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

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2020**

OR

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

For the transition period from _____ to _____

Commission File Number 0-25837

HEIDRICK & STRUGGLES INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

36-2681268
(I.R.S. Employer
Identification Number)

233 South Wacker Drive-Suite 4900
Chicago, Illinois
60606-6303
(Address of Principal Executive Offices)

(312) 496-1200
(Registrant's Telephone Number, Including Area Code)

Title of Each Class
Common Stock, \$0.01 par value

Trading Symbol
HSII

Name of Each Exchange on Which Registered
The NASDAQ Stock Market LLC

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 of time 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-Accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

As of July 24, 2020, there were 19,342,148 shares of the Company's common stock outstanding.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

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

	June 30, 2020 (Unaudited)	December 31, 2019
Current assets		
Cash and cash equivalents	\$ 218,760	\$ 271,719
Marketable securities	69,055	61,153
Accounts receivable, net of allowances of \$7,067 and \$5,140, respectively	124,845	109,163
Prepaid expenses	24,605	20,185
Other current assets	27,811	27,848
Income taxes recoverable	4,918	4,414
Total current assets	469,994	494,482
Non-current assets		
Property and equipment, net	28,577	28,650
Operating lease right-of-use assets	100,061	99,391
Assets designated for retirement and pension plans	14,001	13,978
Investments	26,085	25,409
Other non-current assets	24,700	20,434
Goodwill	91,271	126,831
Other intangible assets, net	1,361	1,935
Deferred income taxes	32,308	33,063
Total non-current assets	318,364	349,691
Total assets	\$ 788,358	\$ 844,173
Current liabilities		
Accounts payable	\$ 10,852	\$ 8,633
Accrued salaries and benefits	113,351	234,306
Deferred revenue	38,122	41,267
Operating lease liabilities	30,117	30,955
Other current liabilities	18,144	26,253
Income taxes payable	11,448	3,928
Total current liabilities	222,034	345,342
Non-current liabilities		
Non-current debt	100,000	—
Accrued salaries and benefits	49,829	59,662
Retirement and pension plans	46,847	46,032
Operating lease liabilities	78,872	79,388
Other non-current liabilities	4,573	4,634
Total non-current liabilities	280,121	189,716
Total liabilities	502,155	535,058
Commitments and contingencies (Note 17)		
Stockholders' equity		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued at June 30, 2020 and December 31, 2019	—	—
Common stock, \$0.01 par value, 100,000,000 shares authorized, 19,585,777 shares issued, 19,337,750 and 19,165,954 shares outstanding at June 30, 2020 and December 31, 2019, respectively	196	196
Treasury stock at cost, 248,027 and 419,823 shares at June 30, 2020 and December 31, 2019, respectively	(8,743)	(14,795)
Additional paid in capital	225,485	228,807
Retained earnings	67,686	91,083
Accumulated other comprehensive income	1,579	3,824
Total stockholders' equity	286,203	309,115
Total liabilities and stockholders' equity	\$ 788,358	\$ 844,173

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue				
Revenue before reimbursements (net revenue)	\$ 145,603	\$ 173,122	\$ 317,084	\$ 344,716
Reimbursements	2,232	5,051	5,598	9,731
Total revenue	147,835	178,173	322,682	354,447
Operating expenses				
Salaries and benefits	104,658	120,601	225,747	241,419
General and administrative expenses	31,961	34,168	64,201	68,553
Impairment charges	32,970	—	32,970	—
Reimbursed expenses	2,232	5,051	5,598	9,731
Total operating expenses	171,821	159,820	328,516	319,703
Operating income (loss)	(23,986)	18,353	(5,834)	34,744
Non-operating income (expense)				
Interest, net	(339)	412	340	1,220
Other, net	3,076	708	(1,359)	2,351
Net non-operating income (expense)	2,737	1,120	(1,019)	3,571
Income (loss) before income taxes	(21,249)	19,473	(6,853)	38,315
Provision for income taxes	4,484	5,193	10,214	11,948
Net income (loss)	(25,733)	14,280	(17,067)	26,367
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment	1,486	(7)	(2,230)	313
Net unrealized gain (loss) on available-for-sale investments	15	12	(15)	12
Other comprehensive income (loss), net of tax	1,501	5	(2,245)	325
Comprehensive income (loss)	<u>\$ (24,232)</u>	<u>\$ 14,285</u>	<u>\$ (19,312)</u>	<u>\$ 26,692</u>
Weighted-average common shares outstanding				
Basic	19,298	19,120	19,245	19,062
Diluted	19,298	19,431	19,245	19,531
Earnings (loss) per common share				
Basic	\$ (1.33)	\$ 0.75	\$ (0.89)	\$ 1.38
Diluted	\$ (1.33)	\$ 0.73	\$ (0.89)	\$ 1.35
Cash dividends paid per share	\$ 0.15	\$ 0.15	\$ 0.30	\$ 0.30

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2019	19,586	\$ 196	420	\$ (14,795)	\$ 228,807	\$ 91,083	\$ 3,824	\$ 309,115
Net income	—	—	—	—	—	8,666	—	8,666
Adoption of accounting standards	—	—	—	—	—	(332)	—	(332)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(3,746)	(3,746)
Common and treasury stock transactions:								
Stock-based compensation	—	—	—	—	2,614	—	—	2,614
Vesting of equity, net of tax withholdings	—	—	(109)	3,838	(5,388)	—	—	(1,550)
Cash dividends declared (\$0.15 per share)	—	—	—	—	—	(2,876)	—	(2,876)
Dividend equivalents on restricted stock units	—	—	—	—	—	(126)	—	(126)
Balance at March 31, 2020	19,586	\$ 196	311	\$ (10,957)	\$ 226,033	\$ 96,415	\$ 78	\$ 311,765
Net loss	—	—	—	—	—	(25,733)	—	(25,733)
Other comprehensive income, net of tax	—	—	—	—	—	—	1,501	1,501
Common and treasury stock transactions:								
Stock-based compensation	—	—	—	—	1,320	—	—	1,320
Vesting of equity	—	—	(48)	1,685	(1,685)	—	—	—
Re-issuance of treasury stock	—	—	(15)	529	(183)	—	—	346
Cash dividends declared (\$0.15 per share)	—	—	—	—	—	(2,891)	—	(2,891)
Dividend equivalents on restricted stock units	—	—	—	—	—	(105)	—	(105)
Balance at June 30, 2020	19,586	\$ 196	248	\$ (8,743)	\$ 225,485	\$ 67,686	\$ 1,579	\$ 286,203

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2018	19,586	\$ 196	632	\$ (20,298)	\$ 227,147	\$ 56,049	\$ 4,062	\$ 267,156
Net income	—	—	—	—	—	12,087	—	12,087
Other comprehensive income, net of tax	—	—	—	—	—	—	320	320
Common and treasury stock transactions:								
Stock-based compensation	—	—	—	—	1,343	—	—	1,343
Vesting of equity, net of tax withholdings	—	—	(160)	5,155	(9,707)	—	—	(4,552)
Cash dividends declared (\$0.15 per share)	—	—	—	—	—	(2,848)	—	(2,848)
Dividend equivalents on restricted stock units	—	—	—	—	—	(87)	—	(87)
Balance at March 31, 2019	19,586	\$ 196	472	\$ (15,143)	\$ 218,783	\$ 65,201	\$ 4,382	\$ 273,419
Net income	—	—	—	—	—	14,280	—	14,280
Other comprehensive income, net of tax	—	—	—	—	—	—	5	5
Common and treasury stock transactions:								
Stock-based compensation	—	—	—	—	3,368	—	—	3,368
Vesting of equity, net of tax withholdings	—	—	(3)	—	—	—	—	—
Re-issuance of treasury stock	—	—	(11)	348	(3)	—	—	345
Cash dividends declared (\$0.15 per share)	—	—	—	—	—	(2,867)	—	(2,867)
Dividend equivalents on restricted stock units	—	—	—	—	—	(101)	—	(101)
Balance at June 30, 2019	19,586	196	458	\$ (14,795)	\$ 222,148	\$ 76,513	\$ 4,387	\$ 288,449

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2020	2019
Cash flows - operating activities		
Net income (loss)	\$ (17,067)	\$ 26,367
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	4,467	5,348
Deferred income taxes	380	512
Stock-based compensation expense	3,934	4,711
Accretion expense related to earnout payments	—	327
Gain on marketable securities	(122)	(116)
Loss on disposal of property and equipment	275	—
Impairment charges	32,970	—
Changes in assets and liabilities:		
Accounts receivable	(17,013)	(32,093)
Accounts payable	2,145	(978)
Accrued expenses	(129,842)	(115,500)
Restructuring accrual	(1,480)	(1,189)
Deferred revenue	(2,673)	(3,240)
Income taxes recoverable and payable, net	6,755	(4,035)
Retirement and pension plan assets and liabilities	1,275	1,686
Prepaid expenses	(4,541)	(3,507)
Other assets and liabilities, net	(4,228)	(176)
Net cash used in operating activities	(124,765)	(121,883)
Cash flows - investing activities		
Capital expenditures	(4,556)	(1,793)
Purchases of available-for-sale investments	(71,419)	(40,477)
Proceeds from sales of available-for-sale investments	62,467	232
Net cash used in investing activities	(13,508)	(42,038)
Cash flows - financing activities		
Proceeds from line of credit	100,000	—
Cash dividends paid	(5,997)	(5,903)
Payment of employee tax withholdings on equity transactions	(1,550)	(4,552)
Acquisition earnout payments	(2,789)	(407)
Net cash provided by (used in) financing activities	89,664	(10,862)
Effect of exchange rate fluctuations on cash, cash equivalents and restricted cash	(4,350)	(165)
Net decrease in cash, cash equivalents and restricted cash	(52,959)	(174,948)
Cash, cash equivalents and restricted cash at beginning of period	271,719	280,262
Cash, cash equivalents and restricted cash at end of period	\$ 218,760	\$ 105,314

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All tables in thousands, except per share figures)

(Unaudited)

1. Basis of Presentation of Interim Financial Information

The accompanying unaudited Condensed Consolidated Financial Statements of Heidrick & Struggles International, Inc. and subsidiaries (the “Company”) have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Significant items subject to estimates and assumptions include revenue recognition, income taxes, interim effective tax rate and the assessment of goodwill, other intangible assets and long lived assets for impairment. Estimates are subject to a degree of uncertainty and actual results could differ from these estimates. In the opinion of management, all adjustments necessary to fairly present the financial position of the Company at June 30, 2020 and December 31, 2019, the results of operations for the three and six months ended June 30, 2020 and 2019 and its cash flows for the six months ended June 30, 2020 and 2019 have been included and are of a normal, recurring nature except as otherwise disclosed. These financial statements and notes are to be read in conjunction with the Company’s Consolidated Financial Statements and Notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC on February 24, 2020.

2. Summary of Significant Accounting Policies

A complete listing of the Company’s significant accounting policies is discussed in Note 2, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

Revenue Recognition

See Note 3, *Revenue*.

Marketable Securities

The Company’s marketable securities consist of available-for-sale debt securities with original maturities exceeding three months.

Restricted Cash

The following table provides a reconciliation of the cash and cash equivalents between the Condensed Consolidated Balance Sheets and the Condensed Consolidated Statement of Cash Flows as of June 30, 2020 and 2019, and December 31, 2019 and 2018:

	<u>June 30,</u>		<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 218,760	\$ 105,314	\$ 271,719	\$ 279,906
Restricted cash included within other current assets	—	—	—	108
Restricted cash included within other non-current assets	—	—	—	248
Total cash, cash equivalents and restricted cash	<u>\$ 218,760</u>	<u>\$ 105,314</u>	<u>\$ 271,719</u>	<u>\$ 280,262</u>

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 period. Diluted earnings (loss) 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 (loss) per share in periods in which they have an anti-dilutive effect.

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income (loss)	\$ (25,733)	\$ 14,280	\$ (17,067)	\$ 26,367
Weighted average shares outstanding:				
Basic	19,298	19,120	19,245	19,062
Effect of dilutive securities:				
Restricted stock units	—	202	—	300
Performance stock units	—	109	—	169
Diluted	19,298	19,431	19,245	19,531
Basic earnings per share	\$ (1.33)	\$ 0.75	\$ (0.89)	\$ 1.38
Diluted earnings per share	\$ (1.33)	\$ 0.73	\$ (0.89)	\$ 1.35

Weighted average restricted stock units and performance stock units outstanding that could be converted into approximately 229,000 and 30,000 common shares, respectively, for the three months ended June 30, 2020, and 392,000 and 84,000 common shares, respectively, for the six months ended June 30, 2020, were not included in the computation of diluted earnings (loss) per share because the effects would be anti-dilutive.

Goodwill

Goodwill represents the difference between the purchase price of acquired companies and the related fair value of the net assets acquired, which is accounted for by the acquisition method of accounting. The Company performs assessments of the carrying value of goodwill at least annually and whenever events occur or circumstances indicate that a carrying amount of goodwill may not be recoverable. These circumstances include a significant change in business climate, attrition of key personnel, changes in financial condition or results of operations, a prolonged decline in the Company's stock price and market capitalization, competition, and other factors.

The goodwill impairment test compares the fair value of a reporting unit to its carrying amount, including goodwill. The Company operates four reporting units: Americas, Europe (which includes Africa), Asia Pacific (which includes the Middle East) and Heidrick Consulting. The goodwill impairment test is completed by comparing the fair value of a reporting unit with its carrying amount. The fair value of each of the Company's reporting units is determined using a discounted cash flow methodology. An impairment charge is recognized for the amount by which the carrying value of the reporting unit exceeds its fair value; however, the loss recognized is not to exceed the total amount of goodwill allocated to that reporting unit.

During the three months ended June 30, 2020, and as a direct result of the economic impact of COVID-19, the Company experienced a decline in demand for our executive search and consulting services, a lengthening of the executive search process due to a slow-down in client decision making and an inability to execute in-person consulting engagements, which had a material negative impact on our results of operations. As a result, the Company identified a triggering event and performed an interim goodwill impairment evaluation during the three months ended June 30, 2020.

During the impairment evaluation process, the Company used a discounted cash flow methodology to estimate the fair value of its reporting units. The discounted cash flow approach is dependent on a number of factors, including estimates of future market growth and trends, forecasted revenue and costs, capital investments, appropriate discount rates, certain assumptions to allocate shared costs, assets and liabilities, historical and projected performance of the reporting unit, and the macroeconomic conditions affecting each of the Company's reporting units. The assumptions used in the determination of fair value were (1) a forecast of growth in the near and long term; (2) the discount rate; (3) working capital investments; (4) macroeconomic conditions and (5) other factors.

Based on the results of the of the impairment evaluation, the Company determined that the goodwill within the Europe and Asia Pacific reporting units was impaired, which resulted in an impairment charge of \$24.5 million in Europe and \$8.5 million in Asia Pacific to write-off all of the goodwill associated with each reporting unit. The impairment charge is recorded within *Impairment charges* in the Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2020. The impairment was non-cash in nature and did not affect our current liquidity, cash flows, borrowing capability or operations; nor did it impact the debt covenants under our credit agreement.

The Company continues to monitor potential triggering events for its Americas reporting unit including changes in the business climate in which it operates, the Company's market capitalization compared to its book value, and the Company's recent operating performance. Any changes in these factors could result in a further impairment charge.

Other Intangible Assets and Long Lived Assets

The Company reviews its other intangible assets and long-lived assets, including property and equipment and right-of-use assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of asset groups to be held and used is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset group. If the carrying amount of an asset group exceeds its estimated future cash flows, an impairment charge, equal to the amount by which the carrying amount of the asset group exceeds the fair value of the asset group, is recognized. The Company evaluated the recoverability of its other intangible assets and long-lived assets during the three months ended June 30, 2020 and determined that the other intangible assets and long-lived assets were recoverable. The Company continues to monitor the impact of the economic downturn resulting from COVID-19 for additional potential impairment indicators related to other intangible assets and long-lived assets.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in *Operating Lease Right-of-Use Assets*, *Operating Lease Liabilities - Current* and *Operating Lease Liabilities - Non-Current* in our Condensed Consolidated Balance Sheets. The Company does not have any leases that meet the finance lease criteria.

Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized on the commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, we use an incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease right-of-use asset also includes any lease payments made in advance and any accrued rent expense balances. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company has lease agreements with lease and non-lease components. For office leases, the Company accounts for the lease and non-lease components as a single lease component. For equipment leases, such as vehicles and office equipment, the Company accounts for the lease and non-lease components separately.

Recently Adopted Financial Accounting Standards

On January 1, 2020, the Company adopted Accounting Standards Update ("ASU") No. 2016-13, Measurement of Credit Losses on Financial Instruments, and all related amendments, using the modified retrospective method. The guidance amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. The adoption had an immaterial impact on the Condensed Consolidated Statements of Comprehensive Income (Loss), Condensed Consolidated Balance Sheet, Condensed Consolidated Statements of Cash Flows and Condensed Consolidated Statements of Changes in Stockholders' Equity for the three and six months ended June 30, 2020.

Recently Issued Financial Accounting Standards

In March 2020, the Financial Accounting Standards Board ("FASB") issued ASU No. 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The guidance is intended to provide temporary optional expedients and exceptions to the guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. This guidance is effective March 12, 2020, and the Company may elect to apply the amendments prospectively through December 31, 2022. The Company is currently evaluating the impact of this accounting guidance. The effect is not known or reasonably estimable at this time.

In December 2019, the FASB, issued ASU No. 2019-12, Simplifying the Accounting for Income Taxes. The guidance simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Accounting Standards Codification ("ASC") 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the impact of this accounting guidance. The effect is not known or reasonably estimable at this time.

3. Revenue

Executive Search

Revenue is recognized as performance obligations are satisfied by transferring a good or service to a client. Generally, each executive search contract contains one performance obligation which is the process of identifying potentially qualified candidates for a specific client position. In most contracts, the transaction price includes both fixed and variable consideration. Fixed compensation is comprised of a retainer, equal to approximately one-third of the estimated first year compensation for the position to be filled, and indirect expenses, equal to a specified percentage of the retainer, as defined in the contract. The Company generally bills clients for the 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. If actual compensation of a placed candidate exceeds the original compensation estimate, the Company is often authorized to bill the client for one-third of the excess compensation. The Company refers to this additional billing as uptick revenue. In most contracts, variable consideration is comprised of uptick revenue and direct expenses. The Company bills its clients for uptick revenue upon completion of the executive search, and direct expenses are billed as incurred.

The Company estimates uptick revenue at contract inception, based on a portfolio approach, utilizing the expected value method based on a historical analysis of uptick revenue realized in the Company's geographic regions and industry practices, and initially records a contract's uptick revenue in an amount that is probable not to result in a significant reversal of cumulative revenue recognized when the actual amount of uptick revenue for the contract is known. Differences between the estimated and actual amounts of variable consideration are recorded when known. The Company does not estimate revenue for direct expenses as it is not materially different than recognizing revenue as direct expenses are incurred.

Revenue from executive search engagement performance obligations are recognized over time as clients simultaneously receive and consume the benefits provided by the Company's performance. Revenue from executive search engagements is recognized over the expected average period of performance, in proportion to the estimated personnel time incurred to fulfill the obligations under the executive search contract. Revenue is generally recognized over a period of approximately six months.

The Company's executive search contracts contain a replacement guarantee which provides for an additional search to be completed, free of charge except for expense reimbursements, should the candidate presented by the Company be hired by the client and subsequently terminated by the client for performance reasons within a specified period of time. The replacement guarantee is an assurance warranty, which is not a performance obligation under the terms of the executive search contract, as the Company does not provide any services under the terms of the guarantee that transfer benefits to the client in excess of assuring that the identified candidate complies with the agreed-upon specifications. The Company accounts for the replacement guarantee under the relevant warranty guidance in ASC 460 - Guarantees.

Heidrick Consulting

Revenue is recognized as performance obligations are satisfied by transferring a good or service to a client. Heidrick Consulting enters into contracts with clients that outline the general terms and conditions of the assignment to provide succession planning, executive assessment, top team and board effectiveness and culture shaping programs. The consideration the Company expects to receive under each contract is generally fixed. Most of our consulting contracts contain one performance obligation, which is the overall process of providing the consulting service requested by the client. The majority of our consulting revenue is recognized over time utilizing both input and output methods. Contracts that contain coaching sessions, training sessions or the completion of assessments are recognized using the output method as each session or assessment is delivered to the client. Contracts that contain general consulting work are recognized using the input method utilizing a measure of progress that is based on time incurred on the project.

The Company enters into enterprise agreements with clients to provide a license for online access, via the Company's Culture Connect platform, to training and other proprietary material related to the Company's culture shaping programs. The

consideration the Company expects to receive under the terms of an enterprise agreement is comprised of a single fixed fee. The enterprise agreements contain multiple performance obligations, the delivery of materials via Culture Connect and material rights related to options to renew enterprise agreements at a significant discount. The Company allocates the transaction price to the performance obligations in the contract on a stand-alone selling price basis. The stand-alone selling price for the initial term of the enterprise agreement is outlined in the contract and is equal to the price paid by the client for the agreement over the initial term of the contract. The stand-alone selling price for the options to renew, or material right, are not directly observable and must be estimated. This estimate is required to reflect the discount the client would obtain when exercising the option to renew, adjusted for the likelihood that the option will be exercised. The Company estimates the likelihood of renewal using a historical analysis of client renewals. Access to Culture Connect represents a right to access the Company's intellectual property that the client simultaneously receives and consumes as the Company performs under the agreement, and therefore the Company recognizes revenue over time. Given the continuous nature of this commitment, the Company utilizes straight-line ratable revenue recognition over the estimated subscription period as the Company's clients will receive and consume the benefits from Culture Connect equally throughout the contract period. Revenue related to client renewals of enterprise agreements is recognized over the term of the renewal, which is generally twelve months. Enterprise agreements do not comprise a significant portion of the Company's revenue.

Contract Balances

Contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. Contract assets and liabilities are classified as current due to the nature of the Company's contracts, which are completed within one year. Contract assets are included within *Other Current Assets* on the Condensed Consolidated Balance Sheets.

Unbilled receivables: Unbilled revenue represents contract assets from revenue recognized over time in excess of the amount billed to the client and the amount billed to the client is solely dependent upon the passage of time. This amount includes revenue recognized in excess of billed executive search retainers and Heidrick Consulting fees.

Contract assets: Contract assets represent revenue recognized over time in excess of the amount billed to the client and the amount billed to the client is not solely subject to the passage of time. This amount primarily includes revenue recognized for upticks and contingent placement fees in executive search contracts.

Deferred revenue: Contract liabilities consist of deferred revenue, which is equal to billings in excess of revenue recognized.

The following table outlines the changes in the contract asset and liability balances during the period:

	June 30, 2020	December 31, 2019	Change
Contract assets			
Unbilled receivables, net	\$ 10,901	\$ 7,585	\$ 3,316
Contract assets	12,739	14,672	(1,933)
Total contract assets	23,640	22,257	1,383
Contract liabilities			
Deferred revenue	\$ 38,122	\$ 41,267	\$ (3,145)

During the six months ended June 30, 2020, the Company recognized revenue of \$29.5 million that was included in the contract liabilities balance at the beginning of the period. The amount of revenue recognized during the six months ended June 30, 2020, from performance obligations partially satisfied in previous periods as a result of changes in the estimates of variable consideration was \$12.9 million.

Each of the Company's contracts has an expected duration of one year or less. Accordingly, the Company has elected to utilize the available practical expedient related to the disclosure of the transaction price allocated to the remaining performance obligations under its contracts. The Company has also elected the available practical expedients related to adjusting for the effects of a significant financing component and the capitalization of contract acquisition costs. The Company charges and collects from its clients sales tax and value added taxes as required by certain jurisdictions. The Company has made an accounting policy election to exclude these items from the transaction price in its contracts.

4. Credit Losses

The Company is exposed to credit losses primarily through the provision of its executive search and consulting services. The Company's expected credit loss allowance methodology for accounts receivable is developed using historical collection experience, current and future economic and market conditions and a review of the current status of customers' trade accounts receivables. Due to the short-term nature of such receivables, the estimate of amount of accounts receivable that may not be collected is primarily based on historical loss-rate experience. When required, the Company adjusts the loss-rate methodology to account for current conditions and reasonable and supportable expectations of future economic and market conditions. The Company generally assesses future economic conditions for a period of sixty to ninety days, which corresponds with the contractual life of its accounts receivables. Additionally, specific allowance amounts are established to record the appropriate provision for customers that have a higher probability of default. The Company's monitoring activities include timely account reconciliation, dispute resolution, payment confirmation, consideration of customers' financial condition and macroeconomic conditions. Balances are written off when determined to be uncollectible. The Company considered the current and expected future economic and market conditions surrounding the novel coronavirus ("COVID-19") pandemic and determined that the estimate of credit losses was not significantly impacted.

The activity in the allowance for credit losses on the Company's trade receivables is as follows:

Balance at December 31, 2019	\$ 5,140
Provision for credit losses	4,298
Write-offs	(1,774)
Foreign currency translation	(597)
Balance at June 30, 2020	<u>\$ 7,067</u>

The fair value and unrealized losses on available for sale debt securities, aggregated by investment category and the length of time the security has been in an unrealized loss position, are as follows:

Balance at June 30, 2020	<u>Less Than 12 Months</u>		<u>Balance Sheet Classification</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Cash and Cash Equivalents</u>	<u>Marketable Securities</u>
U.S. Treasury securities	\$ 47,004	\$ 2	\$ —	\$ 47,004

The unrealized losses on four investments in U.S. Treasury securities were caused by fluctuations in market interest rates. The contractual cash flows of these investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the investments would not be settled at a price less than the amortized cost basis. The Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before the recovery of the amortized cost basis.

5. Property and Equipment, net

The components of the Company's property and equipment are as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Leasehold improvements	\$ 48,571	\$ 47,269
Office furniture, fixtures and equipment	18,156	17,740
Computer equipment and software	25,872	27,531
Property and equipment, gross	92,599	92,540
Accumulated depreciation	(64,022)	(63,890)
Property and equipment, net	<u>\$ 28,577</u>	<u>\$ 28,650</u>

Depreciation expense for the three months ended June 30, 2020 and 2019 was \$1.9 million and \$2.4 million, respectively. Depreciation expense for the six months ended June 30, 2020 and 2019 was \$4.1 million and \$4.9 million, respectively.

6. Leases

The Company's lease portfolio is comprised of operating leases for office space and equipment. The majority of the Company's leases include both lease and non-lease components, which the Company accounts for differently depending on the

underlying class of asset. Certain of the Company's leases include one or more options to renew or terminate the lease at the Company's discretion. Generally, the renewal and termination options are not included in the right-of-use assets and lease liabilities as they are not reasonably certain of exercise. The Company regularly evaluates the renewal and termination options and when they are reasonably certain of exercise, includes the renewal or termination option in the lease term.

As most of the Company's leases do not provide an implicit interest rate, the Company utilizes an incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Company has a centrally managed treasury function; therefore, a portfolio approach is applied in determining the incremental borrowing rate. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow on a fully collateralized basis over a similar term in an amount equal to the total lease payments in a similar economic environment.

Office leases have remaining lease terms that range from less than one year to 9.9 years, some of which also include options to extend or terminate the lease. Most office leases contain both fixed and variable lease payments. Variable lease costs consist primarily of rent escalations based on an established index or rate and taxes, insurance, and common area or other maintenance costs, which are paid based on actual costs incurred by the lessor. The Company has elected to utilize the available practical expedient to not separate lease and non-lease components for office leases.

Equipment leases, which are comprised of vehicle and office equipment leases, have remaining terms that range from less than one year to 4.3 years, some of which also include options to extend or terminate the lease. The Company's equipment leases do not contain variable lease payments. The Company separates the lease and non-lease components for its equipment leases. Equipment leases do not comprise a significant portion of the Company's lease portfolio.

Lease cost components included within *General and Administrative Expenses* in our Condensed Consolidated Statements of Comprehensive Income (Loss) were as follows for the six months ended June 30,:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating lease cost	\$ 6,186	\$ 5,907	\$ 12,447	\$ 12,480
Variable lease cost	1,771	2,057	3,844	3,914
Total lease cost	\$ 7,957	\$ 7,964	\$ 16,291	\$ 16,394

Supplemental cash flow information related to the Company's operating leases is as follows for the six months ended June 30,:

	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 15,599	\$ 16,886
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 10,095	\$ 11,441

The weighted average remaining lease term and weighted average discount rate for operating leases as of June 30, is as follows:

	2020	2019
Weighted Average Remaining Lease Term		
Operating leases	4.6 years	4.7 years
Weighted Average Discount Rate		
Operating leases	3.77 %	3.97 %

The future maturities of the Company's operating lease liabilities as of June 30, 2020, for the years ended December 31 is as follows:

	Operating Lease Maturity
2020	\$ 13,877
2021	29,735
2022	26,077
2023	23,065
2024	12,625
Thereafter	12,824
Total lease payments	118,203
Less: Interest	(9,214)
Present value of lease liabilities	\$ 108,989

7. Financial Instruments and Fair Value

Cash, Cash Equivalents and Marketable Securities

The Company's investments in marketable debt securities, which consist of U.S. Treasury bills, are classified and accounted for as available-for-sale. The Company classifies its marketable debt securities as either short-term or long-term based on each instrument's underlying contractual maturity date. Unrealized gains and losses on marketable debt securities classified as available-for-sale are recognized in *Accumulated other comprehensive income* in the Condensed Consolidated Balance Sheets until realized.

The Company's cash, cash equivalents, and marketable securities by significant investment category are as follows:

	Fair Value			Fair Value	Balance Sheet Classification	
	Amortized Cost	Unrealized Gains	Unrealized Losses		Cash and Cash Equivalents	Marketable Securities
Balance at June 30, 2020						
Cash					\$ 174,908	\$ —
Level 1 ⁽¹⁾ :						
Money market funds					43,852	—
U.S. Treasury securities	69,057	—	2	69,055	—	69,055
Total Level 1	69,057	—	2	69,055	43,852	69,055
Total	\$ 69,057	\$ —	\$ 2	\$ 69,055	\$ 218,760	\$ 69,055
Balance at December 31, 2019						
Cash					\$ 177,493	\$ —
Level 1 ⁽¹⁾ :						
Money market funds					15,661	—
U.S. Treasury securities	139,705	13	—	139,718	78,565	61,153
Total Level 1	139,705	13	—	139,718	94,226	61,153
Total	\$ 139,705	\$ 13	\$ —	\$ 139,718	\$ 271,719	\$ 61,153

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

Investments, Assets Designated for Retirement and Pension Plans and Associated Liabilities

The Company has a U.S. non-qualified deferred compensation plan that consists primarily of U.S. marketable securities and mutual funds. The aggregate cost basis for these investments was \$18.5 million and \$17.2 million as of June 30, 2020 and December 31, 2019, respectively.

The Company also maintains a pension plan for certain current and former employees in Germany. The pensions are individually fixed Euro amounts that vary depending on the function and the eligible years of service of the employee. The Company's investment strategy is to support its pension obligations through reinsurance contracts. The BaFin—German Federal Financial Supervisory Authority—supervises the insurance companies and the reinsurance contracts. The BaFin requires each reinsurance contract to guarantee a fixed minimum return. The Company's pension benefits are fully reinsured by group insurance contracts with ERGO Lebensversicherung AG, and the group insurance contracts are measured in accordance with BaFin guidelines (including mortality tables and discount rates) which are considered Level 2 inputs.

