Changes.

(a) The Borrower will not, and will not permit any Subsidiary to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or any substantial part of its assets, or all or substantially all of the stock of any of its Subsidiaries (in each case, whether now owned or hereafter acquired), or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing

(i) any Subsidiary may merge into the Borrower in a transaction in which the Borrower is the surviving corporation,

(ii) any Subsidiary, or branch of the Borrower or a Subsidiary, may merge into any Subsidiary in a transaction in which the surviving entity is a Subsidiary,

(iii) any Subsidiary may sell, transfer, lease or otherwise dispose of its assets to the Borrower or to another Subsidiary and

(iv) any Subsidiary may liquidate or dissolve if the Borrower determines in good faith that such liquidation or dissolution is in the best interests of the Borrower and is not materially disadvantageous to the Lenders.

(b) The Borrower will not, and will not permit any of its Subsidiaries to, engage to any material extent in any business other than businesses of the type conducted by the Borrower and its Subsidiaries on the date of execution of this Agreement and businesses reasonably related thereto.

SECTION 6.04. Investments, Loans, Advances, Guarantees and Acquisitions. The Borrower will not, and will not permit any of its Subsidiaries to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a wholly owned Subsidiary prior to such merger) any capital stock, evidences of indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of, make or permit to exist any loans or advances to, Guarantee any obligations of, or make or permit to exist any investment or any other interest in, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit, except:

- (a) Permitted Investments;
- (b) investments by the Borrower existing on the date hereof in the capital stock of its Subsidiaries;
- (c) loans or advances made by the Borrower to any Subsidiary and made by any Subsidiary to the Borrower or any other Subsidiary (provided that not more than \$5,000,000 in loans or advances may be made, during the term of this Agreement, by the Borrower or any Subsidiary Loan Party to a Person which is not a Subsidiary Loan Party);
- (d) Guarantees constituting Indebtedness permitted by Section 6.01;
- (e) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;
- (f) Permitted Acquisitions, provided that the sum of all consideration paid or otherwise delivered in connection with Permitted Acquisitions (including the principal amount of any Indebtedness issued as deferred purchase price and fair market value of any other non-cash consideration) plus the aggregate principal amount of all Indebtedness otherwise incurred or assumed in connection with, or resulting from, Permitted Acquisitions (including Indebtedness of any acquired Persons outstanding at the time of the applicable Permitted Acquisition) shall not exceed, on an aggregate basis during any fiscal year of the Borrower, the Acquisition Amount;
- (g) Guarantees by the Borrower and any Subsidiary of leases entered into in the ordinary course of business by any Subsidiary as lessee;
- (h) extensions of credit in the nature of accounts receivable or notes receivable in the ordinary course of business;
- (i) investments in payroll, travel, relocation and similar advances to employees and prospective employees to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;
- (j) investments in or acquisitions of stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Borrower or any Subsidiary or in satisfaction of judgments;

(k) investments in equity securities and rights to acquire equity securities acquired as part of fees charged to clients or otherwise in connection with the performance of services by the Borrower and its Subsidiaries in the ordinary course of business;

(1) other investments by the Borrower as reflected in the financial statements accompanying the Borrower's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended September 30, 2001; and

(m) other investments by the Borrower in a cumulative aggregate amount not exceeding \$10,000,000 during the term of this Agreement.

SECTION 6.05. Hedging Agreements. The Borrower will not, and will not permit any of its Subsidiaries to, enter into any Hedging Agreement, other than Hedging Agreements entered into in the ordinary course of business to hedge or mitigate risks to which the Borrower or any Subsidiary is exposed in the conduct of its business or the management of its liabilities and the obligations of the Borrower and each of its Subsidiaries with respect to such Hedging Agreements shall be secured by the Collateral Documents.

SECTION 6.06. Restricted Payments. The Borrower will not, and will not permit any of its Subsidiaries to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except

(a) the Borrower may declare and pay dividends with respect to its capital stock payable solely in additional shares of its common stock,

(b) Subsidiaries may declare and pay dividends ratably with respect to their capital stock, and

(c) so long as no Event of Default has then occurred or is continuing, or would arise after giving effect thereto, the Borrower may make Restricted Payments pursuant to and in accordance with stock option plans, any plan or program providing for the exchange of outstanding options to purchase the Capital Stock of the Borrower or outstanding restricted stock units of the Borrower for newly issued restricted stock units or other equity interests in the Borrower, or other benefit plans for management or employees of the Borrower and its Subsidiaries; provided that (i) the Borrower may only repurchase its common stock in the same number of shares as the number of shares the Borrower has substantially concurrently awarded pursuant to such stock option plans or other benefit plans and (ii) the aggregate amount permitted to be expended by the Borrower in any of its fiscal years for such Restricted Payments shall not exceed \$15,000,000.

SECTION 6.07. Transactions with Affiliates. The Borrower will not, and will not permit any of its Subsidiaries to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except

(a) in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties,

(b) transactions between or among the Borrower and Subsidiary Loan Parties not involving any other Affiliate and

(c) any Restricted Payment permitted by Section 6.06.

SECTION 6.08. Restrictive Agreements. The Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon

(a) the ability of the Borrower or any Subsidiary to create, incur or permit to exist any Lien upon any of its property or assets, or

(b) the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to the Borrower or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary; provided that

(i) the foregoing shall not apply to restrictions and conditions imposed by law or by this Agreement,

(ii) the foregoing shall not apply to restrictions and conditions existing on the date hereof identified on Schedule 6.08 (but shall apply to any extension or renewal of, or any amendment or modification expanding the scope of, any such restriction or condition),

(iii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, provided such restrictions and conditions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder,

(iv) clause (a) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness and

(v) clause (a) of the foregoing shall not apply to customary provisions in leases restricting the assignment thereof.

SECTION 6.09. Changes in Fiscal Year. The Borrower shall not, nor shall it permit any Subsidiary to, change its fiscal year from its present basis.

SECTION 6.10. Capital Expenditures. The Borrower will not, nor will it permit any Subsidiary to, expend, or be committed to expend, in excess of \$30,000,000 for Capital Expenditures during any one fiscal year in the aggregate for the Borrower and its Subsidiaries; provided that to the extent Capital Expenditures actually expended during any fiscal year are less than \$30,000,000, the Borrower and its Subsidiaries may, so long as no Event of Default has occurred and is continuing at such time, also expend the aggregate amount (if any)

by which the actual Capital Expenditures for the immediately preceding fiscal year were less than \$30,000,000.

SECTION 6.11. Subordinated Indebtedness. The Borrower will not, and will not permit any Subsidiary to, make any amendment or modification to any indenture, note or other agreement evidencing or governing any Subordinated Indebtedness, or directly or indirectly voluntarily prepay, decrease or in substance decrease, purchase, redeem, retire or otherwise acquire, any Subordinated Indebtedness.

SECTION 6.12. Financial Covenants.

SECTION 6.12.1. Minimum Consolidated EBITDA. The Borrower will not permit at any time Consolidated EBITDA, determined as of the end of each of its fiscal quarters set forth below for the applicable measurement period set forth below ending with the end of such fiscal quarter to be less than the applicable amount set forth below:

| FISCAL QUARTER ENDING | MEASUREMENT PERIOD THEN ENDING | CONSOLIDATED EBITDA SHALL NOT BE LESS THAN: |
|---|-----------------------------------|---|
| December 31, 2001 | 4 fiscal quarters | \$ 20,000,000 |
| March 31, 2002 | 1 fiscal quarter | \$ 4,000,000 |
| June 30, 2002 | 2 fiscal quarters | \$ 8,000,000 |
| September 30, 2002 | 3 fiscal quarters | \$ 16,000,000 |
| December 31, 2002 | 4 fiscal quarters | \$ 20,000,000 |
| March 31, 2003 | 4 fiscal quarters | \$ 25,000,000 |
| June 30, 2003 | 4 fiscal quarters | \$ 25,000,000 |
| September 30, 2003 | 4 fiscal quarters | \$ 35,000,000 |
| December 31, 2003 | 4 fiscal quarters | \$ 35,000,000 |
| March 31, 2004 and each fiscal quarter thereafter | 4 fiscal quarters | \$ 45,000,000 |

SECTION 6.12.2. Fixed Charge Coverage Ratio. The Borrower will not permit the ratio (the "Fixed Charge Coverage Ratio"), determined as of the end of each of its fiscal quarters set forth below for the applicable measurement period set forth below ending with the end of such fiscal quarter, of (i) Consolidated EBITDA to (ii) Consolidated Interest Expense plus Consolidated Capital Expenditures, all calculated for the Borrower and its Subsidiaries on a consolidated basis, to be less than the applicable ratio set forth below:

| FISCAL QUARTER ENDING | MEASUREMENT PERIOD THEN ENDING | FIXED CHARGE COVERAGE RATIO SHALL NOT BE LESS THAN: |
|--------------------------|-----------------------------------|---|
| December 31, 2001 | 4 fiscal quarters | 0.825:1.00 |
| March 31, 2002 | 1 fiscal quarter | 0.40:1.00 |
| June 30, 2002 | 2 fiscal quarters | 0.55:1.00 |
| September 30, 2002 | 3 fiscal quarters | 0.70:1.00 |
| December 31, 2002 | 4 fiscal quarters | 0.80:1.00 |

| | | |
|---|-------------------|-----------|
| March 31, 2003 | 4 fiscal quarters | 1.00:1.00 |
| June 30, 2003 | 4 fiscal quarters | 1.00:1.00 |
| September 30, 2003 and each fiscal quarter thereafter | 4 fiscal quarters | 1:50:1.00 |

SECTION 6.12.3. Leverage Ratio. The Borrower will not permit the ratio, determined as of the end of each of its fiscal quarters set forth below, of (i) Consolidated Total Indebtedness to (ii) Consolidated EBITDA for the applicable measurement period set forth below ending with the end of such fiscal quarter, to be greater than 1.50 to 1.0:

| FISCAL QUARTER ENDING | MEASUREMENT PERIOD THEN ENDING |
|---|--------------------------------|
| December 31, 2001 | 4 fiscal quarters |
| March 31, 2002 | 1 fiscal quarter |
| June 30, 2002 | 2 fiscal quarters |
| September 30, 2002 | 3 fiscal quarters |
| December 31, 2002 and each fiscal quarter thereafter | 4 fiscal quarters |

; provided that the parties hereto acknowledge and agree that (i) Consolidated EBITDA for the fiscal quarter ending on March 31, 2002 shall be multiplied by 4, (ii) Consolidated EBITDA for the fiscal quarter ending on June 30, 2002 shall be multiplied by 2 and (iii) Consolidated EBITDA for the fiscal quarter ending on September 30, 2002 shall be multiplied by 4/3.

SECTION 6.12.4. Current Ratio. The Borrower will not permit the ratio, determined as of the end of each of its fiscal quarters ending on and after December 31, 2001, of (i) current assets of the Borrower and its Subsidiaries on a consolidated basis to (ii) current liabilities of the Borrower and its Subsidiaries on a consolidated basis, in each case in accordance with GAAP, to be less than 1.30 to 1.0.

SECTION 6.12.5. Minimum Tangible Net Worth. The Borrower will at all times maintain Consolidated Tangible Net Worth of not less than the sum of (i) \$140,000,000, plus (ii) 50% of Consolidated Net Income earned in each fiscal year beginning with the fiscal year ending on and after December 31, 2002 (without deduction for losses), plus 75% of Net Cash Proceeds received by the Borrower or any Subsidiary.

ARTICLE VII

Events of Default

If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of three Business Days;

(c) any representation or warranty made or deemed made by or on behalf of the Borrower or any Subsidiary in or in connection with this Agreement, the Subsidiary Guaranty, any other Loan Document or any amendment or modification thereof or waiver hereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Agreement, the Subsidiary Guaranty or any amendment or modification thereof or waiver thereunder, shall prove to have been incorrect when made or deemed made;

(d) (i) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Sections 5.01, 5.02, 5.03 (with respect to the Borrower's existence), 5.08, 5.09 or 5.10 or in Article VI, or (ii) any Loan Document shall for any reason not be or shall cease to be in full force and effect or is declared to be null and void, or the Borrower or any Subsidiary takes any action for the purpose of terminating, repudiating or rescinding any Loan Document or any of its obligations thereunder;

(e) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in clause (a), (b) or (d) of this Article), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender);

(f) the Borrower or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable;

(g) any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; provided that this clause (g) shall not apply to secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the

appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the Borrower or any Subsidiary shall

(i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect,

(ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article,

(iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of its assets,

(iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding,

(v) make a general assignment for the benefit of creditors
or

(vi) take any action for the purpose of effecting any of the foregoing;

(j) the Borrower or any Subsidiary shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount in excess of \$5,000,000 shall be rendered against the Borrower, any Subsidiary or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any Subsidiary to enforce any such judgment;

(1) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect; or

(m) a Change in Control shall occur;

then, and in every such event (other than an event with respect to the Borrower described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times:

(i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and

(ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder and the other Loan Documents, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any event with respect to the Borrower described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

ARTICLE VIII

The Administrative Agent

Each of the Lenders and the Issuing Bank hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and on the behalf of the Holders of Secured Obligations and to exercise such powers as are delegated to the Administrative Agent by the terms hereof, together with such actions and powers as are reasonably incidental thereto.

The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein. Without limiting the generality of the foregoing,

(a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing,

(b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby that the Administrative Agent is required to exercise in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and

(c) except as expressly set forth herein, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent

or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into

(i) any statement, warranty or representation made in or in connection with this Agreement,

(ii) the contents of any certificate, report or other document delivered hereunder or in connection herewith,

(iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein,

(iv) the validity, enforceability, effectiveness or genuineness of this Agreement or any other agreement, instrument or document,

(v) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent, or

(vi) the perfection or priority of any of the Liens on any of the Collateral.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person, The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all of its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Bank and the Borrower. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Borrower, to appoint a successor. If no successor

shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuing Bank, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any related agreement or any document furnished hereunder or thereunder

Each Lender authorizes the Administrative Agent to enter into each of the Collateral Documents to which the Administrative Agent is from time to time a party and to take all action contemplated by such documents. Each Lender agrees that no Holder of Secured Obligations (other than the Administrative Agent) shall have the right individually to seek to realize upon the security granted by any Collateral Document, it being understood and agreed that such rights and remedies may be exercised solely by the Administrative Agent for the benefit of the Holders of Secured Obligations upon the terms of the Collateral Documents.