The following tables provide a summary of the fair value measurements for each major category of investments, assets designated for retirement and pension plans and associated liabilities measured at fair value:

	Balance Sheet Classification						
	Fair Value	Other Current Assets	Goodwill	Assets Designated for Retirement and Pension Plans	Investments	Other Current Liabilities	Retirement and Pension Plans
Balance at June 30, 2020							
Measured on a recurring basis:							
Level 1 ⁽¹⁾ :							
U.S. non-qualified deferred compensation plan	\$ 26,085	\$ —	\$ —	\$ —	\$ 26,085	\$ —	\$ —
Level 2 ⁽²⁾ :							
Retirement and pension plan assets	15,321	1,320	—	14,001	—	—	—
Pension benefit obligation	(20,953)	—	—	—	—	(1,320)	(19,633)
Total Level 2	(5,632)	1,320	—	14,001	—	(1,320)	(19,633)
Measured on a non-recurring basis:							
Level 3 ⁽³⁾⁽⁴⁾ :							
Goodwill	91,271	—	91,271	—	—	—	—
Total	<u>\$ 111,724</u>	<u>\$ 1,320</u>	<u>\$ 91,271</u>	<u>\$ 14,001</u>	<u>\$ 26,085</u>	<u>\$ (1,320)</u>	<u>\$ (19,633)</u>

	Balance Sheet Classification					
	Fair Value	Other Current Assets	Assets Designated for Retirement and Pension Plans	Investments	Other Current Liabilities	Retirement and Pension Plans
Balance at December 31, 2019						
Measured on a recurring basis:						
Level 1 ⁽¹⁾ :						
U.S. non-qualified deferred compensation plan	\$ 25,409	\$ —	\$ —	\$ 25,409	\$ —	\$ —
Level 2 ⁽²⁾ :						
Retirement and pension plan assets	15,296	1,318	13,978	—	—	—
Pension benefit obligation	(20,918)	—	—	—	(1,318)	(19,600)
Total Level 2	(5,622)	1,318	13,978	—	(1,318)	(19,600)
Total	<u>\$ 19,787</u>	<u>\$ 1,318</u>	<u>\$ 13,978</u>	<u>\$ 25,409</u>	<u>\$ (1,318)</u>	<u>\$ (19,600)</u>

- (1) Level 1 – Quoted prices in active markets for identical assets and liabilities.
- (2) Level 2 – Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- (3) Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.
- (4) In accordance with Subtopic 350-20, goodwill with a carrying value of \$33.0 million was written down to its implied fair value of zero, resulting in the revised total goodwill of \$91.3 million and an impairment charge of \$33.0 million in earnings.

Contingent Consideration

The former owners of the Company's prior year acquisitions are eligible to receive additional cash consideration based on the attainment of certain operating metrics in the periods subsequent to acquisition. Contingent consideration is valued using significant inputs that are not observable in the market which are defined as Level 3 inputs pursuant to fair value measurement accounting. The Company determines the fair value of contingent consideration using discounted cash flow models.

The following table provides a reconciliation of the beginning and ending balance of Level 3 liabilities for the six months ended June 30, 2020:

	Acquisition Earnout Accruals
Balance at December 31, 2019	\$ (5,278)
Earnout payments	5,051
Foreign currency translation	227
Balance at June 30, 2020	<u>\$ —</u>

Goodwill

Goodwill represents the difference between the purchase price of acquired companies and the related fair value of the net assets acquired, which is accounted for by the acquisition method of accounting. The Company performs assessments of the carrying value of goodwill at least annually and whenever events occur or circumstances indicate that a carrying amount of goodwill may not be recoverable. During the three months ended June 30, 2020, an interim goodwill impairment evaluation was conducted to determine the fair value of goodwill. Goodwill is valued using significant inputs that are not observable in the market which are defined as Level 3 inputs pursuant to fair value measurement accounting. The Company determines the fair value of goodwill using discounted cash flow models.

The following table provides a reconciliation of the beginning and ending balance of Level 3 assets for the six months ended June 30, 2020:

	Goodwill
Balance at December 31, 2019	\$ 126,831
Impairment	(32,970)
Foreign currency translation	(2,590)
Balance at June 30, 2020	<u>\$ 91,271</u>

8. Goodwill and Other Intangible Assets

Goodwill

The Company's goodwill by segment is as follows:

	June 30, 2020	December 31, 2019
Executive Search		
Americas	\$ 91,271	\$ 92,497
Europe	—	25,579
Asia Pacific	—	8,755
Total goodwill	<u>\$ 91,271</u>	<u>\$ 126,831</u>

Changes in the carrying amount of goodwill by segment for the six months ended June 30, 2020, are as follows:

	Executive Search			Total
	Americas	Europe	Asia Pacific	
Goodwill	\$ 92,497	\$ 25,579	\$ 8,755	\$ 126,831
Accumulated impairment losses	—	—	—	—
Balance at December 31, 2019	<u>92,497</u>	<u>25,579</u>	<u>8,755</u>	<u>126,831</u>
Impairment	—	(24,475)	(8,495)	(32,970)
Foreign currency translation	(1,226)	(1,104)	(260)	(2,590)
Goodwill	<u>91,271</u>	<u>24,475</u>	<u>8,495</u>	<u>124,241</u>
Accumulated impairment losses	—	(24,475)	(8,495)	(32,970)
Balance at June 30, 2020	<u>\$ 91,271</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 91,271</u>

During the three months ended June 30, 2020, and as a direct result of the economic impact of COVID-19, the Company experienced a decline in demand for our executive search services and a lengthening of the executive search process due to a slow-down in client decision making, which had a material adverse impact on our results of operations. As a result, the Company identified a triggering event and performed an interim goodwill impairment evaluation during the three months ended June 30, 2020.

During the impairment evaluation process, the Company used a discounted cash flow methodology to estimate the fair value of its reporting units. The discounted cash flow approach is dependent on a number of factors, including estimates of future market growth and trends, forecasted revenue and costs, capital investments, appropriate discount rates, certain assumptions to allocate shared costs, assets and liabilities, historical and projected performance of the reporting unit, and the macroeconomic conditions affecting each of the Company's reporting units. The assumptions used in the determination of fair value were (1) a forecast of growth in the near and long term; (2) the discount rate; (3) working capital investments; (4) macroeconomic conditions and (5) other factors.

Based on the results of the impairment evaluation, the Company determined that the goodwill within the Europe and Asia Pacific reporting units was impaired, which resulted in an impairment charge of \$24.5 million in Europe and \$8.5 million in Asia Pacific to write-off all of the goodwill associated with each reporting unit. The impairment charge is recorded within *Impairment charges* in the Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months

ended June 30, 2020. The impairment was non-cash in nature and did not affect our current liquidity, cash flows, borrowing capability or operations; nor did it impact the debt covenants under our credit agreement.

The Company continues to monitor potential triggering events for its Americas reporting unit including changes in the business climate in which it operates, the Company's market capitalization compared to its book value, and the Company's recent operating performance. Any changes in these factors could result in a further impairment charge.

Other Intangible Assets, net

The Company's other intangible assets, net by segment, are as follows:

	June 30, 2020	December 31, 2019
Executive Search		
Americas	\$ 300	\$ 557
Europe	1,006	1,314
Asia Pacific	55	64
Total other intangible assets, net	\$ 1,361	\$ 1,935

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

	Weighted Average Life (Years)	June 30, 2020			December 31, 2019		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	6.6	\$ 15,960	\$ (14,762)	\$ 1,198	\$ 16,302	\$ (14,683)	\$ 1,619
Trade name	5.0	266	(103)	163	362	(46)	316
Total intangible assets	6.4	\$ 16,226	\$ (14,865)	\$ 1,361	\$ 16,664	\$ (14,729)	\$ 1,935

Intangible asset amortization expense for the three months ended June 30, 2020 and 2019 was \$0.2 million and \$0.2 million, respectively. Intangible amortization expense for the six months ended June 30, 2020 and 2019 was \$0.4 million and \$0.5 million, respectively.

The Company evaluated the recoverability of its other intangible assets during the three months ended June 30, 2020 and determined that the carrying value of the other intangible assets and long-lived assets was recoverable. The Company continues to monitor the impact of the economic downturn resulting from COVID-19 for additional potential impairment indicators related to other intangible assets.

The Company's estimated future amortization expense related to intangible assets as of June 30, 2020, for the years ended December 31 is as follows:

	Estimated Future Amortization
2020	\$ 322
2021	457
2022	292
2023	174
2024	71
Thereafter	45
Total	\$ 1,361

9. Other Current Assets

The components of other current assets are as follows:

	June 30, 2020	December 31, 2019
Contract assets	\$ 23,640	\$ 22,257
Other	4,171	5,591
Total other current assets	\$ 27,811	\$ 27,848

10. Line of Credit

On October 26, 2018, the Company entered into a new Credit Agreement (the "2018 Credit Agreement") to replace the Second Amended and Restated Credit Agreement (the "Restated Credit Agreement") executed on June 30, 2015. The 2018 Credit Agreement provides the Company with a senior unsecured revolving line of credit with an aggregate commitment of \$175 million, which includes a sublimit of \$25 million for letters of credit, and a \$10 million swingline loan sublimit. The agreement also includes a \$75 million expansion feature. The 2018 Credit Agreement will mature in October 2023. Borrowings under the 2018 Credit Agreement bear interest at the Company's election of the Alternate Base Rate (as defined in the 2018 Credit Agreement) or Adjusted LIBOR (as defined in the 2018 Credit Agreement) plus a spread as determined by the Company's leverage ratio.

Borrowings under the 2018 Credit Agreement may be used for working capital, capital expenditures, Permitted Acquisitions (as defined in the 2018 Credit Agreement) and for other general purposes of the Company and its subsidiaries. The obligations under the 2018 Credit Agreement are guaranteed by certain of the Company's subsidiaries.

The Company capitalized approximately \$1.0 million of loan acquisition costs related to the 2018 Credit Agreement, which will be amortized over the term of the agreement.

During the six months ended June 30, 2020, the Company borrowed \$100.0 million under the 2018 Credit Agreement. As of June 30, 2020, the borrowings outstanding under the revolving line of credit bear interest at a rate of 1.44% per annum. The Company elected to draw down a portion of the available funds from its revolving line of credit as a precautionary measure to increase its cash position and further enhance its financial flexibility in light of current uncertainty in the global markets resulting from the COVID-19 outbreak.

As of June 30, 2020, the Company had \$100.0 million of outstanding borrowings. As of December 31, 2019, the Company had no outstanding borrowings. The Company was in compliance with the financial and other covenants under the 2018 Credit Agreement and no event of default existed.

11. Stock-Based Compensation

On May 28, 2020, the stockholders of the Company approved an amendment to the Company's Second Amended and Restated 2012 Heidrick & Struggles GlobalShare Program (as so amended, the "Third A&R 2012 Program") to increase the number of shares of Common Stock reserved for issuance under the 2012 Program by 500,000 shares. The Third A&R 2012 Program provides for grants of stock options, stock appreciation rights, and other stock-based compensation awards that are valued based upon the grant date fair value of shares. These awards may be granted to directors, selected employees and independent contractors.

As of June 30, 2020, 2,879,025 awards have been issued under the Third A&R 2012 Program and 1,168,741 shares remain available for future awards, including 697,766 forfeited awards. The Third A&R 2012 Program provides that no awards can be granted after May 24, 2028.

The Company measures its stock-based compensation costs based on the grant date fair value of the awards and recognizes these costs over the requisite service period.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Salaries and benefits (1)	\$ 991	\$ 2,976	\$ 2,795	\$ 4,647
General and administrative expenses	460	460	460	460
Income tax benefit related to stock-based compensation included in net income	385	908	864	1,349

(1) Includes \$0.1 million of expense and \$0.1 million of expense related to cash settled restricted stock units for the three months ended June 30, 2020 and 2019, respectively, and \$0.7 million of income and \$0.4 million of expense related to cash settled restricted stock units for the six months ended June 30, 2020 and 2019, respectively.

Restricted Stock Units

Restricted stock units are generally subject to ratable vesting over a three-year period. A portion of the Company's restricted stock units are subject to ratable vesting over a four-year period. Compensation expense related to service-based restricted stock units is recognized on a straight-line basis over the vesting period.

Restricted stock unit activity for the six months ended June 30, 2020 is as follows:

	Number of Restricted Stock Units	Weighted- Average Grant-Date Fair Value
Outstanding on December 31, 2019	598,988	\$ 32.25
Granted	206,737	23.39
Vested and converted to common stock	(173,086)	28.33
Forfeited	(14,643)	34.32
Outstanding on June 30, 2020	617,996	\$ 30.34

As of June 30, 2020, there was \$9.1 million of pre-tax unrecognized compensation expense related to unvested restricted stock units, which is expected to be recognized over a weighted average of 2.4 years.

Performance Stock Units

The Company grants performance stock units to certain of its senior executives. The performance stock units are generally subject to a cliff vesting at the end of a three-year period. The vesting will vary between 0% and 200% based on the attainment of operating income goals over the three-year vesting period. The performance stock units are expensed on a straight-line basis over the three-year vesting period.

During the six months ended June 30, 2020, performance stock units were granted to certain employees of the Company and are subject to a cliff vesting period of three years and certain other performance conditions. Half of the award is based on the achievement of certain operating margin thresholds and half of the award is based on the Company's total shareholder return, relative to a peer group. The fair value of the awards based on total shareholder return was determined using the Monte-Carlo simulation model. A Monte Carlo simulation model uses stock price volatility and other variables to estimate the probability of satisfying the performance conditions and the resulting fair value of the award.

Performance stock unit activity for the six months ended June 30, 2020 is as follows:

	Number of Performance Stock Units	Weighted- Average Grant-Date Fair Value
Outstanding on December 31, 2019	179,559	\$ 32.63
Granted	105,847	23.52
Vested and converted to common stock	(50,472)	26.69
Forfeited	—	—
Outstanding on June 30, 2020	<u>234,934</u>	<u>\$ 29.80</u>

As of June 30, 2020, there was \$4.3 million of pre-tax unrecognized compensation expense related to unvested performance stock units, which is expected to be recognized over a weighted average of 2.2 years.

Phantom Stock Units

Phantom stock units are grants of phantom stock with respect to shares of the Company's common stock that are settled in cash and are subject to various restrictions, including restrictions on transferability, vesting and forfeiture provisions. Shares of phantom stock that do not vest for any reason will be forfeited by the recipient and will revert to the Company.

Phantom stock units were granted to certain employees of the Company and are subject to vesting over a period of four years and certain other conditions, including continued service to the Company. As a result of the cash-settlement feature of the awards, the Company considers the awards to be liability awards, which are measured at fair value at each reporting date and the vested portion of the award is recognized as a liability to the extent that the service condition is deemed probable. The fair value of the phantom stock awards on the balance sheet date was determined using the closing share price of the Company's common stock on that date.

The Company recorded phantom stock-based compensation expense of \$0.1 million and \$0.1 million during the three months ended June 30, 2020 and 2019, respectively. The Company recorded phantom stock-based compensation income of \$0.7 million and expense of \$0.4 million during the six months ended June 30, 2020 and 2019, respectively.

Phantom stock unit activity for the six months ended June 30, 2020 is as follows:

	Number of Phantom Stock Units
Outstanding on December 31, 2019	266,060
Granted	—
Vested	—
Forfeited	(11,676)
Outstanding on June 30, 2020	<u>254,384</u>

As of June 30, 2020, there was \$2.2 million of pre-tax unrecognized compensation expense related to unvested phantom stock units, which is expected to be recognized over a weighted average of 2.8 years.

12. Restructuring

During the three months ended September 30, 2019, the Company recorded restructuring charges of \$4.1 million in connection with initiatives to integrate the Company's existing Brazil operations into the 2GET business operation. The Americas incurred \$4.1 million in restructuring charges, while Global Operations Support incurred less than \$0.1 million. The restructuring charges primarily consist of employee-related costs for the Company's existing Brazil operations.