In the event that any Collateral is hereafter pledged by any Person as collateral security for the Obligations, the Administrative Agent is hereby authorized to execute and deliver on behalf of the Holders of Secured Obligations any Loan Documents necessary or appropriate to grant and perfect a Lien on such Collateral in favor of the Administrative Agent on behalf of the Holders of Secured Obligations.

The Lenders hereby authorize the Administrative Agent, at its option and in its discretion, to release any Lien granted to or held by the Administrative Agent upon any Collateral (i) upon termination of the Commitments and payment and satisfaction of all of the Obligations at any time arising under or in respect of this Agreement or the Loan Documents or the transactions contemplated hereby or thereby; (ii) as permitted by, but only in accordance with, the terms of the applicable Loan Document; or (iii) if approved, authorized or ratified in writing by the Required Lenders, unless such release is required to be approved by all of the Lenders hereunder. Upon request by the Administrative Agent at any time, the Lenders will

confirm in writing the Administrative Agent's authority to release particular types or items of Collateral pursuant to this Article VIII.

Upon any sale or transfer of assets constituting Collateral which is expressly permitted pursuant to the terms of any Loan Document, or consented to in writing by the Required Lenders or all of the Lenders, as applicable, and upon at least five (5) Business Days' prior written request by the Borrower, the Administrative Agent shall (and is hereby irrevocably authorized by the Lenders to) execute such documents as may be necessary to evidence the release of the Liens granted to the Administrative Agent for the benefit of the Holders of Secured Obligations herein or pursuant hereto upon the Collateral that was sold or transferred; provided, however, that (i) the Administrative Agent shall not be required to execute any such document on terms which, in the Administrative Agent's opinion, would expose the Administrative Agent to liability or create any obligation or entail any consequence other than the release of such Liens without recourse or warranty, and (ii) such release shall not in any manner discharge, affect or impair the Secured Obligations or any Liens upon (or obligations of the Borrower or any Subsidiary in respect of) all interests retained by the Borrower or any Subsidiary, including (without limitation) the proceeds of the sale, all of which shall continue to constitute part of the Collateral.

ARTICLE IX

Miscellaneous

SECTION 9.01. Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Borrower, to it at 245 Park Avenue, Suite 4300, New York, New York 10167, Attention of Stephanie W. Abramson (Telecopy No. (646)487-0442);

(b) if to the Administrative Agent, to JPMorgan Chase Bank, Loan and Agency Services Group, One JPMorgan Chase Plaza, 8th Floor, New York, New York 10081, Attention of Jesus Sang (Telecopy No. (212) 552-5658), with a copy to JPMorgan Chase Bank, 52 Broadway, New York, New York 10004, Attention of Angela Rokkos (Telecopy No. (212) 701-4081);

(c) if to the Issuing Bank, to it at SBLC Department, 10420 Highland Manor Drive, Tampa, Florida 33610, Attention of Doreen Conduit (Telecopy No. (813) 432-5161); and

(d) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

SECTION 9.02. Waivers: Amendments.

(a) No failure or delay by the Administrative Agent, the Issuing Bank or any Lender in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Bank and the Lenders hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders or by the Borrower and the Administrative Agent with the consent of the Required Lenders; provided that no such agreement shall

(i) increase the Commitment of any Lender without the written consent of such Lender,

(ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby,

(iii) postpone the scheduled date of payment of the principal amount of any Loan or LC Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby,

(iv) change Section 2.18(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender,

(v) change any of the provisions of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent, the Issuing Bank hereunder without the prior written consent of the Administrative Agent, the Issuing Bank, as the case may be, or

(vi) other than pursuant to a transaction permitted by the terms of this Agreement or any other Loan Document, release all or substantially all of the Collateral which is subject to the Loan Documents.

SECTION 9.03. Expenses; Indemnity; Damage Waiver.

(a) The Borrower shall pay

(i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of this Agreement or any amendments, modifications or waivers of the provisions hereof (whether or not the transactions contemplated hereby or thereby shall be consummated),

(ii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and

(iii) all reasonable out-of-pocket expenses incurred by the Administrative Agent, the Issuing Bank or any Lender, including the reasonable fees, charges and disbursements of any counsel for the Administrative Agent, the Issuing Bank or any Lender, in connection with the enforcement or protection of its rights in connection with this Agreement, including its rights under this Section, or in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) The Borrower shall indemnify the Administrative Agent, the Issuing Bank and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnatee") against, and hold each Indemnatee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnatee, incurred by or asserted against any Indemnatee arising out of, in connection with, or as a result of

(i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the Transactions or any other transactions contemplated hereby,

(ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit),

(iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or

(iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnatee is a party thereto; provided that such indemnity

shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent, the Issuing Bank under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent, the Issuing Bank, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent, the Issuing Bank in its capacity as such.

(d) To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable promptly not later than fifteen days after written demand therefor.

SECTION 9.04. Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Bank and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided that

(i) except in the case of an assignment to a Lender or a Lender Affiliate, each of the Borrower and the Administrative Agent (and, in the case of an assignment of all or a portion of a Commitment or any Lender's obligations in respect of its LC Exposure, the Issuing Bank) must give their prior written consent to such assignment (which consent shall not be unreasonably withheld); provided that no such consent of the Borrower shall be required at any time a Default has occurred and is then continuing,

(ii) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment, the amount of the Commitment of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$5,000,000 unless each of the Borrower and the Administrative Agent otherwise consent,

(iii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement,

(iv) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of \$3,500, and

(v) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire; and provided further that any consent of the Borrower otherwise required under this paragraph shall not be required if an Event of Default under clause (h) or (i) of Article VII has occurred and is continuing. Subject to acceptance and recording thereof pursuant to paragraph (d) of this Section, from and after the effective date specified in each Assignment and Acceptance the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17 and 9.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section.

(c) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in The City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent, the Issuing Bank and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Bank and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and

recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Acceptance and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(e) Any Lender may, without the consent of the Borrower, the Administrative Agent or the Issuing Bank, sell participants to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided that

(i) such Lender's obligations under this Agreement shall remain unchanged,

(ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and

(iii) the Borrower, the Administrative Agent, the Issuing Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participant shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 9.02(b) that affects such Participant. Subject to paragraph (f) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.18(c) as though it were a Lender.

(f) A Participant shall not be entitled to receive any greater payment under Section 2.15 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.17 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.17(e) as though it were a Lender.

(g) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

SECTION 9.05. Survival. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.15, 2.16, 2.17 and 9.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

SECTION 9.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 9.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured, The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 9.09. Governing Law; Jurisdiction; Consent to Service of Process.

(a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement against the Borrower or its properties in the courts of any jurisdiction.

(c) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.12. Confidentiality. Each of the Administrative Agent, the Issuing Bank and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed

(a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential),

(b) to the extent requested by any regulatory authority,

(c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process,

(d) to any other party to this Agreement,

(e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder,

(f) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement,

(g) with the consent of the Borrower or

(h) to the extent such Information

(i) becomes publicly available other than as a result of a breach of this Section or

(ii) becomes available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis from a source other than the Borrower. For the purposes of this Section, "Information" means all information received from the Borrower relating to the Borrower or its business, other than any such information that is available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis prior to disclosure by the Borrower; provided that, in the case of information received from the Borrower after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 9.13. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such

Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

By /s/ Donald M. Kilinski

Name: Donald M. Kilinski
Title: Treasurer

JPMORGAN CHASE BANK, individually and as
Administrative Agent,

By /s/ Kevin T. Murphy

Name: Kevin T. Murphy
Title: Vice President

LASALLE BANK NATIONAL ASSOCIATION

By /s/ Amy B. Yore

Name: Amy B. Yore
Title: Commercial Banking Officer

THE NORTHERN TRUST COMPANY

By /s/ William B. Caswell

Name: William B. Caswell
Title: Commercial Banking Officer

AMENDMENT NO. 1
TO
CREDIT AGREEMENT

THIS AMENDMENT NO. 1 TO CREDIT AGREEMENT (the "Amendment") is made as of March 25, 2002 by and among HEIDRICK & STRUGGLES INTERNATIONAL, INC. (the "Borrower"), the financial institutions listed on the signature pages hereof (the "Lenders"), and JPMORGAN CHASE BANK, as Administrative Agent (the "Administrative Agent"), under that certain Credit Agreement dated as of December 28, 2001 by and among the Borrower, the financial institutions party thereto, and the Administrative Agent (the "Credit Agreement"). Defined terms used herein and not otherwise defined herein shall have the meaning given to them in the Credit Agreement.

WITNESSETH

WHEREAS, the Borrower, the Lenders and the Administrative Agent are parties to the Credit Agreement; and

WHEREAS, the Borrower has requested that the Administrative Agent and the requisite number of Lenders under Section 9.02 of the Credit Agreement amend the Credit Agreement on the terms and conditions set forth herein; and

WHEREAS, the Borrower, the requisite number of Lenders under Section 9.02 of the Credit Agreement, and the Administrative Agent have agreed to amend the Credit Agreement on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises set forth above, the terms and conditions contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto have agreed to the following amendments to the Credit Agreement:

1. Amendments to the Credit Agreement. Effective as of March 25, 2002 and subject to the satisfaction of the conditions precedent set forth in Section 2 below, the Credit Agreement is hereby amended as follows:

1.1. Article I of the Credit Agreement is amended by inserting a new definition therein which shall read as follows:

"Excess Debt" means an amount equal to the aggregate principal amount unsecured indebtedness incurred and outstanding under Section 6.01(j) in excess of \$10,000,000.

- 1.2. The definition of "Designated Charges" appearing in Article I of the Credit Agreement is amended by deleting the reference to "\$65,435,000" appearing therein and substituting "\$80,000,000" in lieu thereof.
- 1.3. The definition of "Applicable Rate" appearing in Article I of the Credit Agreement is amended and restated in its entirety to read as follows:

"Applicable Rate" means, for any day, with respect to any ABR Loan or Eurocurrency Revolving Loan, or with respect to the facility fees payable hereunder, as the case may be, the applicable rate per annum set forth below under the caption "ABR Spread", "Eurocurrency Spread" or "Facility Fee Rate", as the case may be, based upon the Fixed Charge Coverage Ratio as reflected in the then most recently delivered Financials but subject to the following:

| Fixed Charge Coverage Ratio: | ABR Spread | Eurocurrency Spread | Facility Fee Rate |
|---|------------|---------------------|-------------------|
| ----- Category 1: Less than 1.00: 1.00 ----- | 0.25% | 1.25% | 0.50% |
| ----- Category 2: Greater than or equal to 1.00:1.00 but less than 1.75:1.00 ----- | 0.125% | 1.125% | 0.375% |
| ----- Category 3: Greater than or equal to 1.75:1.00 but less than 2.5:1.00 ----- | 0% | 1.000% | 0.25% |
| ----- Category 4: Greater than or equal to 2:50:1.00 ----- | 0% | 0.80% | 0.20% |

For purposes of the foregoing,

- (i) the Fixed Charge Coverage Ratio shall be determined by calculating Consolidated EBITDA, Consolidated Interest Expense and Consolidated Capital Expenditures (i) for the Borrower's fiscal quarter ending on March 31, 2002, for the period of one fiscal quarter then ending, (ii) for the Borrower's fiscal quarter ending on June 30, 2002, for the period of two fiscal quarters then ending, (iii) for the Borrower's fiscal quarter ending on September 30, 2002, for the period of three fiscal quarters then ending, (iv) for the Borrower's fiscal quarter ending on December 31, 2002, for the period of four fiscal quarters then ending and (v) for each of the Borrower's fiscal quarters thereafter, for the relevant period required as of such fiscal quarter under Section 6.12.2;
- (ii) if the Borrower fails to deliver the Financials to the Administrative Agent at the time required pursuant to Section 5.01, then the Fixed Charge Coverage Ratio shall be deemed to be Category 1 above until five Business Days after such Financials are so received;

- (iii) adjustments, if any, to the Applicable Rate shall be effective five Business Days after the Administrative Agent has received the applicable Financials (it being understood and agreed that each change in the Applicable Rate shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change);
 - (iv) notwithstanding the foregoing, during the period commencing on the date hereof and ending on the date the Borrower has delivered to the Administrative Agent the Financials for the Borrower's fiscal quarter ending June 30, 2002, the Fixed Charge Coverage Ratio shall be deemed to be Category 1 above; and
 - (v) each determination of the Applicable Rate made by the Administrative Agent in accordance with the foregoing shall be conclusive and binding on the Borrower and each Lender if reasonably determined.
- 1.4. Sections 2.01 and 2.06(b) of the Credit Agreement are amended by adding "plus the Excess Debt" immediately after the references to "the total Revolving Credit Exposures" appearing therein.
 - 1.5. Section 2.03(b) of the Credit Agreement is amended by deleting the reference to "one Business Day before" appearing therein and substituting "on" in lieu thereof.
 - 1.6. Section 5.01(a) of the Credit Agreement is amended by deleting the reference to "90" appearing therein and substituting "100" in lieu thereof.
 - 1.7. Section 5.01(b) of the Credit Agreement is amended by deleting the reference to "45" appearing therein and substituting "50" in lieu thereof.
 - 1.8. Section 5.01(d)(ii) of the Credit Agreement is amended and restated to read as follows: "(ii) setting forth reasonably detailed calculations demonstrating compliance with Sections 6.01(e), 6.01(f), 6.01(h), 6.01(j), 6.04, 6.06, 6.10, 6.11 and 6.12 including, in the case of Section 6.01(j), a detailed description and amounts of any and all Excess Debt then outstanding, and".
 - 1.9. Section 6.01(j) of the Credit Agreement is amended by deleting the reference to "\$10,000,000" appearing therein and substituting "\$25,000,000" in lieu thereof.
 - 1.10. Section 6.12.1 of the Credit Agreement is amended and restated to read as set forth below:

SECTION 6.12.1. Minimum Consolidated EBITDA. The Borrower will not permit at any time Consolidated EBITDA, determined as of the end of each of its fiscal quarters set forth below for the applicable measurement period set forth below ending with the end of such fiscal quarter to be less than the applicable amount set forth below:

| FISCAL QUARTER ENDING | MEASUREMENT PERIOD THEN ENDING | CONSOLIDATED EBITDA SHALL NOT BE LESS THAN: |
|--|-----------------------------------|---|
| March 31, 2002 | 1 fiscal quarter | \$ (4,000,000) |
| June 30, 2002 | 1 fiscal quarter | \$ 4,000,000 |
| September 30, 2002 | 2 fiscal quarters | \$ 12,000,000 |
| December 31, 2002 | 3 fiscal quarters | \$ 17,000,000 |
| March 31, 2003 | 4 fiscal quarters | \$ 25,000,000 |
| June 30, 2003 | 4 fiscal quarters | \$ 25,000,000 |
| September 30, 2003 | 4 fiscal quarters | \$ 35,000,000 |
| December 31, 2003 | 4 fiscal quarters | \$ 35,000,000 |
| March 31, 2004 and each fiscal quarter thereafter | 4 fiscal quarters | \$ 45,000,000 |

- 1.11. Section 6.12.2 of the Credit Agreement is amended and restated to read as set forth below:

SECTION 6.12.2. Fixed Charge Coverage Ratio. The Borrower will not permit the ratio (the "Fixed Charge Coverage Ratio"), determined as of the end of each of its fiscal quarters set forth below for the applicable measurement period set forth below ending with the end of such fiscal quarter, of (i) Consolidated EBITDA to (ii) Consolidated Interest Expense plus Consolidated Capital Expenditures, all calculated for the Borrower and its Subsidiaries on a consolidated basis, to be less than the applicable ratio set forth below:

| FISCAL QUARTER ENDING | MEASUREMENT PERIOD THEN ENDING | FIXED CHARGE COVERAGE RATIO SHALL NOT BE LESS THAN: |
|---|-----------------------------------|---|
| June 30, 2002 | 1 fiscal quarter | 0.40:1.00 |
| September 30, 2002 | 2 fiscal quarters | 0.55:1.00 |
| December 31, 2002 | 3 fiscal quarters | 0.70:1.00 |
| March 31, 2003 | 4 fiscal quarters | 1.00:1.00 |
| June 30, 2003 | 4 fiscal quarters | 1.00:1.00 |
| September 30, 2003 and each fiscal quarter thereafter | 4 fiscal quarters | 1.50:1.00 |

1.12. Section 6.12.3 of the Credit Agreement is amended and restated to read as set forth below:

SECTION 6.12.3. Leverage Ratio. The Borrower will not permit the ratio, determined as of the end of each of its fiscal quarters set forth below, of (i) Consolidated Total Indebtedness to (ii) Consolidated EBITDA for the applicable measurement period set forth below ending with the end of such fiscal quarter, to be greater than 1.50 to 1.0:

| FISCAL QUARTER ENDING | MEASUREMENT PERIOD THEN ENDING |
|---|--------------------------------|
| June 30, 2002 | 1 fiscal quarter |
| September 30, 2002 | 2 fiscal quarters |
| December 31, 2002 | 3 fiscal quarters |
| March 31, 2003 and each fiscal quarter thereafter | 4 fiscal quarters |

; provided that the parties hereto acknowledge and agree that (i) Consolidated EBITDA for the fiscal quarter ending on June 30, 2002 shall be multiplied by 4, (ii) Consolidated EBITDA for the fiscal quarter ending on September 30, 2002 shall be multiplied by 2 and (iii) Consolidated EBITDA for the fiscal quarter ending on December 31, 2002 shall be multiplied by 4/3.

2. Conditions of Effectiveness. The effectiveness of this Amendment is subject to the conditions precedent that the Administrative Agent shall have received (a) duly executed signature pages to this Amendment from the Borrower, the requisite number of Lenders under Section 9.02 of the Credit Agreement, and the Administrative Agent and (b) for the ratable account of each Lender party hereto, an amendment fee in an amount equal to 0.10% of such Lender's Commitment.

3. Representations and Warranties of the Borrower.

- (a) The Borrower hereby represents and warrants that this Amendment and the Credit Agreement, as previously executed and as amended hereby, constitute legal, valid and binding obligations of the Borrower and are enforceable against the Borrower in accordance with their terms (except as enforceability may be limited by bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally).
- (b) Upon the effectiveness of this Amendment and after giving effect hereto, the Borrower hereby (i) reaffirms all covenants, representations and warranties made in the Credit Agreement as amended hereby, and agrees that all such covenants, representations and warranties shall be true and correct as of the effective date of this Amendment (unless such representation and warranty is made as of a specific date, in which case such representation and warranty shall be true and correct as of such date) and (ii) certifies to the Lenders and the Administrative Agent that no Default or Event of Default has occurred and is continuing.

4. References to the Credit Agreement.

- (a) Upon the effectiveness of Section 1 hereof, on and after the date hereof, each reference in the Credit Agreement (including any reference therein to "this Agreement," "hereunder," "hereof," "herein" or words of like import referring thereto) or in any other Loan Document shall mean and be a reference to the Credit Agreement as amended hereby.
- (b) Except as specifically amended above, the Credit Agreement and all other documents, instruments and agreements executed and/or delivered in connection therewith, shall remain in full force and effect, and are hereby ratified and confirmed.
- (c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Administrative Agent or the Lenders, nor constitute a waiver of any provision of the Credit Agreement or any other documents, instruments and agreements executed and/or delivered in connection therewith.

5. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

6. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

7. Counterparts. This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

[REMAINDER OF PAGE INTENTIONALLY BLANK]

IN WITNESS WHEREOF, this Amendment has been duly executed as of the day and year first above written.

HEIDRICK & STRUGGLES
INTERNATIONAL, INC., as the Borrower

By:/s/ Kevin J. Smith

Name: Kevin J. Smith
Title: CFO

JPMORGAN CHASE BANK, individually
and as Administrative Agent

By:/s/ Angela Rokkos

Name: Angela Rokkos
Title: Vice President

LASALLE BANK NATIONAL
ASSOCIATION

By:/s/ Amy B Yore

Name: Amy B Yore
Title: Commercial Banking Officer

THE NORTHERN TRUST COMPANY

By:/s/ Michele D. Loftus

Name: MICHELE D. LOFTUS
Title: VICE PRESIDENT

SIGNATURE PAGE TO AMENDMENT No. 1 TO CREDIT AGREEMENT

AMENDMENT NO. 2
TO
CREDIT AGREEMENT

THIS AMENDMENT NO. 2 TO CREDIT AGREEMENT (the "Amendment") is made as of November 27, 2002 by and among HEIDRICK & STRUGGLES INTERNATIONAL, INC. (the "Borrower"), the financial institutions listed on the signature pages hereof (the "Lenders"), and JPMORGAN CHASE BANK, as Administrative Agent (the "Administrative Agent"), under that certain Credit Agreement dated as of December 28, 2001 by and among the Borrower, the financial institutions party thereto, and the Administrative Agent (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"). Defined terms used herein and not otherwise defined herein shall have the meaning given to them in the Credit Agreement.

WITNESSETH

WHEREAS, the Borrower, the Lenders and the Administrative Agent are parties to the Credit Agreement; and

WHEREAS, the Borrower has requested that the Administrative Agent and the requisite number of Lenders under Section 9.02 of the Credit Agreement amend the Credit Agreement on the terms and conditions set forth herein; and

WHEREAS, the Borrower, the requisite number of Lenders under Section 9.02 of the Credit Agreement, and the Administrative Agent have agreed to amend the Credit Agreement on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises set forth above, the terms and conditions contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto have agreed to the following amendments to the Credit Agreement:

1. Amendments to the Credit Agreement. Effective as of November 27, 2002 and subject to the satisfaction of the conditions precedent set forth in Section 2 below, the Credit Agreement is hereby amended as follows:

- 1.1. The definition of "Designated Charges" appearing in Article I of the Credit Agreement is amended by deleting the reference to "\$80,000,000" appearing therein and substituting "\$105,000,000" in lieu thereof.
- 1.2. Section 6.12.5 of the Credit Agreement is amended and restated to read as set forth below:

SECTION 6.12.5. Minimum Tangible Net Worth. The Borrower will at all times maintain Consolidated Tangible Net Worth of not less than the sum of (i) \$120,000,000, plus (ii) 50% of Consolidated Net Income earned in each fiscal year beginning with the fiscal year ending on and after December 31, 2002 (without deduction for losses), plus 75% of Net Cash Proceeds received by the Borrower or any Subsidiary.

2. Conditions of Effectiveness. The effectiveness of this Amendment is subject to the conditions precedent that the Administrative Agent shall have received (a) duly executed signature pages to this Amendment from the Borrower, the requisite number of Lenders under Section 9.02 of the Credit Agreement, and the Administrative Agent and (b) for the ratable account of each Lender party hereto, an amendment fee in an amount equal to 0.05% of such Lender's Commitment.

3. Representations and Warranties of the Borrower.

(a) The Borrower hereby represents and warrants that this Amendment and the Credit Agreement, as previously executed and as amended hereby, constitute legal, valid and binding obligations of the Borrower and are enforceable against the Borrower in accordance with their terms (except as enforceability may be limited by bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally).

(b) Upon the effectiveness of this Amendment and after giving effect hereto, the Borrower hereby (i) reaffirms all covenants, representations and warranties made in the Credit Agreement as amended hereby, and agrees that all such covenants, representations and warranties shall be true and correct as of the effective date of this Amendment (unless such representation and warranty is made as of a specific date, in which case such representation and warranty shall be true and correct as of such date) and (ii) certifies to the Lenders and the Administrative Agent that no Default or Event of Default has occurred and is continuing.

4. References to the Credit Agreement.

(a) Upon the effectiveness of Section 1 hereof, on and after the date hereof, each reference in the Credit Agreement (including any reference therein to "this Agreement," "hereunder," "hereof," "herein" or words of like import referring thereto) or in any other Loan Document shall mean and be a reference to the Credit Agreement as amended hereby.

(b) Except as specifically amended above, the Credit Agreement and all other documents, instruments and agreements executed and/or delivered in connection therewith, shall remain in full force and effect, and are hereby ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Administrative Agent or the Lenders, nor constitute a waiver of any provision of the Credit Agreement or any other documents, instruments and agreements executed and/or delivered in connection therewith.

5. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

6. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

7. Counterparts. This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

[REMAINDER OF PAGE INTENTIONALLY BLANK]

IN WITNESS WHEREOF, this Amendment has been duly executed as of the day and year first above written.

HEIDRICK & STRUGGLES
INTERNATIONAL, INC., as the Borrower

By: /s/ Kenneth J. Ashley

Name: Kenneth J. Ashley
Title: Treasurer

JPMORGAN CHASE BANK, individually
and as Administrative Agent

By: /s/ Angela Rokkos

Name: Angela Rokkos
Title: VP

LASALLE BANK NATIONAL
ASSOCIATION

By: /s/ Amy B. Yore

Name: Amy B. Yore
Title: Commercial Banking Officer

THE NORTHERN TRUST COMPANY

By: /s/ Michele D. Loftus

Name: MICHELE D. LOFTUS
Title: VICE PRESIDENT

=====

BANK OF AMERICA
231 South LaSalle Street
Chicago, Illinois 60697

Demand Loan Agreement

February 24, 2003

Heidrick & Struggles International, Inc.
233 South Wacker Drive
Suite 4200
Chicago, Illinois 60676
Attention: K.J. Ashley

Ladies/Gentlemen:

BANK OF AMERICA, N.A. (the "Lender") is pleased to confirm that the Lender may, in its sole and absolute discretion, make loans to HEIDRICK & STRUGGLES INTERNATIONAL, INC. (the "Borrower") from time to time, on the following terms and conditions:

1. LINE OF CREDIT AMOUNT AND TERMS

1.1 Line of Credit Amount. The Borrower may borrow, repay and reborrow from the Lender to and including February 24, 2004 (the "Termination Date"), unless sooner notified by the Lender of the termination of this line of credit, such amounts (the "Advances") as the Borrower may from time to time request, but not exceeding the amount of \$5,000,000 (or such reduced amount as may be fixed by the Lender by written notice to the Borrower) in the aggregate at any one time outstanding.

1.2 Note Evidencing Advances. The Advances will be evidenced by the Borrower's promissory note (the "Note") in the form set forth as Exhibit A and will be payable on the earlier of the Termination Date or demand. The Lender will record all Advances made pursuant to this Agreement and all payments of principal in its records, or at its option, on the schedule attached to the Note, which records will be rebuttable presumptive evidence of the subject matter thereof.

1.3 Election to Make Advances. The Borrower agrees that its compliance with and its performance of the provisions of this Agreement do not obligate the Lender to make any Advances and that the Lender will make any Advance in its sole and absolute discretion.

1.4 Interest Rate.

(a) Prime Rate. Unless the Borrower elects an optional interest rate as described below, the interest rate is a per annum rate equal to the Lender's Prime Rate defined below.