Changes to the accrual for restructuring charges for the six months ended June 30, 2020, are as follows:

	<u>Employee Related</u>
Outstanding on December 31, 2019	\$ 3,245
Cash payments	(1,230)
Non cash write offs	(176)
Exchange rate fluctuations	(778)
Outstanding on June 30, 2020	\$ 1,061

13. Income Taxes

The Company reported a loss before taxes of \$21.2 million and an income tax provision of \$4.5 million for the three months ended June 30, 2020. The Company reported income before taxes of \$19.5 million and an income tax provision of \$5.2 million for the three months ended June 30, 2019. The effective tax rates for the three months ended June 30, 2020 and 2019, were (21.1)% and 26.7%, respectively. The effective tax rate for the three months ended June 30, 2020 was impacted by the tax effect on goodwill impairment (See Note 8, Goodwill and Other Intangible Assets) and the inability to recognize losses. The effective tax rate for the three months ended June 30, 2019 was impacted by one-time items and the mix of income.

The Company reported a loss before taxes of \$6.9 million and an income tax provision of \$10.2 million for the six months ended June 30, 2020. The Company reported income before taxes of \$38.3 million and an income tax provision of \$11.9 million for the six months ended June 30, 2019. The effective tax rates for the six months ended June 30, 2020 and 2019, were (149.0)% and 31.2%, respectively. The effective tax rate for the six months ended June 30, 2020 was impacted by the tax effect on goodwill impairment (See Note 8, Goodwill and Other Intangible Assets) and the inability to recognize losses. The effective tax rate for the six months ended June 30, 2019 was impacted by one-time items and the mix of income.

14. Changes in Accumulated Other Comprehensive Income

The changes in *Accumulated other comprehensive income* (“AOCI”) by component for the six months ended June 30, 2020 are as follows:

	Available- for- Sale Securities	Foreign Currency Translation	Pension	AOCI
Balance at December 31, 2019	\$ 13	\$ 6,102	\$ (2,291)	\$ 3,824
Other comprehensive income (loss) before classification, net of tax	(15)	(2,230)	—	(2,245)
Balance at June 30, 2020	\$ (2)	\$ 3,872	\$ (2,291)	\$ 1,579

15. Segment Information

The Company has four operating segments. The executive search business operates in the Americas, Europe (which includes Africa) and Asia Pacific (which includes the Middle East), and the Heidrick Consulting business operates globally.

For segment purposes, reimbursements of out-of-pocket expenses classified as revenue and other operating income are reported separately and, therefore, are not included in the results of each segment. The Company believes that analyzing trends in revenue before reimbursements (net revenue), analyzing operating expenses as a percentage of net revenue, and analyzing operating income, more appropriately reflect its core operations.

The revenue and operating income (loss) by segment are as follows:

	Three Months Ended June 30,		Six Months Ended June 30, 2020	
	2020	2019	2020	2019
Revenue				
Executive Search				
Americas	\$ 84,840	\$ 100,517	\$ 185,141	\$ 199,822
Europe	30,124	34,864	63,206	68,417
Asia Pacific	19,190	23,163	41,260	48,610
Total Executive Search	134,154	158,544	289,607	316,849
Heidrick Consulting	11,449	14,578	27,477	27,867
Revenue before reimbursements (net revenue)	145,603	173,122	317,084	344,716
Reimbursements	2,232	5,051	5,598	9,731
Total revenue	\$ 147,835	\$ 178,173	\$ 322,682	\$ 354,447

	Three Months Ended June 30,		Six Months Ended June 30, 2020	
	2020	2019	2020	2019
Operating income (loss)				
Executive Search				
Americas	\$ 23,102	\$ 28,551	\$ 48,834	\$ 51,000
Europe (1)	(23,067)	1,157	(20,018)	3,322
Asia Pacific (2)	(7,329)	3,315	(4,827)	8,221
Total Executive Search	(7,294)	33,023	23,989	62,543
Heidrick Consulting	(8,321)	(4,793)	(12,413)	(9,620)
Total segment operating income (loss)	(15,615)	28,230	11,576	52,923
Global Operations Support	(8,371)	(9,877)	(17,410)	(18,179)
Total operating income (loss)	\$ (23,986)	\$ 18,353	\$ (5,834)	\$ 34,744

(1) Europe includes goodwill impairment charges of \$24.5 million for the three and six months ended June 30, 2020.

(2) Asia Pacific includes goodwill impairment charges of \$8.5 million for the three and six months ended June 30, 2020

16. Guarantees

The Company has utilized letters of credit to support certain obligations, primarily for its office lease agreements in Europe and Asia Pacific. The letters of credit were made to secure the respective agreements and are for the terms of the agreements, which extend through 2030. For each letter of credit issued, the Company would have to use cash to fulfill the obligation if there is a default on a payment. The maximum amount of undiscounted payments the Company would be required to make in the event of default on all outstanding letters of credit is approximately \$2.5 million as of June 30, 2020. The Company has not accrued for these arrangements as no event of default exists or is expected to exist.

17. Commitments and Contingencies

Litigation

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

18. Subsequent Event

In the 2020 third quarter, the Company is implementing a restructuring plan to optimize future growth and profitability. The expected annual cost savings from the restructuring ranges from \$30 million to \$40 million. The primary components of the restructuring include a workforce reduction; a reduction of the firm's real estate expenses, professional fees and the future elimination of certain deferred compensation programs. In connection with this restructuring plan, the Company expects to record pre-tax charges of approximately \$30 million to \$40 million in the 2020 third quarter.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations as well as other sections of this report on Form 10-Q contain forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Forward-looking statements are not historical facts, but instead represent only our beliefs, assumptions, expectations, estimates, forecasts and projections regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These statements include statements other than historical information or statements of current condition and may relate to our future plans and objectives and results. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements.

Factors that may affect the outcome of the forward-looking statements include, among other things, the impacts, direct and indirect, of the COVID-19 pandemic on our business, our consultants and employees, and the overall economy; leadership changes, our ability to attract, integrate, develop, manage and retain qualified consultants and senior leaders; our ability to prevent our consultants from taking our clients with them to another firm; our ability to maintain our professional reputation and brand name; the fact that our net revenue may be affected by adverse economic conditions; our clients' ability to restrict us from recruiting their employees; the aggressive competition we face; our heavy reliance on information management systems; the fact that we face the risk of liability in the services we perform; the fact that data security, data privacy and data protection laws and other evolving regulations and cross-border data transfer restrictions may limit the use of our services and adversely affect our business; social, political, regulatory and legal risks in markets where we operate; the impact of foreign currency exchange rate fluctuations; the fact that we may not be able to align our cost structure with net revenue; unfavorable tax law changes and tax authority rulings; our ability to realize our tax losses; the timing of the establishment or reversal of valuation allowance on deferred tax assets; any impairment of our goodwill, other intangible assets and other long-lived assets; our ability to execute and integrate future acquisitions; the fact that we have anti-takeover provisions that make an acquisition of us difficult and expensive; our ability to access additional credit; and the increased cybersecurity requirements, vulnerabilities, threats and more sophisticated and targeted cyber-related attacks that could pose a risk to our systems, networks, solutions, services and data. For more information on the factors that could affect the outcome of forward-looking statements, refer to our Annual Report on Form 10-K for the year ended December 31, 2019, under Risk Factors in Item 1A. We caution the reader that the list of factors may not be exhaustive. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Overview

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

In addition to executive search, we provide consulting services including executive leadership assessment, leadership, team and board development, succession planning, talent strategy, people performance, inter-team collaboration, culture shaping and organizational transformation.

We provide our services to a broad range of clients through the expertise of over 460 consultants located in major cities around the world. Our executive search services are provided on a retained basis. Revenue before reimbursements of out-of-pocket expenses ("net revenue") consists of retainers and indirect expenses billed to clients. Typically, we are paid a retainer for our executive search services equal to approximately one-third of the estimated first-year compensation for the position to be filled. In addition, if the actual compensation of a placed candidate exceeds the estimated compensation, we often are authorized to bill the client for one-third of the excess. Indirect expenses are calculated as a percentage of the retainer with certain dollar limits per search.

Executive Search. We partner with respected organizations globally to build and sustain the best leadership teams in the world, with a specialized focus on the placement of top-level senior executives. We believe focusing on top-level senior executives provides the opportunity for several advantages including access to and influence with key decision makers, increased potential for recurring search and consulting engagements, higher fees per executive search, enhanced brand

visibility, and a leveraged global footprint. Working at the top of client organizations also facilitates the attraction and retention of high-caliber consultants who desire to serve top industry executives and their leadership needs.

We employ a global approach to executive search built on better insights, more data and faster decision making facilitated by the use of our proprietary Infinity Framework and Heidrick Connect. Our Infinity Framework allows clients to holistically evaluate a candidate's pivotal experience and expertise, leadership capabilities, agility and potential, and culture fit and impact, thereby allowing our clients to find the right person for the role. We supplement our Infinity Framework through a series of additional online tools including our Leadership Accelerator, Leadership Signature and Culture Signature assessments. Heidrick Connect, a completely digital, always available, client experience portal allows our clients to access talent insights for each engagement, including the Infinity Framework and other proprietary assessment tools. In response to working remotely, our Executive Search teams employed Heidrick Connect to operate effectively and efficiently while engaging virtually with our clients. Additionally, we have introduced upgrades to Heidrick Connect, resulting in greater flexibility, increased productivity and the ability to deliver more insights to our clients. Our Heidrick Consulting teams have pivoted to create new digital solutions for Leadership Assessments, Team Acceleration, and Organization and Culture Acceleration that can be delivered virtually in response to required social distancing practices.

The executive search industry is highly fragmented, consisting of several thousand executive search firms worldwide. Executive search firms are generally separated into two broad categories: retained search and contingency search. Our executive search services are provided on a retained basis. Retained executive search firms fulfill their clients' senior leadership needs by identifying potentially qualified candidates and assisting clients in evaluating and assessing these candidates. Retained executive search firms generally are compensated for their services regardless of whether the client employs a candidate identified by the search firm and are generally retained on an exclusive basis.

For each assignment, we enter into a contract with our client that outlines the general terms and conditions of the assignment. Typically, we are paid a retainer for our executive search services equal to approximately one-third of the estimated first year compensation for the position to be filled. In addition, if the actual compensation of a placed candidate exceeds the estimated compensation, executive search firms often are authorized to bill the client for one-third of the excess. We refer to this excess compensation billing as uptick revenue. We also bill our clients for indirect expenses, which are calculated as a percentage of the retainer with certain dollar limits per search. Revenue before reimbursements of out-of-pocket expenses ("net revenue") consists of retainers, an estimate of uptick revenue and indirect expenses billed to clients. We generally bill our clients for our 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 with uptick revenue billed upon the completion of the engagement.

Heidrick Consulting. Our consulting services include leadership assessment and development, executive coaching and on-boarding, succession planning, team and board effectiveness, organizational performance acceleration, workforce planning and culture shaping. Our consulting services generate revenue primarily through the professional fees generated for each engagement which are generally based on the size of the project and scope of services.

Key Performance Indicators

We manage and assess our performance through various means, with primary financial and operational measures including net revenue, operating income, operating margin, Adjusted EBITDA (non-GAAP) and Adjusted EBITDA margin (non-GAAP). Executive Search and Heidrick Consulting performance is also measured using consultant headcount. Specific to Executive Search, confirmation trends, consultant productivity and average revenue per search are used to measure performance.

Revenue is driven by market conditions and a combination of the number of executive search engagements and consulting projects and the average revenue per search or project. With the exception of compensation expense, incremental increases in revenue do not necessarily result in proportionate increases in costs, particularly operating and administrative expenses, thus creating the potential to improve operating margins.

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

Our Compensation Model

At the Executive Search consultant level, there are fixed and variable components of compensation. Individuals are rewarded for their performance based on a system that directly ties a portion of their compensation to the amount of net revenue for which they are responsible. A portion of the reward may be based upon individual performance against a series of non-

financial measures. Credit towards the variable portion of an executive search consultant's compensation is earned by generating net revenue for winning and executing work. Each quarter, we review and update the expected annual performance of all Executive Search consultants and accrue variable compensation accordingly. The amount of variable compensation that is accrued for each Executive Search consultant is based on a tiered payout model. Overall Company performance determines the amount available for total variable compensation. The more net revenue that is generated by the consultant, the higher the percentage credited towards the consultant's variable compensation and thus accrued by our Company as expense.

At the Heidrick Consulting consultant level, there are also fixed and variable components of compensation. Overall compensation is determined based on the total economic contribution of the Heidrick Consulting segment to the business as a whole. Individual consultant compensation can vary and is derived from credits earned for delivering client work plus credits earned for contributions of intellectual and human capital, client relationship development and consulting practice development. Each quarter, we review and update the expected annual performance of all Heidrick Consulting consultants and accrue variable compensation accordingly.

The mix of individual consultants who generate revenue in Executive Search and economic contributions in Heidrick Consulting can significantly affect the total amount of compensation expense recorded, which directly impacts operating margin. As a result, the variable portion of the compensation expense may fluctuate significantly from quarter to quarter. The total variable compensation is discretionary and is based on Company-wide financial targets approved by the Human Resources and Compensation Committee of the Board of Directors.

A portion of our Executive Search consultants' and management cash bonuses were deferred and paid over a three-year vesting period. The compensation expense related to the amounts being deferred was recognized on a graded vesting attribution method over the requisite service period. This service period began on January 1 of the respective fiscal year and continued through the deferral date, which coincided with our bonus payments in the first quarter of the following year, and for an additional three-year vesting period. The deferrals are recorded in *Accrued salaries and benefits* in the Consolidated Balance Sheets.

Recent Developments

On March 11, 2020, the World Health Organization designated the recent novel coronavirus ("COVID-19") as a global pandemic. COVID-19 was first detected in Wuhan City, China and continued to spread, significantly impacting various markets around the world, including the United States.

With infections reported throughout the world, certain governmental authorities have issued stay-at-home orders, proclamations and/or directives aimed at minimizing the spread of the pandemic. Additional, more restrictive proclamations and/or directives may be issued in the future. We temporarily closed our offices and shifted our workforce to remote operations to ensure the safety of our employees. During this uncertain time, our critical priorities are:

- the health and safety of our employees, clients and their families;
- providing support to our clients; and
- helping our clients accelerate their business performance and transform with agility

In response to working remotely, our Executive Search teams employed our robust digital search platform, Heidrick Connect, to operate effectively and efficiently while engaging virtually with our clients. Additionally, we have introduced upgrades to Heidrick Connect, resulting in greater flexibility, increased productivity and the ability to deliver more insights to our clients. Our Heidrick Consulting teams have pivoted to create new digital solutions for Leadership Assessments, Team Acceleration, and Organization and Culture Acceleration that can be delivered virtually in response to required social distancing practices.

During the second quarter, we experienced a decline in demand for our executive search and consulting services, a lengthening of the executive search process due to a slow-down in client decision making and an inability to execute in-person consulting engagements, which had a material adverse impact on our results of operations. The extent to which the pandemic continues to impact our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict, including, but not limited to:

- the duration and scope of the pandemic;
- the impact of the pandemic, and actions taken in response to the pandemic, on economic activity;
- governmental, business and individuals' actions that have been and continue to be taken in response to the pandemic;

- restrictions inhibiting our employees' ability to access our offices;
- the effect on our clients and client demand for our services and solutions;
- our ability to sell and provide our services and solutions, including as a result of travel restrictions and people working from home; and
- the ability of our clients to pay for our services and solutions

We expect that all of our business segments, across all of our geographies, will continue to be impacted by the pandemic and actions taken in response to the pandemic, but the significance of the impact of the pandemic on our business and the duration for which it may have an impact cannot be determined at this time. Specific factors that may impact our business include, but are not limited to:

- a decline in demand for our executive search and consulting services due to temporary and permanent workforce reductions, and general economic uncertainty;
- a lengthening of the executive search process due to a slow-down in client decision making;
- an increase in executive searches placed on hold due to delays in planned work by our clients;
- an inability to execute in-person consulting engagements; and
- disruptions in business operations for offices in areas most impacted by the pandemic, including the United States, United Kingdom, Italy, Spain, China and Brazil

During the three months ended June 30, 2020, and as a direct result of the economic impact of COVID-19, the Company experienced a decline in demand for our executive search services and a lengthening of the executive search process due to a slow-down in client decision making, which had a material adverse impact on our results of operations. As a result, the Company identified a triggering event and performed an interim goodwill impairment evaluation during the three months ended June 30, 2020 resulting in the impairment of the goodwill in our Europe and Asia Pacific reporting units. We also evaluated the recoverability our intangible and other long-lived assets during the second quarter and determined that no impairment was necessary. We will continue to monitor the impact of the economic downturn for additional potential impairment of goodwill, other intangible assets and long-lived assets.

We believe we have sufficient liquidity to satisfy our cash needs, however, we continue to evaluate and take action, as necessary, to preserve adequate liquidity and ensure that our business can continue to operate during these uncertain times. On March 24, 2020, we elected to draw down \$100 million of the available funds from our revolving line of credit as a precautionary measure to increase our cash position and further enhance our financial flexibility in light of current uncertainty in the global markets. In the third quarter, the Company is implementing a restructuring plan to optimize future growth and profitability. The expected annual cost savings from the restructuring ranges from \$30 million to \$40 million. The primary components of the restructuring include a workforce reduction; a reduction of the firm's real estate expenses, professional fees and the future elimination of certain deferred compensation programs. In connection with this restructuring plan, the Company expects to record pre-tax charges of approximately \$30 million to \$40 million in the 2020 third quarter.

We have not experienced any material impact to our internal controls over financial reporting despite the fact that our employees are working remotely due to the pandemic. We are continually monitoring and assessing the pandemic situation on our internal controls to minimize the impact on their design and operating effectiveness.

For more information, see Item 1A, "Risk Factors."

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue				
Revenue before reimbursements (net revenue)	100.0 %	100.0 %	100.0 %	100.0 %
Reimbursements	1.5	2.9	1.8	2.8
Total revenue	101.5	102.9	101.8	102.8
Operating expenses				
Salaries and benefits	71.9	69.7	71.2	70.0
General and administrative expenses	22.0	19.7	20.2	19.9
Impairment	22.6	—	10.4	—
Reimbursed expenses	1.5	2.9	1.8	2.8
Total operating expenses	118.0	92.3	103.6	92.7
Operating income (loss)	(16.5)	10.6	(1.8)	10.1
Non-operating income (expense)				
Interest, net	(0.2)	0.2	0.1	0.4
Other, net	2.1	0.4	(0.4)	0.7
Net non-operating income (expense)	1.9	0.6	(0.3)	1.0
Income (loss) before income taxes	(14.6)	11.2	(2.2)	11.1
Provision for income taxes	3.1	3.0	3.2	3.5
Net income (loss)	(17.7)%	8.2 %	(5.4)%	7.6 %

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

We operate our executive search services in the Americas; Europe (which includes Africa); and Asia Pacific (which includes the Middle East) and our Heidrick Consulting services globally (See Note 15, *Segment Information*).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue				
Executive Search				
Americas	\$ 84,840	\$ 100,517	\$ 185,141	\$ 199,822
Europe	30,124	34,864	63,206	68,417
Asia Pacific	19,190	23,163	41,260	48,610
Total Executive Search	134,154	158,544	289,607	316,849
Heidrick Consulting	11,449	14,578	27,477	27,867
Revenue before reimbursements (net revenue)	145,603	173,122	317,084	344,716
Reimbursements	2,232	5,051	5,598	9,731
Total revenue	\$ 147,835	\$ 178,173	\$ 322,682	\$ 354,447

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating income (loss)				
Executive Search				
Americas	\$ 23,102	\$ 28,551	\$ 48,834	\$ 51,000
Europe	(23,067)	1,157	(20,018)	3,322
Asia Pacific	(7,329)	3,315	(4,827)	8,221
Total Executive Search	(7,294)	33,023	23,989	62,543
Heidrick Consulting	(8,321)	(4,793)	(12,413)	(9,620)
Total segment operating income (loss)	(15,615)	28,230	11,576	52,923
Global Operations Support	(8,371)	(9,877)	(17,410)	(18,179)
Total operating income (loss)	\$ (23,986)	\$ 18,353	\$ (5,834)	\$ 34,744

Three Months Ended June 30, 2020 Compared to the Three Months Ended June 30, 2019

Total revenue. Consolidated total revenue decreased \$30.3 million, or 17.0%, to \$147.8 million for the three months ended June 30, 2020, from \$178.2 million for the three months ended June 30, 2019. The decrease in total revenue was primarily due to the decrease in revenue before reimbursements (net revenue).

Revenue before reimbursements (net revenue). Consolidated net revenue decreased \$27.5 million, or 15.9%, to \$145.6 million for the three months ended June 30, 2020 from \$173.1 million for the three months ended June 30, 2019. Foreign exchange rate fluctuations negatively impacted results by \$2.0 million, or 1.4%. Executive Search net revenue was \$134.2 million for the three months ended June 30, 2020, a decrease of \$24.4 million, or 15.4%, compared to the three months ended June 30, 2019. Heidrick Consulting net revenue decreased \$3.1 million, or 21.5%, to \$11.4 million for the three months ended June 30, 2020. Both Executive Search revenue and Heidrick Consulting revenue were materially impacted by the ongoing COVID-19 pandemic. Significant factors contributing to the decline in revenue include a decline in demand for our executive search and consulting services, a lengthening of the executive search process due to a slow-down in client decision making and an inability to execute in-person consulting engagements.

The number of Executive Search and Heidrick Consulting consultants was 394 and 68, respectively, as of June 30, 2020, compared to 371 and 68, respectively, as of June 30, 2019. Executive Search productivity, as measured by annualized net Executive Search revenue per consultant, was \$1.4 million and \$1.7 million for the three months ended June 30, 2020 and 2019, respectively. The number of confirmed searches decreased 25.7% compared to 2019. The average revenue per executive search increased to \$141,500 for the three months ended June 30, 2020, compared to \$123,700 for the three months ended June 30, 2019.

Salaries and benefits. Consolidated salaries and benefits expense decreased \$15.9 million, or 13.2%, to \$104.7 million for the three months ended June 30, 2020 from \$120.6 million for the three months ended June 30, 2019. Fixed compensation decreased \$2.2 million due to talent acquisition and retention costs, stock compensation, retirement and benefits, and separation, partially offset by increases in the deferred compensation plan, and base salaries and payroll taxes. Variable compensation decreased \$13.8 million due to lower bonus accruals as a result of decreased consultant productivity. Foreign exchange rate fluctuations positively impacted results by \$1.8 million, or 1.7%.

For the three months ended June 30, 2020, we had an average of 1,776 employees compared to an average of 1,644 employees for the three months ended June 30, 2019.

As a percentage of net revenue, salaries and benefits expense was 71.9% for the three months ended June 30, 2020, compared to 69.7% for the three months ended June 30, 2019.

General and administrative expenses. Consolidated general and administrative expenses decreased \$2.2 million, or 6.5% to \$32.0 million for the three months ended June 30, 2020 from \$34.2 million for the three months ended June 30, 2019. The decrease in general and administrative expenses was due to decreases in internal travel, office occupancy, hiring fees, the use of external third-party consultants, and marketing, partially offset by increases in bad debt, professional fees, and information technology. Foreign exchange rate fluctuations positively impacted results by \$0.4 million, or 1.3%.

As a percentage of net revenue, general and administrative expenses were 22.0% for the three months ended June 30, 2020, compared to 19.7% for the three months ended June 30, 2019.

Impairment charges. During the three months ended June 30, 2020, and as a direct result of the economic impact of COVID-19, the Company experienced a decline in demand for our executive search services and a lengthening of the executive search process due to a slow-down in client decision making, which had a material adverse impact on our results of operations. As a result, the Company identified a triggering event and performed an interim goodwill impairment evaluation during the three months ended June 30, 2020. Based on the results of the of the impairment evaluation, the Company recorded an impairment charge of \$24.5 million in Europe and \$8.5 million in Asia Pacific to write-off all of the goodwill associated with each reporting unit. The impairment charge is recorded within *Impairment charges* in the Condensed Consolidated Statement of Comprehensive Income (Loss) for the three months ended June 30, 2020. The impairment was non-cash in nature and did not affect our current liquidity, cash flows, borrowing capability or operations; nor did it impact the debt covenants under our credit agreement.

Operating income. Consolidated operating loss was \$24.0 million, including impairment charges of \$33.0 million, for the three months ended June 30, 2020, compared to \$18.4 million of operating income for the three months ended June 30, 2019. Foreign exchange rate fluctuations positively impacted operating income by \$0.1 million, or 1.6%.

Net non-operating income (expense). Net non-operating income was \$2.7 million for the three months ended June 30, 2020, compared to \$1.1 million of net non-operating income for the three months ended June 30, 2019.

Interest, net, was \$0.3 million of expense for the three months ended June 30, 2020, compared to \$0.4 million of income for the three months ended June 30, 2019.

Other, net, was \$3.1 million of income for the three months ended June 30, 2020, compared to \$0.7 million for the three months ended June 30, 2019. The additional income in the current year is due to an unrealized gain of \$3.2 million on the Company's deferred compensation plan. Investments held in the Company's deferred compensation plan are recorded at fair value, which improved significantly during the three months ended June 30, 2020.

Income taxes. See Note 13, *Income Taxes*.

Executive Search

Americas

The Americas segment reported net revenue of \$84.8 million for the three months ended June 30, 2020, a decrease of 15.6% from \$100.5 million for the three months ended June 30, 2019. The decrease in net revenue was due to a 31.3% decrease in the number of executive search confirmations. No practice groups exhibited growth over the prior year. Foreign exchange rate fluctuations negatively impacted results by \$0.6 million, or 0.7%. There were 203 Executive Search consultants as of June 30, 2020, compared to 190 as of June 30, 2019.

Salaries and benefits expense decreased \$9.7 million, or 16.2%, compared to the three months ended June 30, 2019. Fixed compensation decreased \$1.0 million, due to talent acquisition and retention costs, retirement and benefits, and stock compensation, partially offset by an increase in the deferred compensation plan. Variable compensation decreased \$8.7 million due to lower bonus accruals as a result of decreased consultant productivity, partially offset by contingent compensation related to the acquisition of 2GET.

General and administrative expenses decreased \$0.5 million, or 4.3%, compared to the three months ended June 30, 2019, due to internal travel and office occupancy, partially offset by an increase in bad debt.

The Americas reported an operating income of \$23.1 million for the three months ended June 30, 2020, a decrease of \$5.4 million compared to \$28.6 million for the three months ended June 30, 2019.

Europe

Europe reported net revenue of \$30.1 million for the three months ended June 30, 2020, a decrease of 13.6% from \$34.9 million for the three months ended June 30, 2019. The decrease in net revenue was primarily due to a 17.0% decrease in the number of executive search confirmations. The Education and Social Enterprises, Life Sciences, and Global Technology Services practice groups exhibited growth over the prior year. Foreign exchange rate fluctuations negatively impacted results by \$0.8 million, or 2.4%. There were 113 Executive Search consultants as of June 30, 2020, compared to 111 as of June 30, 2019.

Salaries and benefits expense decreased \$3.7 million, or 14.0%, compared to the three months ended June 30, 2019. Fixed compensation decreased \$0.3 million for the three months ended June 30, 2020, due to retirement and benefits, and talent acquisition and retention costs, partially offset by increases in base salaries and payroll taxes, and stock compensation. Variable compensation decreased \$3.4 million due to lower bonus accruals as a result of decreased consultant productivity.

General and administrative expense decreased \$1.3 million, or 17.5%, compared to the three months ended June 30, 2019, due to internal travel, office occupancy, and intangible amortization, partially offset by increases in bad debt and professional fees.

Impairment charges for the three months ended June 30, 2020 were \$24.5 million as a result of an interim impairment evaluation on the goodwill of the Europe reporting unit. The impairment charge is recorded within *Impairment charges* in the Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended June 30, 2020.

Europe reported an operating loss of \$23.1 million, including impairment charges of \$24.5 million, for the three months ended June 30, 2020, a decrease of \$24.2 million compared to operating income of \$1.2 million for the three months ended June 30, 2019.

Asia Pacific

Asia Pacific reported net revenue of \$19.2 million for the three months ended June 30, 2020, a decrease of 17.2% compared to \$23.2 million for the three months ended June 30, 2019. The decrease in net revenue was due to a 23.3% decrease in the number of executive search confirmations compared to the prior year. The Education and Social Enterprise, and Life Sciences practice groups exhibited growth over the prior year. Foreign exchange rate fluctuations negatively impacted results by \$0.6 million, or 2.9%. There were 78 Executive Search consultants as of June 30, 2020, compared to 70 as of June 30, 2019.

Salaries and benefits expense decreased \$1.9 million, or 13.0%, compared to the three months ended June 30, 2019. Fixed compensation increased \$0.8 million due base salaries and payroll taxes, and talent acquisition and retention costs, partially offset by a decrease in separation. Variable compensation decreased \$2.7 million due to lower bonus accruals as a result of a decline in consultant productivity.

General and administrative expenses increased \$0.1 million, or 1.7%, compared to the three months ended June 30, 2019, due to bad debt, and taxes and licenses, partially offset by a decrease in internal travel.

Impairment charges for the three months ended June 30, 2020 were \$8.5 million as a result of an interim impairment evaluation on the goodwill of the Asia Pacific reporting unit. The impairment charge is recorded within *Impairment charges* in the Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended June 30, 2020.

Asia Pacific reported an operating loss of \$7.3 million, including impairment charges of \$8.5 million, for the three months ended June 30, 2020, a decrease of \$10.6 million compared to operating income of \$3.3 million for the three months ended June 30, 2019.

Heidrick Consulting

Heidrick Consulting reported net revenue of \$11.4 million for the three months ended June 30, 2020, a decrease of 21.5% compared to \$14.6 million for the three months ended June 30, 2019. The decrease in Heidrick Consulting net revenue is due to a 28.6% decrease in the number of consulting engagements compared to the prior year and an inability to execute in-person consulting engagements. Foreign exchange rate fluctuations negatively impacted results by \$0.1 million, or 1.0%. There were 68 Heidrick Consulting consultants at both June 30, 2020 and June 30, 2019.

Salaries and benefits expense increased \$1.0 million, or 7.0%, compared to the three months ended June 30, 2019. Fixed compensation was consistent with the prior year due to an increase in base salaries and payroll taxes, offset by a decrease in talent acquisition and retention costs. Variable compensation increased \$1.0 million due to bonus accruals on certain consulting engagements.

General and administrative expenses decreased \$0.6 million, or 10.4%, compared to the three months ended June 30, 2019, due to internal travel, the use of external third-party consultants and information technology, partially offset by an increase in professional fees.

Heidrick Consulting reported an operating loss of \$8.3 million for the three months ended June 30, 2020, an increase of \$3.5 million compared to an operating loss of \$4.8 million for the three months ended June 30, 2019.

Global Operations Support

Global Operations Support expenses for the three months ended June 30, 2020, decreased \$1.5 million, or 15.2%, to \$8.4 million from \$9.9 million for the three months ended June 30, 2019.

Salaries and benefits expense decreased \$1.6 million, or 27.6%, due to stock compensation, and retirement and benefits, partially offset by an increase in base salaries and payroll taxes.

General and administrative expenses increased \$0.1 million, or 2.5%, due to professional fees and information technology, partially offset by decreases in internal travel and office occupancy.