The "Prime Rate" is the rate of interest publicly announced from time to time by the Lender as its Prime Rate (the "Index"). The Prime Rate is set by the Lender based on various factors, including the Lender's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. The Lender may price loans to its customers at, above or below the Prime Rate. Any change in the Prime Rate will take effect at the opening of business on the day specified in the public announcement of a change in the Lender's Prime Rate. The Index is not necessarily the lowest rate charged by the Lender on its loans and is set by the Lender in its sole discretion. If the Index becomes unavailable during the term of this

loan, the Lender may designate a substitute index after notifying the Borrower. The Lender will tell the Borrower the current Index rate upon the Borrower's request.

(b) Optional Interest Rates. Instead of the interest rate based on the Prime Rate, the Borrower may elect the optional LIBOR rate described in Section 1.4(c) for the Advances. The optional rate(s) shall be subject to the terms and conditions described in this Agreement. Any principal amount bearing interest at an optional rate under this Agreement is referred to as a "Portion". At the end of any interest period, the interest rate will revert to the rate based on the Prime Rate, unless the Borrower has designated another optional interest rate for the Portion.

(c) LIBOR Rate. The Borrower may elect to have all or Portions of the principal balance bear interest at a rate per year equal to the LIBOR Rate plus three-quarters (0.75) percentage points. Designation of a LIBOR Rate Portion is subject to the following requirements:

(i) The interest period during which the LIBOR Rate will be in effect will be one, two or three months. The first day of the interest period must be a day other than a Saturday or a Sunday on which the Lender is open for business in New York and London and dealing in offshore dollars (a "LIBOR Banking Day"). The last day of the interest period and the actual number of days during the interest period will be determined by the Lender using the practices of the London inter-bank market.

(ii) Each LIBOR Rate Portion will be for an amount not less than \$500,000. No more than eight separate LIBOR Rate Portions may be outstanding at any time.

(iii) "LIBOR Rate" means the interest rate determined by the following formula, rounded upward to the nearest 1/100 of one percent. (All amounts in the calculation will be determined by the Lender as of the first day of the interest period):

$$\text{LIBOR Rate} = \frac{\text{London Inter-Bank Offered Rate}}{\text{(1.00 - Reserve Percentage)}}$$

Where,

(1) "London Inter-Bank Offered Rate" means the average per annum interest rate at which U.S. dollar deposits would be offered for the applicable interest period by major banks in the London inter-bank market, as shown on the Telerate Page 3750 (or any successor page) at approximately 11:00 a.m. London time two (2) London Banking Days before the commencement of the interest period. If such rate does not appear on the Telerate Page 3750 (or any successor page), the rate for that interest period will be determined by such alternate method as reasonably selected by Lender. A "London Banking Day" is a day on which Lender's London Banking Center is open for business and dealing in offshore dollars.

(2) "Reserve Percentage" means the total of the maximum reserve percentages for determining the reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency Liabilities, as defined in Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.

(iv) The Borrower shall irrevocably request a LIBOR Rate Portion no later than 10:00 a.m. Chicago time on the LIBOR Banking Day preceding the day on which the London Inter-Bank Offered Rate will be set, as specified above. For example, if there are no intervening

holidays or weekend days in any of the relevant locations, the request must be made at least three days before the LIBOR Rate takes effect.

(v) The Borrower may not elect a LIBOR Rate with respect to any principal which is scheduled to be repaid before the last day of the applicable interest period.

(vi) Each prepayment of a LIBOR Rate Portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of accrued interest on the amount prepaid and a prepayment fee as described below. A "prepayment" is a payment of an amount on a date earlier than the scheduled payment date for such amount as required by this Agreement. The prepayment fee shall be equal to the amount (if any) by which:

(1) the additional interest which would have been payable during the interest period on the amount prepaid had it not been prepaid, exceeds

(2) the interest which would have been recoverable by the Lender by placing the amount prepaid on deposit in the domestic certificate of deposit market, the eurodollar deposit market, or other appropriate money market selected by the Lender, for a period starting on the date on which it was prepaid and ending on the last day of the interest period for such Portion (or the scheduled payment date for the amount prepaid, if earlier).

(vii) The Lender will have no obligation to accept an election for a LIBOR Rate Portion if any of the following described events has occurred and is continuing:

(1) Dollar deposits in the principal amount, and for periods equal to the interest period, of a LIBOR Rate Portion are not available in the London inter-bank market; or

(2) the LIBOR Rate does not accurately reflect the cost of a LIBOR Rate Portion.

(d) Interest Calculation. Except as otherwise stated in this Agreement, all interest will be computed on the basis of a 360-day year and the actual number of days elapsed.

(e) Default Rate. Commencing 48 hours after demand, the unpaid principal balance of the Note will bear interest at a rate per annum which is 4% percent higher than the rate of interest otherwise provided under this Agreement.

1.5 Repayment Terms.

(a) Interest. Interest accruing prior to demand on a Prime Rate Portion will be payable monthly on the first day of each month and at the time of demand, beginning with the first such date to occur after the initial Advance. Interest accruing prior to demand on an optional rate Portion will be paid on the last day of each interest period, and, if the interest period is longer than 3 months then on the day which is 3 months after the first day of the interest period, and thereafter each 3 months during the interest period. Interest accruing after demand will be payable on demand.

(b) Principal. If demand for payment is not sooner made, the Borrower will repay in full all principal and any unpaid interest or other charges outstanding under this Agreement no later than the Termination Date; provided, however, that any amount bearing interest at an optional interest rate may be repaid at the end of the applicable interest period, which shall be no later than the Termination Date.

2. DISBURSEMENTS, PAYMENTS AND COSTS

2.1 Requests for Advances. Each request for an Advance will be made in writing in a manner acceptable to the Lender, or by another means acceptable to the Lender.

2.2 Disbursements and Payments. Each Advance made by the Lender in its sole and absolute discretion and each payment by the Borrower will be made in immediately available funds.

2.3 Telephone and Telefax Authorization.

(a) The Lender may honor telephone or telefax instructions for advances or repayments or the designation of optional interest rates given or purported to be given by any one of the individuals authorized to sign loan agreements on behalf of the Borrower, or any other individual designated by any one of such authorized signers.

(b) The Borrower will indemnify and hold the Lender harmless from all liability, loss, and costs in connection with any act resulting from telephone or telefax instructions the Lender reasonably believes are made by any individual authorized by the Borrower to give such instructions. This paragraph will survive this Agreement's termination, and will benefit the Lender and its officers, employees, and agents.

2.4 Direct Debit.

(a) The Lender agrees to notify the Borrower of principal and interest due and upon notification and approval by the Borrower, with such approval not to be unreasonably withheld or delayed, the Borrower agrees that interest and principal payments will be deducted automatically on the due date from the Borrower's checking account number 8666108573, or such other of the Borrower's accounts with the Lender as designated in writing by the Borrower.

(b) The Borrower will maintain sufficient funds in the account on the dates the Lender enters debits authorized by this Agreement. If there are insufficient funds in the account on the date the Lender enters any debit authorized by this Agreement, the debit will be reversed.

2.5 Banking Days. Unless otherwise provided in this Agreement, a "Banking Day" is a day other than a Saturday, Sunday or other day on which commercial banks are authorized to close, or are in fact closed, in the state where the Lender's lending office is located. All payments and disbursements which would be due on a day which is not a Banking Day will be due on the next Banking Day. All payments received on a day which is not a Banking Day will be applied to the credit on the next Banking Day.

2.6 Additional Costs. The Borrower will pay the Lender, on demand, for the Lender's costs or losses arising from any statute or regulation, or any request or requirement of a regulatory agency which is applicable to all national banks or a class of all national banks. The costs and losses will be allocated to the Advances in a manner determined by the Lender, using any reasonable method. The costs include the following:

(a) any reserve or deposit requirements; and

(b) any capital requirements relating to the Lender's assets and commitments for credit.

2.7 Taxes. The Borrower will not deduct any taxes from any payments it makes to the Lender. If any government authority imposes any taxes on any payments made by the Borrower, the Borrower will pay the taxes and will also pay to the Lender, at the time interest is paid, any additional amount which the Lender specifies as necessary to preserve the after-tax yield the Lender would have received if such taxes had not been imposed. Upon request by the Lender, the Borrower will confirm that it has paid the taxes by giving the Lender official tax receipts

(or notarized copies) within 30 days after the due date. The Borrower will not pay the Lender's net income taxes or any taxes based upon the Lender's revenues.

3. CONDITIONS. Prior to requesting the initial Advance, the Borrower will furnish the Lender with each of the following documents, each duly executed and dated as of the date of the Borrower's acceptance of this Agreement:

3.1 Note. The Note payable to the order of the Lender.

3.2 Authorizations. Evidence that the execution, delivery and performance by the Borrower of this Agreement and the Note have been duly authorized.

3.3 Good Standing. Certificate of good standing for the Borrower from its state of incorporation.

3.4 Other Items. Any other items that the Lender reasonably requires.

4. ENFORCING THIS AGREEMENT; MISCELLANEOUS.

4.1 Illinois Law. THIS AGREEMENT IS GOVERNED BY THE INTERNAL LAWS OF THE STATE OF ILLINOIS.

4.2 Successors and Assigns. This Agreement is binding on the Borrower's and the Lender's successors and assignees. The Borrower agrees that it may not assign this Agreement without the Lender's prior written consent.

4.3 Severability; Waivers. If any part of this Agreement is not enforceable, the rest of the Agreement may be enforced.

4.4 Expenses. The Borrower agrees to reimburse the Lender upon demand, whether or not any Advance is made under this Agreement, for all expenses and reasonable attorneys' fees, including any allocated costs of in-house counsel, incurred by the Lender in (a) the preparation, negotiation and execution of this Agreement, the Note and all other documents delivered in connection with this Agreement; (b) enforcing the Borrower's obligations under this Agreement, the Note or any other document delivered in connection with this Agreement; and (c) participating in any proceeding (whether instituted by the Lender, the Borrower or any other person and whether in bankruptcy or otherwise) or responding to any claim in any way relating to this Agreement, the Note or any document delivered in connection with this Agreement. The Borrower further agrees to pay, and save the Lender harmless from all liability for, any stamp or other taxes which may be payable with respect to the execution or delivery of this Agreement or the issuance of the Note, which obligations will survive any termination of this Agreement.

4.5 One Agreement. This Agreement and any related other agreements required by this Agreement, collectively:

(a) represent the sum of the understandings and agreements between the Lender and the Borrower concerning this credit; and

(b) replace any prior oral or written agreements between the Lender and the Borrower concerning this credit; and

(c) are intended by the Lender and the Borrower as the final, complete and exclusive statement of the terms agreed to by them.

In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail.

4.6 Notices. All notices required under this Agreement shall be personally delivered or sent by first class mail, postage prepaid or by overnight courier, to the addresses set forth above, or to such other addresses as the Lender and the Borrower may specify from time to time in writing. Notices sent by first class mail shall be deemed delivered on the earlier of actual receipt or the fourth Banking Day after deposited in the U.S. mail.

4.7 Headings. Article and paragraph headings are for reference only and shall not affect the interpretation or meaning of any provisions of this Agreement.

4.8 Counterparts. This Agreement may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement.

4.9 Consent to Jurisdiction. To induce the Lender to accept this Agreement, the Borrower irrevocably agrees that subject to the Lender's sole and absolute election, ALL ACTIONS OR PROCEEDINGS IN ANY WAY ARISING OUT OF, FROM OR RELATED TO THIS AGREEMENT OR THE NOTE WILL BE LITIGATED IN COURTS HAVING SITUS WITHIN CHICAGO, ILLINOIS. THE BORROWER HEREBY CONSENTS AND SUBMITS TO THE JURISDICTION OF ANY COURT LOCATED WITHIN CHICAGO, ILLINOIS, WAIVES PERSONAL SERVICE OF PROCESS AND AGREES THAT ALL SUCH SERVICE OF PROCESS MAY BE MADE BY REGISTERED MAIL DIRECTED TO THE BORROWER AT THE ADDRESS STATED ABOVE AND SERVICE SO MADE WILL BE DEEMED TO BE COMPLETED UPON ACTUAL RECEIPT.

4.10 WAIVER OF JURY TRIAL. THE BORROWER AND THE LENDER EACH WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS (a) UNDER THIS AGREEMENT OR UNDER ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION WITH THIS AGREEMENT OR (b) ARISING FROM ANY BANKING RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT, AND AGREES THAT ANY SUCH ACTION OR PROCEEDING WILL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY. THE BORROWER FURTHER AGREES THAT IT WILL NOT ASSERT ANY CLAIM AGAINST THE LENDER ON ANY THEORY OF LIABILITY FOR SPECIAL, INDIRECT, CONSEQUENTIAL, INCIDENTAL OR PUNITIVE DAMAGES.

If the foregoing is acceptable, please indicate the Borrower's agreement by signing a copy of this Agreement where indicated below.

Very truly yours,

BANK OF AMERICA, N.A

By: /s/ CRAIG W. MCGUIRE

Title: CRAIG W. MCGUIRE

VICE PRESIDENT

The foregoing is agreed to this
24th day of FEBRUARY, 2003 KJA

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

By: /s/ Kenneth J. Ashley

Title: TREASURER

STATE OF IL)
 }
COUNTRY OF COOK)

Subscribed sworn to and acknowledged before me this 24th day of February, 2003 by Kenneth J. Ashley, as Treasurer of Heidrick & Struggles International, Inc, who personally appeared before me.

Witness my hand and official seal.

My commission expires: 1/6/06

/s/ Zaida Torres

Notary Public

[SEAL OF ZAIDA TORRES]

1998 HEIDRICK & STRUGGLES
GLOBALSHARE PROGRAM I, AS AMENDED

1. PURPOSE OF THE PROGRAM

The purpose of the Program is to aid the Company and its Subsidiaries and Affiliates in securing and retaining certain individuals who are members of the Board or employees of the Company, its Subsidiaries and Affiliates and to motivate such individuals to exert their best efforts on behalf of the Company, its Subsidiaries and Affiliates by providing incentives through the granting of Awards. The Company expects that it will benefit from the added interest which such individuals will have in the welfare of the Company as a result of their proprietary interest in the Company's success.