Six Months Ended June 30, 2020 Compared to the Six Months Ended June 30, 2019

Total revenue. Consolidated total revenue decreased \$31.8 million, or 9.0%, to \$322.7 million for the six months ended June 30, 2020, from \$354.4 million for the six months ended June 30, 2019. The decrease in total revenue was primarily due to the decrease in revenue before reimbursements (net revenue).

Revenue before reimbursements (net revenue). Consolidated net revenue decreased \$27.6 million, or 8.0%, to \$317.1 million for the six months ended June 30, 2020 from \$344.7 million for the six months ended June 30, 2019. Foreign exchange rate fluctuations negatively impacted results by \$4.0 million, or 1.2%. Executive Search net revenue was \$289.6 million for the six months ended June 30, 2020, a decrease of \$27.2 million, or 8.6%, compared to the six months ended June 30, 2019. Heidrick Consulting net revenue decreased \$0.4 million, or 1.4%, to \$27.5 million for the six months ended June 30, 2020. Both Executive Search revenue and Heidrick Consulting revenue were materially impacted by the ongoing COVID-19 pandemic. Significant factors contributing to the decline in revenue include a decline in demand for our executive search and consulting services, a lengthening of the executive search process due to a slow-down in client decision making and an inability to execute in-person consulting engagements.

The number of Executive Search and Heidrick Consulting consultants was 394 and 68, respectively, as of June 30, 2020, compared to 371 and 68, respectively, as of June 30, 2019. Executive Search productivity, as measured by annualized net Executive Search revenue per consultant, was \$1.5 million and \$1.7 million for the six months ended June 30, 2020 and 2019, respectively. The number of confirmed searches decreased 11.7% compared to 2019. The average revenue per executive search increased to \$128,300 for the six months ended June 30, 2020, compared to \$123,900 for the six months ended June 30, 2019.

Salaries and benefits. Consolidated salaries and benefits expense decreased \$15.7 million, or 6.5%, to \$225.7 million for the six months ended June 30, 2020 from \$241.4 million for the six months ended June 30, 2019. Fixed compensation decreased \$2.5 million due to talent acquisition and retention costs, the deferred compensation plan, and stock compensation, partially offset by an increase in base salaries and payroll taxes. Variable compensation decreased \$13.2 million due to lower bonus accruals as a result of decreased consultant productivity. Foreign exchange rate fluctuations positively impacted results by \$3.4 million, or 1.5%.

For the six months ended June 30, 2020, we had an average of 1,778 employees compared to an average of 1,634 employees for the six months ended June 30, 2019.

As a percentage of net revenue, salaries and benefits expense was 71.2% for the six months ended June 30, 2020, compared to 70.0% for the six months ended June 30, 2019.

General and administrative expenses. Consolidated general and administrative expenses decreased \$4.4 million, or 6.3% to \$64.2 million for the six months ended June 30, 2020 from \$68.6 million for the six months ended June 30, 2019. The decrease in general and administrative expenses was due to decreases in internal travel, office occupancy, hiring fees, and taxes and licenses, partially offset by increases in professional fees and bad debt. Foreign exchange rate fluctuations positively impacted results by \$0.7 million, or 1.1%.

As a percentage of net revenue, general and administrative expenses were 20.2% for the six months ended June 30, 2020, compared to 19.9% for the six months ended June 30, 2019.

Impairment charges. During the six months ended June 30, 2020, and as a direct result of the economic impact of COVID-19, the Company experienced a decline in demand for our executive search services and a lengthening of the executive search process due to a slow-down in client decision making, which had a material adverse impact on our results of operations. As a result, the Company identified a triggering event and performed an interim goodwill impairment evaluation during the six months ended June 30, 2020. Based on the results of the of the impairment evaluation, the Company recorded an impairment charge of \$24.5 million in Europe and \$8.5 million in Asia Pacific to write-off all of the goodwill associated with each reporting unit. The impairment charge is recorded within *Impairment charges* in the Condensed Consolidated Statement of Comprehensive Income (Loss) for the three and six months ended June 30, 2020. The impairment was non-cash in nature and did not affect our current liquidity, cash flows, borrowing capability or operations; nor did it impact the debt covenants under our credit agreement.

Operating income. Consolidated operating loss was \$5.8 million, including impairment charges of \$33.0 million, for the six months ended June 30, 2020, compared to \$34.7 million of operating income for the six months ended June 30, 2019. Foreign exchange rate fluctuations positively impacted operating income by \$0.2 million, or 0.7%.

Net non-operating income (expense). Net non-operating expense was \$1.0 million for the six months ended June 30, 2020, compared to \$3.6 million of net non-operating income for the six months ended June 30, 2019.

Interest, net, was \$0.3 million of income for the six months ended June 30, 2020, compared to \$1.2 million of income for the six months ended June 30, 2019.

Other, net, was \$1.4 million of expense for the six months ended June 30, 2020, compared to \$2.4 million of income for the six months ended June 30, 2019. The additional expense in the current year is due to an unrealized loss on the Company's deferred compensation plan. Investments held in the Company's deferred compensation plan are recorded at fair value, which declined significantly during the six months ended June 30, 2020.

Income taxes. See Note 13, *Income Taxes*.

Executive Search

Americas

The Americas segment reported net revenue of \$185.1 million for the six months ended June 30, 2020, a decrease of 7.3% from \$199.8 million for the six months ended June 30, 2019. The decrease in net revenue was due to a 12.0% decrease in the number of executive search confirmations. The Consumer practice group exhibited growth over the prior year. Foreign exchange rate fluctuations negatively impacted results by \$1.0 million or 0.5%. There were 203 Executive Search consultants as of June 30, 2020, compared to 190 as of June 30, 2019.

Salaries and benefits expense decreased \$11.7 million, or 9.4%, compared to the six months ended June 30, 2019. Fixed compensation decreased \$3.7 million, due to the deferred compensation plan, talent acquisition and retention costs, retirement and benefits, and stock compensation, partially offset by an increase in base salaries and payroll taxes. Variable compensation decreased \$8.0 million due to lower bonus accruals as a result of decreased consultant productivity, partially offset by contingent compensation related to the acquisition of 2GET.

General and administrative expenses decreased \$0.8 million, or 3.2%, compared to the six months ended June 30, 2019, due to internal travel, taxes and licenses, and office occupancy, partially offset by increases in bad debt and professional fees.

The Americas reporting an operating income of \$48.8 million for the six months ended June 30, 2020, a decrease of \$2.2 million compared to \$51.0 million for the six months ended June 30, 2019.

Europe

Europe reported net revenue of \$63.2 million for the six months ended June 30, 2020, a decrease of 7.6% from \$68.4 million for the six months ended June 30, 2019. The decrease in net revenue was due to a 10.2% decrease in the number of executive search confirmations. The Education and Social Enterprises, Life Sciences, and Global Technology Services practice groups exhibited growth over the prior year. Foreign exchange rate fluctuations negatively impacted results by \$1.5 million, or 2.3%. There were 113 Executive Search consultants as of June 30, 2020, compared to 111 as of June 30, 2019.

Salaries and benefits expense decreased \$3.6 million, or 7.3%, compared to the six months ended June 30, 2019. Fixed compensation was consistent with the prior period, due to decreases in retirement and benefits, and talent acquisition and retention costs, offset by an increase in base salaries and payroll taxes. Variable compensation decreased \$3.6 million due to lower bonus accruals as a result of decreased consultant productivity.

General and administrative expense decreased \$2.7 million, or 17.6%, compared to the six months ended June 30, 2019, due to internal travel, office occupancy, intangible amortization, and professional fees, partially offset by increases in bad debt and the use of external third-party consultants.

Impairment charges for the six months ended June 30, 2020 were \$24.5 million as a result of an interim impairment evaluation on the goodwill of the Europe reporting unit. The impairment charge is recorded within *Impairment charges* in the Condensed Consolidated Statements of Comprehensive Income (Loss) for the six months ended June 30, 2020.

Europe reported an operating loss of \$20.0 million, including impairment charges of \$24.5 million, for the six months ended June 30, 2020, a decrease of \$23.3 million compared to operating income of \$3.3 million for the six months ended June 30, 2019.

Asia Pacific

Asia Pacific reported net revenue of \$41.3 million for the six months ended June 30, 2020, a decrease of 15.1% compared to \$48.6 million for the six months ended June 30, 2019. The decrease in net revenue was due to a 13.1% decrease in the number of executive search confirmations compared to the prior year. The Education and Social Enterprise, and Life Sciences practice groups exhibited growth over the prior year. Foreign exchange rate fluctuations negatively impacted results by \$1.3 million, or 3.0%. There were 78 Executive Search consultants as of June 30, 2020, compared to 70 as of June 30, 2019.

Salaries and benefits expense decreased \$2.5 million, or 8.1%, compared to the six months ended June 30, 2019. Fixed compensation increased \$0.9 million due to retirement and benefits, and talent acquisition and retention costs, partially offset by a decrease in base salaries and payroll taxes. Variable compensation decreased \$3.3 million due to lower bonus accruals as a result of a decline in consultant productivity.

General and administrative expenses decreased \$0.3 million, or 3.3%, compared to the six months ended June 30, 2019, due to internal travel, partially offset by an increase in bad debt.

Impairment charges for the six months ended June 30, 2020 were \$8.5 million as a result of an interim impairment evaluation on the goodwill of the Asia Pacific reporting unit. The impairment charge is recorded within *Impairment charges* in the Condensed Consolidated Statements of Comprehensive Income (Loss) for the six months ended June 30, 2020.

Asia Pacific reported an operating loss of \$4.8 million, including impairment charges of \$8.5 million, for the six months ended June 30, 2020, a decrease of \$13.0 million compared to operating income of \$8.2 million for the six months ended June 30, 2019.

Heidrick Consulting

Heidrick Consulting reported net revenue of \$27.5 million for the six months ended June 30, 2020, a decrease of 1.4% compared to \$27.9 million for the six months ended June 30, 2019. The decrease in Heidrick Consulting net revenue is due to a 10.6% decrease in the number of consulting engagements compared to the prior year and an inability to execute in-person consulting engagements, partially offset by one large consulting project in the prior quarter. Foreign exchange rate fluctuations negatively impacted results by \$0.2 million, or 0.7%. There were 68 Heidrick Consulting consultants at both June 30, 2020 and June 30, 2019.

Salaries and benefits expense increased \$3.1 million, or 11.8%, compared to the six months ended June 30, 2019. Fixed compensation increased \$1.1 million due to base salaries and payroll taxes and retirement and benefits, partially offset by a decrease in talent acquisition and retention costs. Variable compensation increased \$1.0 million due to bonus accruals on certain consulting engagements.

General and administrative expenses decreased \$0.7 million, or 6.4%, compared to the six months ended June 30, 2019, due to internal travel and the use of external third-party consultants, partially offset by an increase in professional fees.

Heidrick Consulting reported an operating loss of \$12.4 million for the six months ended June 30, 2020, an increase of \$2.8 million, or 29.0%, compared to an operating loss of \$9.6 million for the six months ended June 30, 2019.

Global Operations Support

Global Operations Support expenses for the six months ended June 30, 2020, decreased \$0.8 million, or 4.2%, to \$17.4 million from \$18.2 million for the six months ended June 30, 2019.

Salaries and benefits expense decreased \$1.0 million, or 9.2%, due to stock compensation, and retirement and benefits, partially offset by an increase in separation.

General and administrative expenses increased \$0.2 million, or 2.4%, due to professional fees and information technology, partially offset by decreases in internal travel, office occupancy, and taxes and licenses.

Liquidity and Capital Resources

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

We pay the non-deferred portion of annual bonuses in the first quarter following the year in which they are earned. Employee bonuses are accrued throughout the year and are based on our performance and the performance of the individual employee.

Lines of credit. On October 26, 2018, we entered into a new Credit Agreement (the "2018 Credit Agreement") to replace the Second Amended and Restated Credit Agreement (the "Restated Credit Agreement") executed on June 30, 2015. The 2018 Credit Agreement provides us with a senior unsecured revolving line of credit with an aggregate commitment of \$175 million, which includes a sublimit of \$25 million for letters of credit and a \$10 million swingline loan sublimit. The agreement also includes a \$75 million expansion feature. The 2018 Credit Agreement will mature in October 2023. Borrowings under the 2018 Credit Agreement bear interest at our election of the Alternate Base Rate (as defined in the 2018 Credit Agreement) or Adjusted LIBOR (as defined in the 2018 Credit Agreement) plus a spread as determined by our leverage ratio.

Borrowings under the 2018 Credit Agreement may be used for working capital, capital expenditures, Permitted Acquisitions (as defined in the 2018 Credit Agreement) and for other general purposes. The obligations under the 2018 Credit Agreement are guaranteed by certain of our subsidiaries.

We capitalized approximately \$1.0 million of loan acquisition costs related to the 2018 Credit Agreement, which will be amortized over the remaining term of the agreement.

During the six months ended June 30, 2020, we borrowed \$100 million under the 2018 Credit Agreement. The borrowings outstanding under the revolving line of credit currently bear interest at a rate of 1.44% per annum. We elected to draw down a portion of the available funds from our revolving line of credit as a precautionary measure to increase our cash position and further enhance our financial flexibility in light of current uncertainty in the global markets resulting from the COVID-19 outbreak. We believe that we have more than sufficient liquidity, even prior to taking this action, but elected to draw down available funds out of an abundance of caution in this period of uncertainty. The draw-down proceeds from the revolving line of credit are currently being held on our balance sheet and have been invested in short-term securities resulting in a current net borrowing rate of 1.29%.

As of June 30, 2020, we had \$100 million in outstanding borrowings and as of December 31, 2019, we had no outstanding borrowings. In both periods, we were in compliance with the financial and other covenants under the facility and no event of default existed.

Cash, cash equivalents and marketable securities. Cash, cash equivalents and marketable securities at June 30, 2020, December 31, 2019, and June 30, 2019 were \$287.8 million, \$332.9 million and \$144.0 million, respectively. The \$287.8 million of cash, cash equivalents and marketable securities at June 30, 2020, includes \$72.1 million held by our foreign subsidiaries. A portion of the \$72.1 million is considered permanently reinvested in these foreign subsidiaries. If these funds

were required to satisfy obligations in the U.S., the repatriation of these funds could cause us to incur additional U.S. income taxes or foreign withholding taxes.

Cash flows used in operating activities. For the six months ended June 30, 2020, cash used in operating activities was \$124.8 million. This use of cash was primarily the result of cash bonus payments related to 2019 and prior year cash bonus deferrals of \$222.1 million partially offset by 2020 bonus accruals, net loss of \$17.1 million, and an increase in accounts receivable of \$17.0 million, partially offset by impairment charges of \$33.0 million and an increase in taxes payable of \$6.8 million.

For the six months ended June 30, 2019, cash used in operating activities was \$121.9 million. This use of cash was primarily the result of cash bonus payments related to 2018 and prior year cash bonus deferrals partially offset by an increase in 2019 bonus accruals, and an increase in accounts receivable of \$31.2 million, partially offset by net income of \$26.4 million.

Cash flows used in investing activities. Cash provided by investing activities was \$13.5 million for the six months ended June 30, 2020, primarily due to purchases of available for sale investments of \$71.4 million and capital expenditures of \$4.6 million for office build-outs, partially offset by proceeds from available for sale investments of \$62.5 million.

For the six months ended June 30, 2019, cash used in investing activities was \$42.0 million, primarily due to purchases of available for sale investments of \$40.5 million and capital expenditures of \$1.8 million for office build-outs.

Cash flows used in financing activities. Cash provided by financing activities was \$89.7 million for the six months ended June 30, 2020, primarily due to the draw on the line of credit of \$100.0 million, partially offset by dividend payments of \$6.0 million, the final earnout payment for the Amrop acquisition of \$2.8 million, and employee tax withholding payments on equity transactions of \$1.6 million.