2. DEFINITIONS

The following capitalized terms used in the Program have the respective meanings set forth in this Section:

- (a) Act: The Securities Exchange Act of 1934, as amended, or any successor thereto.
- (b) Affiliate: Any entity in which the Company, directly or indirectly, has at least a five percent ownership interest.
- (c) Award: The grant of an Option, Stock Appreciation Right, Other Stock-Based Award, or Cash Award pursuant to such terms, conditions, requirements and limitations as the Board may establish in order to fulfill the objectives of the Program.
- (d) Beneficial Owner: As such term is defined in Rule 13d-3 under the Act (or any successor rule thereto).
- (e) Board: The Board of Directors of the Company.
- (f) Cash Award: Awards granted pursuant to Section 11 of the Program.
- (g) Cause: The (i) failure to perform duties which is not cured within thirty (30) days of receiving written notice, (ii) conviction or plea of guilty or no contest to (x) a felony or (y) a crime involving moral turpitude or (iii) willful malfeasance or misconduct which is materially injurious to the Company.

- (h) Change in Control: The occurrence of any of the following events:
- (i) any Person (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 30 percent or more of the combined voting power of the Company's then-outstanding securities;
 - (ii) during any period of 24 months (not including any period prior to June 30, 2002), individuals who, at the beginning of such period, constitute the Board, and any new director (other than (A) a director nominated by a Person who has entered into an agreement with the Company to effect a transaction described in Sections 2(h)(i), (iii) or (iv) hereof, (B) a director nominated or proposed by any Person who has publicly announced or advised the Company of an intention to take or to consider taking actions (including, but not limited to, an actual or threatened proxy contest) which, if consummated, would constitute a Change in Control, or (C) a director nominated by any Person who is the Beneficial Owner, directly or indirectly, of securities of the Company representing 10 percent or more of the combined voting power of the Company's securities) whose election by the Board or nomination for election by the Company's stockholders was approved in advance by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof;
 - (iii) the consummation of any transaction or series of transactions under which the Company is merged or consolidated with any other company (other than a merger or consolidation (A) which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent corporation) more than 66-2/3 percent of the combined voting power of the voting securities of the Company or such surviving entity or its parent corporation outstanding immediately after such merger or consolidation and (B) after which no Person holds 30 percent or more of the combined voting power of the then-outstanding securities of the Company or such surviving entity or its parent corporation);
 - (iv) the consummation of a plan of complete liquidation of the Company or of a sale or disposition by the Company of all or substantially all of the Company's assets; or

- (v) any other event occurs which the Board determines, in its discretion, to be a Change in Control.

Notwithstanding the foregoing, a Change in Control shall not occur with respect to a Participant by reason of any event which would otherwise constitute a Change in Control if, immediately after the occurrence of such event, (x) the Company ceases to be subject to the requirement to file reports pursuant to Section 13 or Section 15(d) of the Act and no more than 50% of the then outstanding shares of common stock of the Company or any acquiror or successor to substantially all of the business of the Company is owned, directly or indirectly, by any entity subject to such requirements and (y) individuals (which may or may not include the Participant) who were executive officers of the Company immediately prior to the occurrence of such event, own, directly or indirectly, on a fully diluted basis, (1) 25% or more of the then outstanding shares of common stock of the Company or any acquiror or successor to substantially all of the business of the Company or (2) 25% or more of the combined voting power of the then outstanding voting securities of the Company or any acquiror or successor to substantially all of the business of the Company entitled to vote generally in the election of directors.

- (i) Code: The Internal Revenue Code of 1986, as amended, or any successor thereto.
- (j) Committee: The Compensation Committee of the Board.
- (k) Company: Heidrick & Struggles International, Inc. a Delaware corporation, and any successor thereto.
- (l) Disability: (i) A physical or mental condition entitling the Company to terminate the Participant's employment agreement between the Participant and the Company or (ii) in the absence of such a provision for disability termination or in the absence of an employment agreement, a physical or mental incapacity of a Participant which entitles the Participant to benefits under the long-term disability plan applicable to the Participant and maintained by the Company or any Subsidiary or Affiliate.
- (m) Deferred Compensation Plan: The Heidrick & Struggles International, Inc. Deferred Compensation Plan, as it may be amended from time to time.
- (n) Effective Date: The date on which the Program takes effect, as defined pursuant to Section 22 of the Program.
- (o) Fair Market Value: As of any date, the value of a Share as determined by the Committee or under procedures established by the Committee. Unless otherwise determined by the Committee, the value of a Share as of any

date shall be the closing price of a Share as reported on such date on the Composite Tape of the principal national securities exchange on which the Shares are listed or admitted to trading, or, if no Composite Tape exists for such national securities exchange on such date, then on the principal national securities exchange on which the Shares are listed or admitted to trading, or, if the Shares are not listed or admitted on a national securities exchange, the per Share closing price on such date as quoted on the National Association of Securities Dealers Automated Quotation System (or such market in which such prices are regularly quoted), or, if there is no market on which the Shares are regularly quoted, the Fair Market Value shall be the value established by the Committee in good faith. If no sale of Shares shall have been reported on such Composite Tape or such national securities exchange on such date or quoted on the National Association of Securities Dealer Automated Quotation System on such date, then the immediately preceding date on which sales of the Shares have been so reported or quoted shall be used.

- (p) LSAR: A limited stock appreciation right granted pursuant to Section 9(d) of the Program.
- (q) Other Stock-Based Awards: Awards granted pursuant to Section 10 of the Program.
- (r) Option: A stock option granted pursuant to Section 8 of the Program.
- (s) Option Price: The purchase price per Share of an Option, as determined pursuant to Section 8(a) of the Program.
- (t) Participant: An individual who is selected by the Committee to participate in the Program pursuant to Section 6 of the Program.
- (u) Performance-Based Awards: Certain Cash Awards or Other Stock-Based Awards granted in accordance with Section 12 of the Program.
- (v) Person: As such term is defined in Section 3 of the Act or as such term is used for purposes of Section 13(d) or 14(d) of the Act (or any successor section thereto).
- (w) Program: The 1998 Heidrick & Struggles GlobalShare Program I, as it may be amended from time to time.
- (x) Retirement: Termination of employment with the Company or a Subsidiary after such Participant has attained age sixty-five (65); or, with the prior written consent of the Committee that such termination be treated

as a Retirement hereunder, termination of employment under other circumstances.

- (y) Share: A share of common stock, par value \$0.01 per Share, of the Company.
- (z) Stock Appreciation Right: A stock appreciation right granted pursuant to Section 9 of the Program.
- (aa) Subsidiary: A subsidiary corporation, as defined in Section 424(f) of the Code (or any successor section thereto).

3. SHARES SUBJECT TO THE PROGRAM

The total number of Shares authorized or reserved for issuance upon the exercise or issuance of all Awards under the Program and the 1998 Heidrick & Struggles GlobalShare Program II ("Program II") (herein collectively referred to as the "Overall Program"), subject to adjustments upon certain events described in Section 14 of the Program, shall not exceed an aggregate amount equal to forty percent (40%) of the highest number of Shares which are issued and outstanding from time to time during the term of the Overall Program; provided, however, that in no event will the sum of the total number of Shares authorized or reserved for issuance upon the exercise or issuance of all Awards granted under the Overall Program plus the total amount of the Company's issued and outstanding Shares exceed the number of Shares authorized for issuance under the Company's Amended and Restated Certificate of Incorporation; and provided, further, that the total number of Shares with respect to which incentive stock options ("ISOs") may be granted shall not exceed 2,000,000.

4. PER-PERSON AWARD LIMITATIONS

(a) Share Award Limitations. The aggregate maximum number of Shares with respect to which Awards may be granted under the Overall Program during a calendar year to any Participant in either the Program or Program II shall be 400,000. The Shares may consist, in whole or in part, of authorized and unissued Shares or treasury Shares or Shares which are authorized and issued and have been acquired by or on behalf of the Company or the Overall Program and are available for Awards under the Overall Program. The issuance of Shares or the payment of cash upon the exercise of an Award (other than a Cash Award) shall reduce the total number of Shares available under the Overall Program, as applicable. Shares which are subject to Awards which are forfeited, terminated, or expire unexercised may be granted again under the Overall Program.

(b) Cash Award Limitations. For all Cash Awards granted under the Overall Program in any one fiscal year to any Participant in either the Program or Program II, the maximum amount such Participant may receive under such Cash Awards shall be \$3,000,000.

5. ADMINISTRATION

The Program shall be administered by the Committee, which may delegate its duties and powers in whole or in part to any subcommittee thereof consisting solely of at least two individuals who are each "non-employee directors" within the meaning of Rule 16b-3 under the Act (or any successor rule thereto) and "outside directors" within the meaning of Section 162(m) of the Code (or any successor section thereto). The Committee is authorized to interpret the Program, to establish, amend and rescind any rules and regulations relating to the Program, and to make any other determinations that it deems necessary or desirable for the administration of the Program. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Program in the manner and to the extent the Committee deems necessary or desirable. Any decision of the Committee in the interpretation and administration of the Program, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned (including, but not limited to, Participants and their beneficiaries or successors).

6. ELIGIBILITY

Employees and directors of the Company and its Subsidiaries and Affiliates are eligible to be granted Awards under the Program. Participants shall be selected by the Committee, in its sole discretion, from among those eligible, and the Committee shall determine, in its sole discretion, the number of Shares or the amount of cash with respect to which Awards will be granted to each Participant.

7. LIMITATIONS

No Award may be granted under the Program after the tenth anniversary of the Effective Date, but Awards theretofore granted may extend beyond that date.

8. TERMS AND CONDITIONS OF OPTIONS

Options granted under the Program shall be, as determined by the Committee, non-qualified options or ISOs for federal income tax purposes, as outlined and evidenced by the related Award agreements, and shall be subject to the foregoing and the following terms and conditions and to such other terms and conditions, not inconsistent therewith, as the Committee shall determine:

(a) Option Price. The Option Price per Share shall be determined by the Committee, but shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the date an Option is granted.

(b) Exercisability. Options granted under the Program shall be exercisable at such time and upon such terms and conditions as may be determined by the Committee, but in no event shall an ISO granted under the Program be exercisable more than ten (10) years after the date it is granted.

(c) Exercise of Options. Except as otherwise provided in the Program or in an Award agreement, an Option may be exercised for all, or from time to time any part, of the Shares for which it is then exercisable. For purposes of Section 8 of the Program, the exercise date of an Option shall be the later of the date a notice of exercise is received by the Company and, if applicable, (A) the date payment is received by the Company under (i), (ii) or (iii) below, or (B) the date irrevocable instructions are delivered to a broker for sale of such Shares, in accordance with (iv) below. The purchase price for the Shares as to which an Option is exercised shall be paid to the Company in full at the time of exercise at the election of the Participant (i) in cash, (ii) in Shares having a Fair Market Value equal to the aggregate Option Price for the Shares being purchased and satisfying such other requirements as may be imposed by the Committee, (iii) partly in cash and partly in such Shares, or (iv) through the delivery of irrevocable instructions to a broker to deliver promptly to the Company an amount equal to the aggregate Option Price for the Shares being purchased. No Participant shall have any rights to dividends or other rights of a stockholder with respect to Shares subject to an Option until the Participant has given written notice of exercise of the Option, paid in full for such Shares and, if applicable, has satisfied any other conditions imposed by the Committee pursuant to the Program.

9. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS

(a) Grants. The Committee also may grant (i) a Stock Appreciation Right independent of an Option, or (ii) a Stock Appreciation Right in connection with an Option, or a portion thereof. A Stock Appreciation Right granted pursuant to clause (ii) of the preceding sentence (A) may be granted at the time the related Option is granted or at any time prior to the exercise or cancellation of the related Option, (B) shall cover the same Shares covered by the

Option (or such lesser number of Shares as the Committee may determine), and (C) shall be subject to the same terms and conditions as such Option except for such additional limitations as are contemplated by this Section 9 (or such additional limitations as may be included in an Award agreement).

(b) Terms. The exercise price per Share of a Stock Appreciation Right shall be an amount determined by the Committee but in no event shall such amount be less than the greater of (i) the Fair Market Value of a Share on the date the Stock Appreciation Right is granted or, in the case of a Stock Appreciation Right granted in conjunction with an Option or a portion thereof, the Option Price of the related Option, and (ii) an amount permitted by applicable laws, rules, by-laws or policies of regulatory authorities or stock exchanges. Each Stock Appreciation Right granted independent of an Option shall entitle a Participant upon exercise to an amount equal to (i) the excess of (A) the Fair Market Value on the exercise date of one Share over (B) the exercise price per Share, times (ii) the number of Shares covered by the Stock Appreciation Right. Each Stock Appreciation Right granted in conjunction with an Option, or a portion thereof, shall entitle a Participant to surrender to the Company the unexercised Option, or any portion thereof, and to receive from the Company in exchange therefor an amount equal to (i) the excess of (A) the Fair Market Value on the exercise date of one Share over (B) the Option Price per Share, times (ii) the number of Shares covered by the Option, or portion thereof, which is surrendered. The date a notice of exercise is received by the Company shall be the exercise date. Payment shall be made to the Participant in Shares or in cash, or partly in Shares and partly in cash, valued at such Fair Market Value, all as shall be determined by the Committee. Stock Appreciation Rights may be exercised from time to time upon actual receipt by the Company of written notice of exercise stating the number of Shares with respect to which the Stock Appreciation Right is being exercised. No fractional Shares will be issued in payment for Stock Appreciation Rights, but instead cash will be paid for a fraction or, if the Committee should so determine, the number of Shares will be rounded downward to the next whole Share.

(c) Limitations. The Committee may impose, in its discretion, such conditions upon the exercisability or transferability of Stock Appreciation Rights as it may deem fit.