For the six months ended June 30, 2019, cash used by financing activities was \$10.9 million, primarily due to dividend payments of \$5.9 million, employee tax withholding payments on equity transactions of \$4.6 million, and the final earnout payment for the Scambler MacGregor acquisition of \$0.4 million.

COVID-19 Considerations We believe we have sufficient liquidity to satisfy our cash needs, however, we continue to evaluate and take action, as necessary, to preserve adequate liquidity and ensure that our business can continue to operate during these uncertain times. We expect that all of our business segments, across all of our geographies, will continue to be impacted to some degree by the pandemic and actions taken in response to the pandemic, but the significance of the impact of the pandemic on our business and liquidity, and the duration for which it may have an impact cannot be determined at this time. We elected to draw down a portion of the available funds from our revolving line of credit as a precautionary measure to increase our cash position and further enhance our financial flexibility in light of current uncertainty in the global markets resulting from the COVID-19 outbreak.

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

Application of Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our Condensed Consolidated Financial Statements, which have been prepared using accounting principles generally accepted in the United States of America. Our significant accounting policies are discussed in Note 2, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2019 as filed with the U.S. Securities and Exchange Commission ("SEC") on February 24, 2020, and in Note 2, *Summary of Significant Accounting Policies*, in the Notes to Condensed Consolidated Financial Statements included in Item 1. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. If actual amounts are ultimately different from previous estimates, the revisions are included in our results of operations for the period in which the actual amounts become known.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or if changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. Management believes its critical accounting policies that reflect its more significant estimates and assumptions relate to revenue recognition, income taxes, interim effective tax rate and assessment of goodwill and other intangible assets for impairment. See *Application of Critical Accounting Policies and Estimates* in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC on February 24, 2020.

Recently Adopted Financial Accounting Standards

On January 1, 2020, the Company adopted Accounting Standards Update ("ASU") No. 2016-13, Measurement of Credit Losses on Financial Instruments, and all related amendments, using the modified retrospective method. The guidance amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. The adoption had an immaterial impact on the Condensed Consolidated Statements of Comprehensive Income (Loss), Condensed Consolidated Balance Sheet, Condensed Consolidated Statements of Cash Flows and Condensed Consolidated Statements of Changes in Stockholders' Equity for the three and six months ended June 30, 2020.

Recently Issued Financial Accounting Standards

In March 2020, the Financial Accounting Standards Board ("FASB") issued ASU No. 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The guidance is intended to provide temporary optional expedients and exceptions to the guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. This guidance is effective March 12, 2020, and the Company may elect to apply the amendments prospectively through December 31, 2022. The Company is currently evaluating the impact of this accounting guidance. The effect is not known or reasonably estimable at this time.

In December 2019, the FASB, issued ASU No. 2019-12, Simplifying the Accounting for Income Taxes. The guidance simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Accounting Standards Codification ("ASC") 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the impact of this accounting guidance. The effect is not known or reasonably estimable at this time.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Currency market risk. With our operations in the Americas, Europe and Asia Pacific, we conduct business using various currencies. Revenue earned in each country is generally matched with the associated expenses incurred, thereby reducing currency risk to earnings. A 10% change in the average exchange rate for currencies of all foreign countries in which we operate would have increased or decreased our net income for the six months ended June 30, 2020 by approximately \$3.3 million. However, because certain assets and liabilities are denominated in currencies other than their respective functional currency, changes in currency rates may cause fluctuations in the valuation of such assets and liabilities. Based on balances exposed to fluctuation in exchange rates as of June 30, 2020, a 10% increase or decrease equally in the value of currencies could result in a foreign exchange gain or loss of approximately \$1.1 million. In addition, as the local currency of our subsidiaries has generally been designated as the functional currency, we are affected by the translation of foreign currency financial statements into U.S. dollars. For financial information by geographic segment, see Note 15, *Segment Information*, in the Notes to Condensed Consolidated Financial Statements.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures as defined in the Securities Exchange Act of 1934, as amended, (the "Exchange Act") Rules 13a-15(e) and 15d-15(e), that are designed to ensure that information required to be

disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Management of the Company, with the participation of the principal executive officer and the principal financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2020. Based on the evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2020.

(b) Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f) that occurred during the six months ended June 30, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite most of our employees working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information presented in Note 17, *Commitments and Contingencies*, to our Condensed Consolidated Financial Statements within this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes in the Company's risk factors from those set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, except for the following risk factor which supplements the risk factors previously disclosed and should be considered in conjunction with the Risk Factors section in the Company's Annual report on Form 10-K for the year ended December 31, 2019.

The current COVID-19 pandemic, or the future outbreak of other highly infectious or contagious diseases, could adversely impact or cause disruption to our business, financial condition, results of operations and cash flows. Further, the COVID-19 pandemic has caused severe disruptions in the U.S. and global economy, may further disrupt financial markets and could potentially create widespread business continuity issues.

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. COVID-19 has since spread to over 100 countries, including the United States. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020 the United States declared a national emergency with respect to COVID-19.

With infections reported throughout the world, certain governmental authorities have issued stay-at-home orders, proclamations and/or directives aimed at minimizing the spread of the pandemic. Additional, more restrictive proclamations and/or directives may be issued in the future. We temporarily closed our offices and shifted our workforce to remote operations to ensure the safety of our employees. In addition, certain of our customers have closed or reduced their operations during this pandemic.

The global pandemic has created significant volatility, uncertainty and economic disruption. During the second quarter, we experienced a decline in demand for our executive search and consulting services, a lengthening of the executive search process due to a slow-down in client decision making and an inability to execute in-person consulting engagements, which negatively impacted our results of operations. The extent to which the pandemic continues to impact our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict, including: the duration and scope of the pandemic; governmental, business and individuals' actions that have been and continue to be taken in response to the pandemic; the impact of the pandemic, and actions taken in response to the pandemic, on economic activity; the effect on our clients and client demand for our services and solutions; our ability to sell and provide our services and solutions, including as a result of travel restrictions and people working from home; the ability of our clients to pay for our services and solutions;

and any closures of our and our clients' offices and facilities. Restrictions inhibiting our employees' and clients' ability to access those offices and facilities, has disrupted, and are expected to continue to disrupt, our ability to provide our services and solutions. These disruptions could result in, among other things, a decline in demand for our executive search and consulting services due to temporary and permanent workforce reductions; a lengthening of the executive search process due to a slow-down in client decision making; an increase in executive searches placed on hold due to delays in planned work by our clients; an inability to execute in-person consulting engagements; prolonged disruptions in business operations for offices in areas most impacted by the pandemic, including the United States, United Kingdom, Italy, Spain, China and Brazil; terminations of client contracts and losses of revenue.

Management expects that all of its business segments, across all of its geographies, will continue to be impacted to some degree by the pandemic and actions taken in response to the pandemic, but the significance of the impact of the pandemic on our business and the duration for which it may have an impact cannot be determined at this time. During the second quarter, the sustained economic downturn resulted in the impairment of the goodwill in our Europe and Asia Pacific reporting units. We also evaluated the recoverability our intangible and other long-lived assets during the second quarter and determined that no impairment was necessary. We will continue to monitor the impact of the economic downturn for additional potential impairment of goodwill, other intangible assets and long-lived assets.

The impact of the COVID-19 pandemic may also exacerbate other risks discussed in Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, any of which could have a material effect on us. The ultimate effect that the COVID-19 pandemic may have on our business, financial condition or results of operations is not presently known to us or may present unanticipated risks that cannot be determined at this time.

Item 5. Other Information

In the 2020 third quarter, the Company is implementing a restructuring plan to optimize future growth and profitability. The expected annual cost savings from the restructuring ranges from \$30 million to \$40 million. The primary components of the restructuring include a workforce reduction; a reduction of the firm's real estate expenses, professional fees and the future elimination of certain deferred compensation programs. In connection with this restructuring plan, the Company expects to record pre-tax charges of approximately \$30 million to \$40 million in the 2020 third quarter.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
*10.1	Form of Restricted Stock Unit Participation Agreement
*10.2	Form of Performance Stock Unit Participation Agreement
*10.3	Form of Non-Employee Director Restricted Stock Unit Participation Agreement
*31.1	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of the Company's Executive Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification of the Company's Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data Files because its XBRL tags are embedded within the Inline XBRL document
*101.SCH	Inline XBRL Taxonomy Extension Schema Document
*101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document
*101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
*104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

SIGNATURE

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

Date: July 27, 2020

Heidrick & Struggles International, Inc.
(Registrant)

/s/ Stephen A. Bondi

Stephen A. Bondi

Vice President, Controller

(On behalf of the registrant and in his capacity as Chief Accounting Officer)

Form of Restricted Stock Participation Agreement

This Restricted Stock Unit Participation Agreement (the "Agreement") is dated as of _____ and sets forth the terms and conditions of the Award described below made by Heidrick & Struggles International, Inc. (the "Company") to _____ (the "Participant"), pursuant to the Second Amended and Restated 2012 Heidrick & Struggles GlobalShare Program (the "Program" or the "Plan").

As of _____ (the "Grant Date"), the Company has granted _____ Restricted Stock Units ("RSUs") to the Participant as set forth herein. The RSUs are granted pursuant to the Program and are governed by the terms and conditions of the Program. All defined terms used herein, unless specifically defined in this Agreement, have the meanings assigned to them in the Program. The Participant agrees to be bound by all terms and conditions of the Agreement and the Program, and has received and reviewed a copy of the Program and the Prospectus for the Program dated June 5, 2018.

The RSUs granted under this Agreement shall not become valid or enforceable unless and until the Participant executes the Agreement and it is accepted by the Company. By the Participant's signature and the Company's signature below, the Participant and the Company agree that this constitutes the signature page of the Agreement. Participant further agrees that the RSUs are granted under and governed by the terms and conditions of the Agreement and the Program. Agreements that are not signed and returned shall be invalid and unenforceable.

As a material condition and inducement to the Company's grant of RSUs to the Participant, the Participant agrees that he or she has received and reviewed the Program and the Prospectus, and the Participant further agrees to be bound by all of the terms and conditions of the Agreement and the Program, as may be amended by the Company from time to time.

IN WITNESS WHEREOF, the parties hereto have duly executed the Agreement as of the date first set forth above.

Name:

Heidrick & Struggles International, Inc.

By: _____

Name: Kamau Coar

Title: General Counsel & Corporate Secretary

NOW, THEREFORE, in consideration of the agreements of the Participant herein provided and pursuant to the Program, the parties agree as follows:

1. Definitions. All capitalized terms used herein, unless specifically defined herein, shall have the same meanings as established in the Program.
2. Participation. Contingent upon the execution of the Agreement, the Company hereby grants to the Participant _____ RSUs subject to the terms and conditions herein.
3. Vesting of RSUs.

- a. Subject to Section 3(b) and Section 4 below, all RSUs granted under the Agreement shall vest in accordance with the schedule set forth below; provided the Participant has been in Continuous Service through each vesting date. Except as set forth in Section 3(b), upon the Participant's termination of Continuous Service prior to the vesting date, the terms of Section 10 shall apply. For purposes of the Agreement, "Continuous Service" shall mean the Participant's service with the Company or any Subsidiary or Affiliate as an employee has not been interrupted or terminated, and shall include any period during which the Participant is on an approved leave of absence from the Company or its Subsidiaries or Affiliates.

<i>Vesting Date</i>	<i>Number of Shares Vesting</i>
(Vesting Date 1)	(Number of Shares Vesting 1)
(Vesting Date 2)	(Number of Shares Vesting 2)
(Vesting Date 3)	(Number of Shares Vesting 3)

- b. If the Participant's Continuous Service is terminated as a result of the Participant's death or Disability, all RSUs granted to the Participant under the Agreement will immediately vest.
4. Effect of Vesting.
 - a. If, and at the time, the Participant's RSUs vest under the terms of Section 3 or Section 8, and subject to Section 7, such Participant shall receive as full consideration for the RSUs a number of Shares equal to the number of RSUs which vested on such date.
 - b. The RSUs granted to the Participant shall be maintained in a bookkeeping account with the custodian appointed by the Human Resources & Compensation Committee (the "Committee") from time to time (the "Custodian") for such Participant if and until the RSUs are converted into Shares pursuant to this Section 4, at which time the Shares shall be issued to the Participant in accordance with Section 5 below.
 5. Compensation Recovery. The Participant's RSUs are subject to the Clawback Policy adopted by the Board of Directors.
 6. Delivery of Shares to the Participant. As soon as practicable after the RSUs vest and are converted into Shares, and subject to Section 8, the Custodian shall, without transfer or issue tax or other incidental expense to the Participant, deliver to the Participant by first-class insured mail addressed to the Participant at the address shown on page 1 or the last address of record on file with the Custodian, (i) a statement from the Custodian referencing the number of Shares held in the Participant's name in a book entry account, or (ii) at the Participant's request, certificate(s) for the number of Shares as to which the Shares vested. In any event, Shares due to the Participant shall be delivered as described above no later than March 15 of the year following the calendar year in which such RSUs vest.
 7. Dividend Equivalents. The Company shall credit the Participant's RSU account with an amount equal to the dividends, if any, that would be paid with respect to the unvested RSUs as if the RSUs were actual Shares to a shareholder as of the record date. Such amount shall be credited to the Participant's RSU account at the same time dividends are paid with respect to the Shares, shall be subject to the vesting and forfeiture provisions set forth in Sections 3, 4 and 10 of the Agreement, and shall be paid to the Participant in cash, on the first payroll date following when the Participant's related RSUs vest and are issued as Shares to the Participant or settled in cash, or as soon as practical thereafter.
 8. Tax Withholdings and Payments.
 - a. The Company or any Subsidiary or Affiliate is authorized to withhold from any payment to be made to the Participant under this Agreement with respect to the RSUs, amounts of income tax withholding and other taxes due in connection with compensation or any other transaction under the Program, including the receipt of

Shares under Section 6. The Participant shall hold the Company and its Subsidiaries and Affiliates harmless for any damages caused by his or her failure to so comply and for any other damages caused by his or her actions or inactions.

- b. The Participant will pay withholding taxes attributable to the receipt of Shares in cash, by having Shares withheld by the Company from any Shares that would otherwise be received by the Participant under the Agreement (in which case, the number of Shares so withheld shall have an aggregate Fair Market Value at the time of such withholding sufficient to satisfy the applicable withholding taxes), or by any other method approved by the Committee. If the Participant does not satisfy the withholding obligation by cash payment within a reasonable time established by the Committee, the Participant's withholding obligation shall be satisfied by the Company's withholding of Shares from the vested RSUs.
- c. The Company shall deduct from the dividend equivalents paid to the Participant pursuant to Section 7 the Participant's withholding obligation arising from such payment.

9. Change in Control. The RSUs are subject to the Change of Control provisions as set forth in detail in the Plan.

10. Forfeiture of RSUs.

- a. Subject to the next following sentence, the Participant's unvested RSUs shall be forfeited to the Company upon the Participant's termination of Continuous Service for any reason other than (a) the Participant's death or Disability that occurs prior to the date the RSUs vest as provided in Section 3 above or (b) the Participant's termination of Continuous Service by the Company or any Subsidiary or Affiliate without Cause or the Participant's voluntary termination due to the existence of Good Reason, in either case during the two-year period beginning on the date of a Change in Control, as provided in Section 9 above.
- b. This Section 10 shall be subject to the Company's Bonus, Restricted Stock Unit, Performance Stock Unit and Bonus Cash Deferral Retirement Policy (the "Retirement Policy") and any subsequent amendments, as well as any other Company plan or written employment, severance or similar agreement that has been or may be executed by the Participant and the Company or its Subsidiary or Affiliate, and the provisions in such Retirement Policy or agreement concerning the vesting of RSUs in connection with the Participant's termination of Continuous Service shall supersede any inconsistent or contrary provision in this Agreement.
- c. The Participant agrees that the Company or its Subsidiary or Affiliate may deduct from any amounts the Company or its Subsidiary or Affiliate owes the Participant from time to time (such as wages or other compensation, deferred compensation credits, vacation pay, any severance or other payments owed following a termination of employment, as well as any other amounts owed to the Participant by the Company or its Subsidiary or Affiliate) to the extent of any amounts the Participant owes the Company or its Subsidiary or Affiliate under this Section 10. The provisions of this section and any amounts repayable by the Participant hereunder are intended to be in addition to any rights to repayment the Company or its Subsidiary or Affiliate may have under applicable law.
- d. This Section 10 does not constitute the Company's exclusive remedy for the Participant's violation of any post-employment obligations owed to the Company, including but not limited to any obligations of confidentiality, or restrictive covenants that may exist in the Participant's employment agreement.
- e. Reasonableness. The Participant acknowledges that the Participant's obligations under this Section 10 are reasonable in the context of the nature of the Company's business, its strategic and cumulative investments in longstanding client relationships, and the competitive injuries likely to be sustained by the Company if the Participant were to violate such obligations. The Participant further acknowledges that this Agreement is made in consideration of, and is adequately supported by the agreement of the Company to perform its obligations under this Agreement and by other consideration, which the Participant acknowledges constitutes good, valuable and sufficient consideration.