(d) Limited Stock Appreciation Rights. The Committee may grant LSARs that are exercisable upon the occurrence of specified contingent events. Such LSARs may provide for a different method of determining appreciation, may specify that payment will be made only in cash and may provide that any related Awards are not exercisable while such LSARs are exercisable. Unless the context otherwise requires, whenever the term "Stock Appreciation Right" is used in the Program, such term shall include LSARs.

10. OTHER STOCK-BASED AWARDS

The Committee, in its sole discretion, may grant Awards of Shares, Awards of restricted Shares and Awards that are valued in whole or in part by reference to, or are otherwise

based on the Fair Market Value of, Shares ("Other Stock-Based Awards"). Such Other Stock-Based Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, without limitation, the right to receive one or more Shares (or the equivalent cash value of such Shares) upon the completion of a specified period of service, the occurrence of an event and/or the attainment of performance objectives. Other Stock-Based Awards may be granted alone or in addition to any other Awards granted under the Program. Subject to the provisions of the Program, the Committee shall determine to whom and when Other Stock-Based Awards will be made; the number of Shares to be awarded under (or otherwise related to) such Other Stock-Based Awards; whether such Other Stock-Based Awards shall be settled in cash, Shares or a combination of cash and Shares; and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof).

11. CASH AWARDS

The Committee, in its sole discretion, may grant Awards which are not valued in whole or in part by reference to, or otherwise based on the Fair Market Value of, Shares and which may be paid to Participants in cash (or, in the Committee's discretion in Shares) ("Cash Awards"). Such Cash Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, without limitation, the right to receive a payment upon the completion of a specified period of service, the occurrence of an event and/or the attainment of performance objectives. Cash Awards may be granted alone or in addition to any other Awards granted under the Program. Subject to the provisions of the Program, the Committee shall determine to whom and when Cash Awards will be made; the amount payable under such Cash Awards, the form of such payment, and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof).

12. PERFORMANCE-BASED AWARDS

Notwithstanding anything to the contrary herein, certain Other Stock-Based Awards granted under Section 10 and certain Cash Awards granted under Section 11 may be granted on the basis of performance of the Company ("Performance-Based Awards"), and designated as Performance-Based Awards; provided, however, that the Committee may grant other Awards that are not intended to be Performance-Based Awards (even though such Awards are subject to the attainment of specified performance goals) and not designated as such. A Participant's Performance-Based Award shall be determined based on the attainment of written performance goals approved by the Committee for a performance period established by the Committee of up to ten (10) years (i) while the outcome for that performance period is substantially uncertain and (ii) no more than 90 days after the commencement of the performance period to which the performance goal relates or, if less, the number of days which is equal to 25 percent of the relevant performance period. The performance goals, which must be objective, shall be based upon one or more of the following criteria: (i) consolidated earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per Share; (v) book value per Share; (vi) return on stockholders' equity; (vii) expense management; (viii) return on investment; (ix) improvements in capital structure; (x) profits or profitability, including of an identifiable business unit or

product; (xi) maintenance or improvement of profit margins; (xii) price per Share; (xiii) market share; (xiv) revenues or sales; (xv) costs; (xvi) cash flow; (xvii) working capital and (xviii) return on assets. The foregoing criteria may relate to the Company, one or more of its Subsidiaries or Affiliates or one or more of its divisions or units, or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the performance goals may be calculated without regard to extraordinary items. The Committee shall determine whether, with respect to a performance period, the applicable performance goals have been met with respect to a given Participant and, if they have, to so certify and ascertain the amount of the applicable Performance-Based Award. No Performance-Based Awards will be paid for such performance period until such certification is made by the Committee. The amount of the Performance-Based Award actually paid to a given Participant may be less than the amount determined by the applicable performance goal formula, at the discretion of the Committee. The amount of the Performance-Based Award determined by the Committee for a performance period shall be paid to the Participant at such time as determined by the Committee in its sole discretion after the end of such performance period; provided, however, that a Participant may, if and to the extent permitted by the Committee and consistent with the provisions of Section 162(m) of the Code, elect to defer payment of a Performance-Based Award.

13. TAX WITHHOLDING

A Participant shall have the duty to pay to the Company an amount equal to the taxes required by any government to be withheld or otherwise deducted and paid by the Company as a result of the exercise by the Participant of any Award or the delivery to the Participant of any cash or Shares pursuant to any Award. Shares shall not be delivered to the Participant until such time as such payment has been made. The Committee may, in its discretion and subject to such rules as it may adopt, permit or, in the absence of the receipt of payment therefore within prescribed time periods, permit the Participant to pay all or a portion of the withholding taxes (federal, state, local and other) by electing to have the Company withhold Shares, otherwise issuable, or by delivering Shares already owned by the Participant, in each case, having a Fair Market Value equal to all or any portion of the withholding tax to be satisfied in this manner. However, in no event will the amount of Shares withheld exceed the amount necessary to satisfy the required minimum statutory withholding. The Company may also withhold any such withholding taxes from any cash payments made hereunder.

14. ADJUSTMENTS UPON CERTAIN EVENTS

Notwithstanding any other provisions in the Program to the contrary, the following provisions shall apply to all Awards granted under the Program:

(a) Generally. In the event of any change in the outstanding Shares after the Effective Date by reason of any Share dividend or split, reorganization, recapitalization, merger,

consolidation, spin-off, combination or exchange of Shares or other corporate exchange, or any distribution to stockholders of Shares other than regular cash dividends, or in the event any of the foregoing events or any similar event affects the Company, any Affiliate or any business unit, or the financial statements of the Company or any Affiliate or the bases for the computation of any Award, the Committee in its sole discretion and without liability to any Person may make such substitution or adjustment, if any, as it deems to be equitable, as to (i) the number or kind of Shares or other securities issued or reserved for issuance pursuant to the Program or pursuant to outstanding Awards, (ii) the limits on Awards set forth in Sections 3 and 4 hereof, (iii) the Option Price and/or (iv) any other affected terms of such Awards (including, without limitation, the amount payable thereunder or any performance objectives set with respect thereto).

(b) Change in Control. Except as otherwise provided in an Award agreement, in the event of a Change in Control: (i) any Award carrying a right to exercise that was not previously exercisable and vested shall become fully exercisable and vested as of the time of the Change in Control; (ii) the restrictions, deferral of settlement, and forfeiture conditions applicable to any other Award granted under the Program shall lapse and such Awards shall be deemed fully vested as of the time of the Change in Control; and (iii) with respect to any Award subject to achievement of performance objectives and conditions under the Program, such performance objectives and other conditions will be deemed to be met at target, unless otherwise provided by the Committee, as of the time of the Change in Control. The Company shall deliver Shares or make payments with respect to such Awards to a Participant as may be required by this Section 14(b) within an administratively feasible period of time following the Change in Control; provided, however, that if a Participant has previously elected to defer payment of any such Award and elects, pursuant to the provisions of the Deferred Compensation Plan, to reaffirm such deferral, such deferred Award will be paid in accordance with such election. Notwithstanding anything herein to the contrary, the Committee in its sole discretion and without liability to any Person may take such actions, if any, as it deems necessary or desirable with respect to any Award (including, without limitation, (x) the payment of a cash amount in exchange for the cancellation of an Award and/or (y) the requiring of the issuance of substitute Awards that will substantially preserve the value, rights and benefits of any affected Awards previously granted hereunder) as of the time of the Change in Control. Any such determination by the Committee shall be final and binding upon the Company and all Participants.

15. CERTAIN SECURITIES AND TAX LAW MATTERS

(a) Securities Laws.

(i) The Company shall be under no obligation to effect the registration pursuant to the Securities Act of 1933, as amended (or any successor statute) of any Shares to be issued hereunder or to effect similar compliance under the laws of any state or other jurisdiction. Notwithstanding anything herein to the contrary, the Company shall not be obligated to cause to be issued or delivered any certificates evidencing Shares pursuant to the Program unless and until the Company is advised by its counsel that the issuance and delivery of such certificates is in

compliance with all applicable laws, regulations of governmental authority and the requirements of any securities exchange on which Shares are traded. The Committee may require, as a condition of the issuance and delivery of certificates evidencing Shares pursuant to the terms hereof, that the recipient of such Shares make such covenants, agreements and representations, and that such certificates bear such legends, as the Committee, in its sole discretion, deems necessary or desirable.

(ii) The exercise of any Option granted hereunder shall only be effective at such time as counsel to the Company shall have determined that the issuance and delivery of Shares pursuant to such exercise is in compliance with all applicable laws, regulations of governmental authority and the requirements of any securities exchange on which Shares are traded. The Company may, in its sole discretion, defer the effectiveness of any exercise of an Option granted hereunder in order to allow the issuance of Shares pursuant thereto to be made pursuant to registration or an exemption from registration or other methods for compliance available under federal or state securities laws. The Company shall inform the Participant in writing of its decision to defer the effectiveness of the exercise of an Option granted hereunder. During the period that the effectiveness of the exercise of an Option has been deferred, the Participant may, by written notice, withdraw such exercise and obtain the refund or any amount paid with respect thereto.

(b) Section 162(m): The Committee may modify the terms of any Award (including by means of accelerated or deferred payouts) relating to compensation that does not constitute "qualified performance-based compensation" within the meaning of Section 162(m) of the Code or otherwise does not qualify for an exemption from Section 162(m) of the Code in order to permit the deductibility of such compensation under Section 162(m) of the Code by the Company.

16. NO RIGHT TO EMPLOYMENT; NO OBLIGATION OF UNIFORM TREATMENT

The granting of an Award under the Program shall impose no obligation on the Company or any Subsidiary or Affiliate to continue the employment of a Participant and shall not lessen or affect the Company's, Subsidiary's or Affiliate's right to terminate the employment of such Participant. No Participant, officer, employee or director shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Participants or any other Persons.

17. SUCCESSORS AND ASSIGNS

The Program shall be binding on all successors and assigns of the Company and a Participant, including without limitation, any beneficiary of such Participant, the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.

18. NONTRANSFERABILITY OF AWARDS

Except to the extent provided by the Committee, an Award shall not be transferable or assignable by the Participant otherwise than by will or by the laws of descent and distribution. Any Awards exercisable or Shares deliverable after a Participant's death shall be exercisable by or delivered to a beneficiary as designated in writing by the Participant. If no beneficiary is so designated, such Award shall be exercisable by or such Shares will be delivered to the Participant's estate. The Participant may change his or her designated beneficiary under this Program by filing with the Committee written notice of such change.

19. AMENDMENTS OR TERMINATION

The Board may amend, alter or discontinue the Program, but, if necessary to obtain an exemption from Section 16 of the Act or Section 162(m) of the Code, no amendment, alteration or discontinuation shall be made which, (a) without the approval of the stockholders of the Company, would (except as is provided in Section 14 of the Program), increase the total number of Shares reserved for the purposes of the Program, or (b) without the consent of a Participant, would impair any of the rights or obligations under any Award theretofore granted to such Participant under the Program; provided, however, that the Committee may amend the Program in such manner as it deems necessary to permit the granting of Awards meeting the requirements of the Code or other applicable laws. Notwithstanding anything to the contrary herein, the Board may not amend, alter or discontinue the provisions relating to Section 14(b) of the Program after the occurrence of a Change in Control.

20. INTERNATIONAL PARTICIPANTS

With respect to Participants who reside or work outside the United States of America and who are not (and who are not expected to be) "covered employees" within the meaning of Section 162(m) of the Code, the Committee may, in its sole discretion, amend the terms of the Program or Awards with respect to such Participants in order to conform such terms with the requirements of local law.

21. CHOICE OF LAW

The Program shall be governed by and construed in accordance with the laws of the State of Illinois applicable to contracts made and to be performed in the State of Illinois.

22. EFFECTIVENESS OF THE PROGRAM

The Program shall be effective as of June 9, 1998. No new Awards may be granted under the Program after June 8, 2008.

1998 HEIDRICK & STRUGGLES
GLOBALSHARE PROGRAM II, AS AMENDED

1. PURPOSE OF THE PROGRAM

The purpose of the Program is to aid the Company and its Subsidiaries and Affiliates in rewarding certain individuals who are independent contractors to or non-employee directors of the Company, its Subsidiaries and Affiliates and to motivate such individuals to exert their best efforts on behalf of the Company, its Subsidiaries and Affiliates by providing incentives through the granting of Awards. The Company expects that it will benefit from the added interest which such individuals will have in the welfare of the Company as a result of their proprietary interest in the Company's success.

2. DEFINITIONS

The following capitalized terms used in the Program have the respective meanings set forth in this Section:

- (a) Act: The Securities Exchange Act of 1934, as amended, or any successor thereto.
- (b) Affiliate: Any entity in which the Company, directly or indirectly, has at least a five percent ownership interest.
- (c) Award: The grant of an Option, Stock Appreciation Right, Other Stock-Based Award, or Cash Award pursuant to such terms, conditions, requirements and limitations as the Board may establish in order to fulfill the objectives of the Program.
- (d) Beneficial Owner: As such term is defined in Rule 13d-3 under the Act (or any successor rule thereto).
- (e) Board: The Board of Directors of the Company.
- (f) Cash Award: Awards granted pursuant to Section 11 of the Program.

- (g) Cause: The (i) failure to perform duties which is not cured within thirty (30) days of receiving written notice, (ii) conviction or plea of guilty or no contest to (x) a felony or (y) a crime involving moral turpitude or (iii) willful malfeasance or misconduct which is materially injurious to the Company.
- (h) Change in Control: The occurrence of any of the following events:
- (i) any Person (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 30 percent or more of the combined voting power of the Company's then-outstanding securities;
- (ii) during any period of 24 months (not including any period prior to June 30, 2002), individuals who, at the beginning of such period, constitute the Board, and any new director (other than (A) a director nominated by a Person who has entered into an agreement with the Company to effect a transaction described in Sections 2(h)(i), (iii) or (iv) hereof, (B) a director nominated or proposed by any Person who has publicly announced or advised the Company of an intention to take or to consider taking actions (including, but not limited to, an actual or threatened proxy contest) which, if consummated, would constitute a Change in Control, or (C) a director nominated by any Person who is the Beneficial Owner, directly or indirectly, of securities of the Company representing 10 percent or more of the combined voting power of the Company's securities) whose election by the Board or nomination for election by the Company's stockholders was approved in advance by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof;
- (iii) the consummation of any transaction or series of transactions under which the Company is merged or consolidated with any other company (other than a merger or consolidation (A) which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent corporation) more than 66-2/3 percent of the combined voting power of the voting securities of the Company or such surviving entity or its parent corporation outstanding immediately after such merger or consolidation and (B) after which no Person holds 30 percent or

more of the combined voting power of the then-outstanding securities of the Company or such surviving entity or its parent corporation);

- (iv) the consummation of a plan of complete liquidation of the Company or of a sale or disposition by the Company of all or substantially all of the Company's assets; or
- (v) any other event occurs which the Board determines, in its discretion, to be a Change in Control.

Notwithstanding the foregoing, a Change in Control shall not occur with respect to a Participant by reason of any event which would otherwise constitute a Change in Control if, immediately after the occurrence of such event, (x) the Company ceases to be subject to the requirement to file reports pursuant to Section 13 or Section 15(d) of the Act and no more than 50% of the then outstanding shares of common stock of the Company or any acquiror or successor to substantially all of the business of the Company is owned, directly or indirectly, by any entity subject to such requirements and (y) individuals (which may or may not include the Participant) who were executive officers of the Company immediately prior to the occurrence of such event, own, directly or indirectly, on a fully diluted basis, (1) 25% or more of the then outstanding shares of common stock of the Company or any acquiror or successor to substantially all of the business of the Company or (2) 25% or more of the combined voting power of the then outstanding voting securities of the Company or any acquiror or successor to substantially all of the business of the Company entitled to vote generally in the election of directors.

- (i) Code: The US Internal Revenue Code of 1986, as amended, or any successor thereto.
- (j) Committee: The Compensation Committee of the Board.
- (k) Company: Heidrick & Struggles International, Inc. a Delaware corporation, and any successor thereto.
- (l) Deferred Compensation Plan: The Heidrick & Struggles International, Inc. Deferred Compensation Plan, as it may be amended from time to time.
- (m) Effective Date: The date on which the Program takes effect, as defined pursuant to Section 22 of the Program.
- (n) Fair Market Value: As of any date, the value of a Share as determined by the Committee or under procedures established by the Committee. Unless otherwise determined by the Committee, the value of a Share as of any

date shall be the closing price of a Share as reported on such date on the Composite Tape of the principal national securities exchange on which the Shares are listed or admitted to trading, or, if no Composite Tape exists for such national securities exchange on such date, then on the principal national securities exchange on which the Shares are listed or admitted to trading, or, if the Shares are not listed or admitted on a national securities exchange, the per Share closing price on such date as quoted on the National Association of Securities Dealers Automated Quotation System (or such market in which such prices are regularly quoted), or, if there is no market on which the Shares are regularly quoted, the Fair Market Value shall be the value established by the Committee in good faith. If no sale of Shares shall have been reported on such Composite Tape or such national securities exchange on such date or quoted on the National Association of Securities Dealer Automated Quotation System on such date, then the immediately preceding date on which sales of the Shares have been so reported or quoted shall be used.

- (o) LSAR: A limited stock appreciation right granted pursuant to Section 9(d) of the Program.
- (p) Other Stock-Based Awards: Awards granted pursuant to Section 10 of the Program.
- (q) Option: A stock option granted pursuant to Section 8 of the Program.
- (r) Option Price: The purchase price per Share of an Option, as determined pursuant to Section 8(a) of the Program.
- (s) Participant: An individual who is selected by the Committee to participate in the Program pursuant to Section 6 of the Program.
- (t) Performance-Based Awards: Certain Cash Awards or Other Stock-Based Awards granted in accordance with Section 12 of the Program.
- (u) Person: As such term is defined in Section 3 of the Act or as such term is used for purposes of Section 13(d) or 14(d) of the Act (or any successor section thereto).
- (v) Program: The 1998 Heidrick & Struggles GlobalShare Program II, as it may be amended from time to time.
- (w) Share: A share of common stock, par value \$0.01 per Share, of the Company.

- (x) Stock Appreciation Right: A stock appreciation right granted pursuant to Section 9 of the Program.
- (y) Subsidiary: A subsidiary corporation, as defined in Section 424(f) of the Code (or any successor section thereto).

3. SHARES SUBJECT TO THE PROGRAM

The total number of Shares authorized or reserved for issuance upon the exercise or issuance of all Awards under the Program and the 1998 Heidrick & Struggles GlobalShare Program I ("Program I") (herein collectively referred to as the "Overall Program"), subject to adjustments upon certain events described in Section 14 of the Program, shall not exceed an aggregate amount equal to forty percent (40%) of the highest number of Shares which are issued and outstanding from time to time during the term of the Overall Program; provided, however, that in no event will the sum of the total number of Shares authorized or reserved for issuance upon the exercise or issuance of all Awards granted under the Overall Program plus the total amount of the Company's issued and outstanding Shares exceed the number of Shares authorized for issuance under the Company's Amended and Restated Certificate of Incorporation; and provided, further, that the total number of Shares with respect to which incentive stock options ("ISOs") may be granted shall not exceed 2,000,000.

4. PER-PERSON AWARD LIMITATIONS

(a) Share Award Limitations. The aggregate maximum number of Shares with respect to which Awards may be granted under the Overall Program during a calendar year to any Participant in either the Program or Program I shall be 400,000. The Shares may consist, in whole or in part, of authorized and unissued Shares or treasury Shares or Shares which are authorized and issued and have been acquired by or on behalf of the Company or the Overall Program and are available for Awards under the Overall Program. The issuance of Shares or the payment of cash upon the exercise of an Award (other than a Cash Award) shall reduce the total number of Shares available under the Overall Program, as applicable. Shares which are subject to Awards which are forfeited, terminated, or expire unexercised may be granted again under the Overall Program.

(b) Cash Award Limitations. For all Cash Awards granted under the Overall Program in any one fiscal year to any Participant in either the Program or Program I, the maximum amount such Participant may receive under such Cash Awards shall be \$3,000,000.

5. ADMINISTRATION

The Program shall be administered by the Committee, which may delegate its duties and powers in whole or in part to any subcommittee thereof consisting solely of at least two individuals who are each "non-employee directors" within the meaning of Rule 16b-3 under the Act (or any successor rule thereto) and "outside directors" within the meaning of Section 162(m) of the Code (or any successor section thereto). The Committee is authorized to interpret the Program, to establish, amend and rescind any rules and regulations relating to the Program, and to make any other determinations that it deems necessary or desirable for the administration of the Program. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Program in the manner and to the extent the Committee deems necessary or desirable. Any decision of the Committee in the interpretation and administration of the Program, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned (including, but not limited to, Participants and their beneficiaries or successors).

6. ELIGIBILITY

Independent contractors to and non-employee directors of the Company and its Subsidiaries and Affiliates are eligible to be granted Awards under the Program. Participants shall be selected by the Committee, in its sole discretion, from among those eligible, and the Committee shall determine, in its sole discretion, the number of Shares or the amount of cash with respect to which Awards will be granted to each Participant.

7. LIMITATIONS

No Award may be granted under the Program after the tenth anniversary of the Effective Date, but Awards theretofore granted may extend beyond that date.

8. TERMS AND CONDITIONS OF OPTIONS

Options granted under the Program shall be, as determined by the Committee, non-qualified options or ISOs for US federal income tax purposes, as outlined and evidenced by the related Award agreements, and shall be subject to the foregoing and the following terms and conditions and to such other terms and conditions, not inconsistent therewith, as the Committee shall determine:

(a) Option Price. The Option Price per Share shall be determined by the Committee, but shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the date an Option is granted.

(b) Exercisability. Options granted under the Program shall be exercisable at such time and upon such terms and conditions as may be determined by the Committee, but in no event shall an ISO granted under the Program be exercisable more than ten (10) years after the date it is granted.

(c) Exercise of Options. Except as otherwise provided in the Program or in an Award agreement, an Option may be exercised for all, or from time to time any part, of the Shares for which it is then exercisable. For purposes of Section 8 of the Program, the exercise date of an Option shall be the later of the date a notice of exercise is received by the Company and, if applicable, (A) the date payment is received by the Company under (i), (ii) or (iii) below, or (B) the date irrevocable instructions are delivered to a broker for sale of such Shares, in accordance with (iv) below. The purchase price for the Shares as to which an Option is exercised shall be paid to the Company in full at the time of exercise at the election of the Participant (i) in cash, (ii) in Shares having a Fair Market Value equal to the aggregate Option Price for the Shares being purchased and satisfying such other requirements as may be imposed by the Committee, (iii) partly in cash and partly in such Shares, or (iv) through the delivery of irrevocable instructions to a broker to deliver promptly to the Company an amount equal to the aggregate Option Price for the Shares being purchased. No Participant shall have any rights to dividends or other rights of a stockholder with respect to Shares subject to an Option until the Participant has given written notice of exercise of the Option, paid in full for such Shares and, if applicable, has satisfied any other conditions imposed by the Committee pursuant to the Program.

9. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS

(a) Grants. The Committee also may grant (i) a Stock Appreciation Right independent of an Option, or (ii) a Stock Appreciation Right in connection with an Option, or a portion thereof. A Stock Appreciation Right granted pursuant to clause (ii) of the preceding sentence (A) may be granted at the time the related Option is granted or at any time prior to the exercise or cancellation of the related Option, (B) shall cover the same Shares covered by the Option (or such lesser number of Shares as the Committee may determine), and (C) shall be subject to the same terms and conditions as such Option except for such additional limitations as

are contemplated by this Section 9 (or such additional limitations as may be included in an Award agreement).

(b) Terms. The exercise price per Share of a Stock Appreciation Right shall be an amount determined by the Committee but in no event shall such amount be less than the greater of (i) the Fair Market Value of a Share on the date the Stock Appreciation Right is granted or, in the case of a Stock Appreciation Right granted in conjunction with an Option or a portion thereof, the Option Price of the related Option, and (ii) an amount permitted by applicable laws, rules, by-laws or policies of regulatory authorities or stock exchanges. Each Stock Appreciation Right granted independent of an Option shall entitle a Participant upon exercise to an amount equal to (i) the excess of (A) the Fair Market Value on the exercise date of one Share over (B) the exercise price per Share, times (ii) the number of Shares covered by the Stock Appreciation Right. Each Stock Appreciation Right granted in conjunction with an Option, or a portion thereof, shall entitle a Participant to surrender to the Company the unexercised Option, or any portion thereof, and to receive from the Company in exchange therefor an amount equal to (i) the excess of (A) the Fair Market Value on the exercise date of one Share over (B) the Option Price per Share, times (ii) the number of Shares covered by the Option, or portion thereof, which is surrendered. The date a notice of exercise is received by the Company shall be the exercise date. Payment shall be made to the Participant in Shares or in cash, or partly in Shares and partly in cash, valued at such Fair Market Value, all as shall be determined by the Committee. Stock Appreciation Rights may be exercised from time to time upon actual receipt by the Company of written notice of exercise stating the number of Shares with respect to which the Stock Appreciation Right is being exercised. No fractional Shares will be issued in payment for Stock Appreciation Rights, but instead cash will be paid for a fraction or, if the Committee should so determine, the number of Shares will be rounded downward to the next whole Share.

(c) Limitations. The Committee may impose, in its discretion, such conditions upon the exercisability or transferability of Stock Appreciation Rights as it may deem fit.

(d) Limited Stock Appreciation Rights. The Committee may grant LSARs that are exercisable upon the occurrence of specified contingent events. Such LSARs may provide for a different method of determining appreciation, may specify that payment will be made only in cash and may provide that any related Awards are not exercisable while such LSARs are exercisable. Unless the context otherwise requires, whenever the term "Stock Appreciation Right" is used in the Program, such term shall include LSARs.

10. OTHER STOCK-BASED AWARDS

The Committee, in its sole discretion, may grant Awards of Shares, Awards of restricted Shares and Awards that are valued in whole or in part by reference to, or are otherwise based on the Fair Market Value of, Shares ("Other Stock-Based Awards"). Such Other Stock-Based Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, without limitation, the right to receive one or more Shares (or the equivalent cash value of such Shares) upon the completion of a specified period of service, the

occurrence of an event and/or the attainment of performance objectives. Other Stock-Based Awards may be granted alone or in addition to any other Awards granted under the Program. Subject to the provisions of the Program, the Committee shall determine to whom and when Other Stock-Based Awards will be made; the number of Shares to be awarded under (or otherwise related to) such Other Stock-Based Awards; whether such Other Stock-Based Awards shall be settled in cash, Shares or a combination of cash and Shares; and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof).

11. CASH AWARDS

The Committee, in its sole discretion, may grant Awards which are not valued in whole or in part by reference to, or otherwise based on the Fair Market Value of, Shares and which may be paid to Participants in cash (or, in the Committee's discretion, in Shares) ("Cash Awards"). Such Cash Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, without limitation, the right to receive a payment upon the completion of a specified period of service, the occurrence of an event and/or the attainment of performance objectives. Cash Awards may be granted alone or in addition to any other Awards granted under the Program. Subject to the provisions of the Program, the Committee shall determine to whom and when Cash Awards will be made; the amount payable under such Cash Awards, the form of such payment, and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof).

12. PERFORMANCE-BASED AWARDS

Notwithstanding anything to the contrary herein, certain Other Stock-Based Awards granted under Section 10 and certain Cash Awards granted under Section 11 may be granted on the basis of performance of the Company ("Performance-Based Awards"), and designated as Performance-Based Awards; provided, however, that the Committee may grant other Awards that are not intended to be Performance-Based Awards (even though such Awards are subject to the attainment of specified performance goals) and not designated as such. A Participant's Performance-Based Award shall be determined based on the attainment of written performance goals approved by the Committee for a performance period established by the Committee of up to ten (10) years (i) while the outcome for that performance period is substantially uncertain and (ii) no more than 90 days after the commencement of the performance period to which the performance goal relates or, if less, the number of days which is equal to 25 percent of the relevant performance period. The performance goals, which must be objective, shall be based upon one or more of the following criteria: (i) consolidated earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per Share; (v) book value per Share; (vi) return on stockholders' equity; (vii) expense management; (viii) return on investment; (ix) improvements in capital structure; (x) profits or profitability, including of an identifiable business unit or product; (xi) maintenance or improvement of profit margins; (xii) price per Share; (xiii) market share; (xiv) revenues or sales; (xv) costs; (xvi) cash flow; (xvii) working capital and (xviii) return on assets. The foregoing criteria may relate to the Company, one or more of its Subsidiaries or Affiliates or one or more of its divisions or units, or any combination of the foregoing, and may

be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the performance goals may be calculated without regard to extraordinary items. The Committee shall determine whether, with respect to a performance period, the applicable performance goals have been met with respect to a given Participant and, if they have, to so certify and ascertain the amount of the applicable Performance-Based Award. No Performance-Based Awards will be paid for such performance period until such certification is made by the Committee. The amount of the Performance-Based Award actually paid to a given Participant may be less than the amount determined by the applicable performance goal formula, at the discretion of the Committee. The amount of the Performance-Based Award determined by the Committee for a performance period shall be paid to the Participant at such time as determined by the Committee in its sole discretion after the end of such performance period; provided, however, that a Participant may, if and to the extent permitted by the Committee and consistent with the provisions of Section 162(m) of the Code, elect to defer payment of a Performance-Based Award.

13. TAX WITHHOLDING

A Participant shall have the duty to pay to the Company an amount equal to the taxes required by any government to be withheld or otherwise deducted and paid by the Company as a result of the exercise by the Participant of any Award or the delivery to the Participant of any cash or Shares pursuant to any Award. Shares shall not be delivered to the Participant until such time as such payment has been made. The Committee may, in its discretion and subject to such rules as it may adopt, permit or, in the absence of the receipt of payment therefore within prescribed time periods, permit the Participant to pay all or a portion of the withholding taxes (federal, state, local and other) by electing to have the Company withhold Shares, otherwise issuable, or by delivering Shares already owned by the Participant, in each case, having a Fair Market Value equal to all or any portion of the withholding tax to be satisfied in this manner. However, in no event will the amount of Shares withheld exceed the amount necessary to satisfy the required minimum statutory withholding. The Company may also withhold any such withholding taxes from any cash payments made hereunder.

14. ADJUSTMENTS UPON CERTAIN EVENTS

Notwithstanding any other provisions in the Program to the contrary, the following provisions shall apply to all Awards granted under the Program:

(a) Generally. In the event of any change in the outstanding Shares after the Effective Date by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of Shares or other corporate exchange, or any distribution to stockholders of Shares other than regular cash dividends, or in the event any of the foregoing events or any similar event affects the Company, any Affiliate or any business unit, or the financial statements of the Company or any Affiliate or the bases for the computation of any Award, the Committee in its sole discretion and without liability to any Person may make such

substitution or adjustment, if any, as it deems to be equitable, as to (i) the number or kind of Shares or other securities issued or reserved for issuance pursuant to the Program or pursuant to outstanding Awards, (ii) the limits on Awards set forth in Sections 3 and 4 hereof, (iii) the Option Price and/or (iv) any other affected terms of such Awards (including, without limitation, the amount payable thereunder or any performance objectives set with respect thereto).

(b) Change in Control. Except as otherwise provided in an Award agreement, in the event of a Change in Control: (i) any Award carrying a right to exercise that was not previously exercisable and vested shall become fully exercisable and vested as of the time of the Change in Control; (ii) the restrictions, deferral of settlement, and forfeiture conditions applicable to any other Award granted under the Program shall lapse and such Awards shall be deemed fully vested as of the time of the Change in Control; and (iii) with respect to any Award subject to achievement of performance objectives and conditions under the Program, such performance objectives and other conditions will be deemed to be met at target, unless otherwise provided by the Committee, as of the time of the Change in Control. The Company shall deliver Shares or make payments with respect to such Awards to a Participant as may be required by this Section 14(b) within an administratively feasible period of time following the Change in Control; provided, however, that if a Participant has previously elected to defer payment of any such Award and elects, pursuant to the provisions of the Deferred Compensation Plan, to reaffirm such deferral, such deferred Award will be paid in accordance with such election. Notwithstanding anything herein to the contrary, the Committee in its sole discretion and without liability to any Person may take such actions, if any, as it deems necessary or desirable with respect to any Award (including, without limitation, (x) the payment of a cash amount in exchange for the cancellation of an Award and/or (y) the requiring of the issuance of substitute Awards that will substantially preserve the value, rights and benefits of any affected Awards previously granted hereunder) as of the time of the Change in Control. Any such determination by the Committee shall be final and binding upon the Company and all Participants.

15. CERTAIN SECURITIES AND TAX LAW MATTERS

(a) Securities Laws.

(i) The Company shall be under no obligation to effect the registration pursuant to the Securities Act of 1933, as amended (or any successor statute) of any Shares to be issued hereunder or to effect similar compliance under the laws of any state or other jurisdiction. Notwithstanding anything herein to the contrary, the Company shall not be obligated to cause to be issued or delivered any certificates evidencing Shares pursuant to the Program unless and until the Company is advised by its counsel that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authority and the requirements of any securities exchange on which Shares are traded. The Committee may require, as a condition of the issuance and delivery of certificates evidencing Shares pursuant to the terms hereof, that the recipient of such Shares make such covenants, agreements and representations, and that such certificates bear such legends, as the Committee, in its sole discretion, deems necessary or desirable.

(ii) The exercise of any Option granted hereunder shall only be effective at such time as counsel to the Company shall have determined that the issuance and delivery of Shares pursuant to such exercise is in compliance with all applicable laws, regulations of governmental authority and the requirements of any securities exchange on which Shares are traded. The Company may, in its sole discretion, defer the effectiveness of any exercise of an Option granted hereunder in order to allow the issuance of Shares pursuant thereto to be made pursuant to registration or an exemption from registration or other methods for compliance available under federal or state securities laws. The Company shall inform the Participant in writing of its decision to defer the effectiveness of the exercise of an Option granted hereunder. During the period that the effectiveness of the exercise of an Option has been deferred, the Participant may, by written notice, withdraw such exercise and obtain the refund or any amount paid with respect thereto.

(b) Section 162(m): The Committee may modify the terms of any Award (including by means of accelerated or deferred payouts) relating to compensation that does not constitute "qualified performance-based compensation" within the meaning of Section 162(m) of the Code or otherwise does not qualify for an exemption from Section 162(m) of the Code in order to permit the deductibility of such compensation under Section 162(m) of the Code by the Company.

16. NO RIGHT TO CONTINUED RELATIONSHIP; NO OBLIGATION OF UNIFORM TREATMENT

The granting of an Award under the Program shall impose no obligation on the Company or any Subsidiary or Affiliate to continue the independent contractor relationship between it and any Participant and shall not lessen or affect the Company's, Subsidiary's or Affiliate's right to terminate its relationship with such Participant. No Participant, officer, employee or director shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Participants or any other Persons.

17. SUCCESSORS AND ASSIGNS

The Program shall be binding on all successors and assigns of the Company and a Participant, including without limitation, any beneficiary of such Participant, the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.

18. NONTRANSFERABILITY OF AWARDS

Except to the extent provided by the Committee, an Award shall not be transferable or assignable by the Participant otherwise than by will or by the laws of descent and distribution. Any Awards exercisable or Shares deliverable after a Participant's death shall be exercisable by or delivered to a beneficiary as designated in writing by the Participant. If no beneficiary is so designated, such Award shall be exercisable by or such Shares will be delivered to the Participant's estate. The Participant may change his or her designated beneficiary under this Program by filing with the Committee written notice of such change.

19. AMENDMENTS OR TERMINATION

The Board may amend, alter or discontinue the Program, but, if necessary to obtain an exemption from Section 16 of the Act or Section 162(m) of the Code, no amendment, alteration or discontinuation shall be made which, (a) without the approval of the stockholders of the Company, would (except as is provided in Section 14 of the Program), increase the total number of Shares reserved for the purposes of the Program, or (b) without the consent of a Participant, would impair any of the rights or obligations under any Award theretofore granted to such Participant under the Program; provided, however, that the Committee may amend the Program in such manner as it deems necessary to permit the granting of Awards meeting the requirements of the Code or other applicable laws. Notwithstanding anything to the contrary herein, the Board may not amend, alter or discontinue the provisions relating to Section 14(b) of the Program after the occurrence of a Change in Control.

20. INTERNATIONAL PARTICIPANTS

With respect to Participants who reside or work outside the United States of America and who are not (and who are not expected to be) "covered employees" within the meaning of Section 162(m) of the Code, the Committee may, in its sole discretion, amend the terms of the Program or Awards with respect to such Participants in order to conform such terms with the requirements of local law.

21. CHOICE OF LAW

The Program shall be governed by and construed in accordance with the laws of the State of Illinois applicable to contracts made and to be performed in the State of Illinois.

22. EFFECTIVENESS OF THE PROGRAM

The Program shall be effective as of June 9, 1998. No new Awards may be granted under the Program after June 8, 2008.

HEIDRICK & STRUGGLES, INC., a Delaware Corporation
HEIDRICK & STRUGGLES ASIA-PACIFIC, LTD., an Illinois Corporation
HEIDRICK & STRUGGLES JAPAN, LTD., an Illinois Corporation
HEIDRICK & STRUGGLES AUSTRALIA, LTD., an Illinois Corporation
HEIDRICK & STRUGGLES HONG KONG LTD., an Illinois Corporation
HEIDRICK & STRUGGLES SINGAPORE PTE LTD., a Singapore Corporation
HEIDRICK & STRUGGLES (INDIA) PRIVATE LIMITED, an Indian Corporation
HEIDRICK & STRUGGLES (KOREA), INC., a Korean Corporation
HEIDRICK & STRUGGLES FAR EAST LIMITED (Hong Kong)
HEIDRICK & STRUGGLES TAIWAN LIMITED
HEIDRICK & STRUGGLES CANADA, INC., a Canadian Corporation
HEIDRICK & STRUGGLES ARGENTINA, S.A., an Argentine Corporation
HEIDRICK & STRUGGLES LATIN AMERICA, INC., an Illinois Corporation
HEIDRICK & STRUGGLES DE CHILE LIMITADA, a Chilean Limitada
HEIDRICK HOLDINGS DO BRASIL LTDA
HEIDRICK & STRUGGLES DO BRASIL LTDA, a Brazilian Limitada
HEIDRICK & STRUGGLES, S.A. de C.V., a Mexican Corporation
HEIDRICK & STRUGGLES ESPANA, INC., an Illinois Corporation
HEIDRICK & STRUGGLES AB, a Swedish Corporation
HEIDRICK & STRUGGLES AS, a Norwegian Corporation
HEIDRICK & STRUGGLES OY, a Finnish Corporation
HEIDRICK & STRUGGLES INTERNATIONAL SRL, an Italian Corporation
HEIDRICK & STRUGGLES Sp.zo.o, a Polish Corporation
HEIDRICK & STRUGGLES AG, a Swiss Corporation
HEIDRICK & STRUGGLES s.r.o., a Czech Corporation
HEIDRICK & STRUGGLES BV, a Netherlands Corporation
HEIDRICK & STRUGGLES CONSULTORES de GESTAO Lda, a Portuguese Corporation
HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG GmbH & Co. KG, a US Limited Partnership
HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG VERWALTUNG-GmbH, a German Limited Liability Company
HEIDRICK & STRUGGLES LTD., an Israeli Corporation
HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG, GmbH, an Austrian Corporation
H&S UK LIMITED, a UK Corporation
SHPA ESOP, a UK Corporation
STRATTON MANAGEMENT LTD., a UK Corporation
STRATTON MANAGEMENT ESOP, a UK Corporation
I.C. INTERCONSULT SRL, an Italian Corporation
LEADERSONLINE, LIMITED,
LEADERSONLINE EUROPE S.A.R.L,
LEADERSONLINE NETHERLANDS B.V.
BEIJING HEIDRICK & STRUGGLES INTERNATIONAL MANAGEMENT CONSULTING COMPANY LIMITED
PROTEM GMBH
HEIDRICK & STRUGGLES DUTCH PARTNERSHIP

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Heidrick & Struggles International, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (No. 333-82424, No. 333-58118, No. 333-32544, and No. 333-73443) of Heidrick & Struggles International, Inc. of our report dated February 20, 2003, with respect to the consolidated balance sheet of Heidrick & Struggles International, Inc. and subsidiaries as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the year then ended, and the related financial statement schedule, which report appears in the December 31, 2002, annual report on Form 10-K of Heidrick & Struggles International, Inc.

Our report refers to our audit of the disclosures added and the adjustments that were applied to revise the 2001 and 2000 consolidated financial statements, as more fully described in Notes 1, 3 and 12 to the consolidated financial statements. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 consolidated financial statements other than with respect to such disclosures and adjustments.

/s/ KPMG LLP

Chicago, Illinois
March 21, 2003

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 Annual Report on Form 10-K for the year ended December 31, 2002 (the "Form 10-K") 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 Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated March 21, 2003

/s/ Piers Marmion

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 Annual Report on Form 10-K for the year ended December 31, 2002 (the "Form 10-K") 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 Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated March 21, 2003

/s/ Kevin J. Smith

Chief Financial Officer