11. Miscellaneous.

- a. The Company or any Subsidiary or Affiliate shall have no obligation to continue the employment relationship or any other relationship as a result of an Award under the Program and/or the Agreement. The Participant acknowledges and agrees that: (i) the Program is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time; (ii) the grant of RSUs is voluntary and occasional and does not create any contractual or other right to receive future grants of

RSUs, or benefits in lieu of RSUs, even if RSUs have been granted repeatedly in the past; (iii) all decisions with respect to future RSU grants, if any, will be at the sole discretion of the Company; (iv) participation in the Program is voluntary; (v) the RSUs are not a part of normal or expected compensation or salary for any purposes; (vi) the future value of the underlying shares is unknown and cannot be predicted with certainty; and (vii) in consideration of the grant of RSUs, no claim or entitlement to compensation or damages shall arise from termination of the RSUs or diminution in value of the RSUs or Shares received upon vesting.

- b. The Company may amend, alter or discontinue the Agreement, without the consent of the Participant so long as such amendment, alteration or discontinuance would not impair any of the rights or obligations under any Award theretofore granted to the Participant under the Program. The Committee may amend the Agreement in such manner as it deems necessary to permit the granting of Awards meeting the requirements of the Code or other applicable laws.
- c. The parties agree that the Agreement shall be governed by and interpreted and construed in accordance with the laws of the United States and, in particular, those of the State of Illinois without regard to its conflict of law principles, as Illinois is the situs of the principal corporate office of the Company. Furthermore, to the extent not prohibited under applicable law, and unless the Company affirmatively elects in writing to allow the proceeding to be brought (or itself brings such a proceeding) in a different venue, the parties agree that any suit, action or proceeding with respect to the Program, the RSUs or the Agreement shall be brought in the state courts in Chicago, Illinois or in the U.S. District Court for the Northern District of Illinois. The parties hereby accept the exclusive jurisdiction of those courts for the purpose of any such suit, action or proceeding. Venue for any such action, in addition to any other venue required or otherwise mandated by statute, will be in Chicago, Illinois. Each party further agrees to waive any applicable right to a jury trial, and expressly elects to have the matter heard as a bench trial.
- d. Unless waived by the Company, any notice to the Company required under or relating to the Agreement shall be in writing and addressed to:

General Counsel
Heidrick & Struggles International, Inc.
233 South Wacker Drive
Suite 4900
Chicago, IL 60606-6303

12. Program Governs. All terms and conditions of the Program are incorporated herein and made part hereof as if stated herein. If there is any conflict between the terms and conditions of the Program and the Agreement, the terms and conditions of the Program, as interpreted by the Committee, shall govern.
13. Data Privacy. By signing above, the Participant voluntarily acknowledges and consents to the collection, use, processing and transfer of personal data as described in this Section 13. The Participant is not obliged to consent to such collection, use, processing and transfer of personal data. However, the Participant's failure to provide the consent may affect the Participant's ability to participate in the Program. The Company and its Subsidiaries and Affiliates hold certain personal information about the Participant, including the Participant's name, home address and telephone number, date of birth, employee identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all options or any other rights or entitlements to shares of stock in the Participant's favor, for the purpose of managing and administering the Program ("Data"). The Company, its Subsidiaries and its Affiliates will transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of the Participant's participation in the Program, and the Company and any of its Subsidiaries or Affiliates may each further transfer Data to any third parties assisting in the implementation, administration and management of the Program. These recipients may be located in the European Economic Area, or elsewhere throughout the world, such as the United States. The Participant authorizes them to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Participant's participation in the Program, including any requisite transfer of such Data as may be required for the administration of the Program and/or the subsequent holding of Shares on the Participant's behalf to a broker or other third party with whom the Participant may elect to deposit any Shares acquired pursuant to the Program. The Participant may, at any time, review Data, require any necessary amendments to it or withdraw the consents herein in writing by contacting the Company; however, by withdrawing consent, the Participant will affect his or her ability to participate in the Program.

14. Execution of the Agreement.

- a. The Parties agree that this Agreement shall be considered executed by both parties executing the Agreement on the first page hereof, which is a part hereof.
- b. This Agreement, or any amendments thereto, may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

Form of Performance Stock Unit Participation Agreement

This Performance Stock Unit Participation Agreement (the "Agreement") is dated as of _____ and sets forth the terms and conditions of the Award described below made by Heidrick & Struggles International, Inc. (the "Company") to _____ (the "Participant"), pursuant to the Second Amended and Restated 2012 Heidrick & Struggles GlobalShare Program (the "Program" or the "Plan").

As of _____ (the "Grant Date"), the Company has granted a target award of _____ Performance Stock Units ("PSUs") to the Participant as set forth herein. The PSUs are granted pursuant to the Program and are governed by the terms and conditions of the Program. All defined terms used herein, unless specifically defined in this Agreement, have the meanings assigned to them in the Program. The Participant agrees to be bound by all terms and conditions of the Agreement and the Program, and has received and reviewed a copy of the Program and the Prospectus for the Program dated June 5, 2018.

The PSUs granted under this Agreement shall not become valid or enforceable unless and until the Participant executes the Agreement and it is accepted by the Company. By the Participant's signature and the Company's signature below, the Participant and the Company agree that this constitutes the signature page of the Agreement. Participant further agrees that the PSUs are granted under and governed by the terms and conditions of the Agreement and the Program. Agreements that are not signed and returned shall be invalid and unenforceable.

As a material condition and inducement to the Company's grant of PSUs to the Participant, the Participant agrees that he or she has received and reviewed the Program and the Prospectus, and the Participant further agrees to be bound by all of the terms and conditions of the Agreement and the Program, as may be amended by the Company from time to time.

IN WITNESS WHEREOF, the parties hereto have duly executed the Agreement as of the date first set forth above.

Name:

Heidrick & Struggles International, Inc.

By: _____

Name: Kamau Coar

Title: General Counsel & Corporate Secretary

NOW, THEREFORE, in consideration of the agreements of the Participant herein provided and pursuant to the Program, the parties agree as follows:

1. **Definitions.** All capitalized terms used herein, unless specifically defined herein, shall have the same meanings as established in the Program.
2. **Participation.** Pursuant to the Program and contingent upon the execution of the Agreement, the Company hereby grants to the Participant a target award of _____ PSUs subject to the terms and conditions herein.
3. **Vesting of PSUs.**
 - a. The number of _____ PSUs granted under the Agreement that shall vest on _____ is subject to the following performance and employment conditions:

- i. 50% of the award will be based upon the attainment of Adjusted Operating Margin (“AOM”) goals for the 3 year period _____ through _____. The attainment will be in accordance with the schedule set forth below.

<i>3-year Adjusted Operating Margin</i>	<i>Percentage of Target PSUs Vesting</i>
12% or more	200% (Maximum)
8%	100% (Target)
4%	50% (Threshold)
Less than 4%	0 %

For performance greater than 100% and less than 150% of target, or performance less than 100% and greater than 50% of target, the vesting percentage will be interpolated.

Except as set forth in Section 4 below, the portion of the target PSU Award that does not vest in accordance with the schedule set forth above shall be forfeited to the Company.

- ii. 50% of the award will be based upon the attainment of Total Shareholder Return (R-TSR) performance relative to the HR & Employment Services Industry. The attainment will be in accordance with the schedule set forth below.

<i>3-year R-TSR</i>	<i>Percentage of Target PSUs Vesting</i>
75 th Percentile or greater	200% (Maximum)
50 th Percentile	100% (Target)
25 th Percentile	50% (Threshold)
Less than 25 th Percentile	0 %

For performance greater than the 50th percentile and less than the 75th percentile or performance less than the 50th percentile and greater than the 25th percentile, the vesting percentage will be interpolated.

Except as set forth in Section 4 below, the portion of the target PSU Award that does not vest in accordance with the schedule set forth above shall be forfeited to the Company.

- iii. The Participant must remain in Continuous Service through the vesting date. For purposes of the Agreement, “Continuous Service” shall mean the Participant’s service with the Company or any Subsidiary or Affiliate as an employee, or the Participant’s service as a member of the Board of Directors of the Company, has not been interrupted or terminated, and shall include any period during which the Participant is on an approved leave of absence from the Company or its Subsidiaries or Affiliates. Except as set forth in Section 3(b), upon the Participant’s termination of Continuous Service prior to the vesting date, the terms of Section 7 shall apply.
- b. Notwithstanding the terms of Section 3(a) above, if the Participant’s Continuous Service is terminated as a result of the Participant’s death or Disability, the target number of PSUs granted to the Participant under the Agreement will immediately vest.

- c. In the case of a Participant who is both an employee of the Company or any Subsidiary or Affiliate and a member of the Board of Directors of the Company, Continuous Service shall not end until the Participant's service as both an employee and a director terminates.
4. Change in Control. The PSUs are subject to the Change of Control provisions as set forth in detail in the Plan.
5. Characteristics of PSUs.
 - a. PSUs are not Shares and the grant of a target number of PSUs shall provide only those rights expressly set forth in the Agreement and the Program. The Participant is not deemed to be a stockholder in the Company or have any of the rights of a stockholder in the Company by virtue of the grant of PSUs.
 - b. The Participant does not have voting rights or any other rights inherent to the ownership of Shares, including the rights to dividends (other than as provided in Section 10), or other liquidating or non-liquidating distributions, by virtue of being granted PSUs.
 - c. Neither the PSUs nor any right hereunder or under the Program shall be transferable or be subject to attachment, execution or other similar process. In the event of any attempt by the Participant to alienate, assign, pledge, hypothecate or otherwise dispose of the PSUs or of any right hereunder or under the Program, except as provided for in the Program, or in the event of any levy or any attachment, execution or similar process upon the rights or interest conferred by the PSUs, the Company may terminate the PSUs by notice to the Participant and the PSUs and any related rights, including the right to dividend equivalents as described in Section 10, shall thereupon be cancelled.
6. Effect of Vesting.
 - a. If, and at the time, the Participant's PSUs vest under the terms of Section 3 or Section 4, such Participant shall receive as full consideration for the PSUs a number of Shares equal to the number of PSUs which vested on such date.
 - b. The PSUs granted to the Participant shall be maintained in a bookkeeping account with the custodian appointed by the Committee from time to time (the "Custodian") for such Participant if and until the PSUs are converted into Shares pursuant to this Section 6, at which time the Shares shall be issued to the Participant in accordance with Section 9 below.
7. Forfeiture of PSUs. Subject to the next following sentence, the Participant's PSUs shall be forfeited to the Company upon the Participant's termination of Continuous Service with the Company and its Subsidiaries and Affiliates (a) for any reason other than the Participant's death or Disability that occurs prior to the date the PSUs vest as provided in Section 3 above or (b) for any reason other than the Participant's termination by the Company without Cause or the Participant's voluntary termination due to the existence of Good Reason, in either case during the two-year period beginning on the date of a Change in Control, as provided in Section 4 above. The foregoing provisions of this Section 7 shall be subject to the provisions of the Company's Bonus, Restricted Stock Unit, Performance Stock Unit and Bonus Cash Deferral Retirement Policy (the "Retirement Policy"), and any other Company plan or written employment, severance or similar agreement that has been or may be executed by the Participant and the Company, and the provisions in such Retirement Policy or agreement concerning the vesting of the PSUs in connection with the Participant's termination of Continuous Service shall supersede any inconsistent or contrary provision of this Section 7.
8. Compensation Recovery. The Participant's PSUs are subject to the Clawback Policy adopted by the Board of Directors.
9. Delivery of Shares to the Participant. As soon as practicable after the PSUs vest and are converted into Shares, and subject to Section 11, the Custodian shall, without transfer or issue tax or other incidental expense to the Participant, deliver to the Participant by first-class insured mail addressed to the Participant at the address shown on page 1 or the last address of record on file with the Custodian, (a) a statement from the Custodian referencing the number of Shares held in the Participant's name in a book entry account, or (b) at the Participant's request, certificate(s) for the number of Shares as to which the PSUs vested. In any event, Shares due the Participant shall be delivered as described above no later than March 15 of the year following the calendar year in which such PSUs vest.
10. Dividend Equivalents. The Company shall credit the Participant's PSU account with an amount equal to the dividends, if any, that would be paid with respect to the unvested PSUs as if the PSUs were actual Shares to a shareholder as of the Record date. Such amount shall be credited to the Participant's PSU account at the same time dividends are paid with respect to the Shares, shall be subject to the vesting and forfeiture provisions set forth in Sections 3, 4 and 7 of the

Agreement, and shall be paid to the Participant in cash, on the first payroll date following the date the Participant's related PSUs vest and are issued as Shares to the Participant.

11. Tax Withholdings and Payments.

- a. The Company or any Subsidiary or Affiliate is authorized to withhold from any payment to be made to the Participant, amounts of income tax withholding and other taxes due in connection with compensation or any other transaction under the Program, including the receipt of Shares under Section 6. The Participant shall hold the Company harmless for any damages caused by his or her failure to so comply and for any other damages caused by his or her actions or inactions.
- b. The Participant may pay withholding taxes attributable to the receipt of Shares in cash, by having Shares withheld by the Company from any Shares that would otherwise be received by the Participant under the Agreement (in which case, the number of Shares so withheld shall have an aggregate Fair Market Value at the time of such withholding sufficient to satisfy the applicable withholding taxes), or by any other method approved by the Committee. If the Participant does not satisfy the withholding obligation by cash payment within a reasonable time established by the Committee, the Participant's withholding obligation shall be satisfied by the Company's withholding of Shares from the vested PSUs.
- c. The Company shall deduct from the dividend equivalents paid to the Participant pursuant to Section 10 the Participant's withholding obligation arising from such payment.

12. Miscellaneous.

- a. The granting of an Award under the Program and the Agreement shall impose no obligation on the Company or any Subsidiary or Affiliate to continue the employment relationship or any other relationship between it and the Participant and shall not lessen or affect the Company's, Subsidiary's or Affiliate's right to terminate its relationship with the Participant. The Participant shall have no claim to be granted any further or other Award under the Program, and there is no obligation for uniformity of treatment of the Participants. The Participant acknowledges and agrees that: (i) the Program is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time; (ii) the grant of PSUs is voluntary and occasional and does not create any contractual or other right to receive future grants of PSUs, or benefits in lieu of PSUs, even if PSUs have been granted repeatedly in the past; (iii) all decisions with respect to future PSU grants, if any, will be at the sole discretion of the Company; (iv) participation in the Program is voluntary; (v) the PSUs are not a part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; (vi) the future value of the underlying shares is unknown and cannot be predicted with certainty; and (vii) in consideration of the grant of PSUs, no claim or entitlement to compensation or damages shall arise from termination of the PSUs or diminution in value of the PSUs or Shares received upon vesting including (without limitation) any claim or entitlement resulting from termination of the Participant's active employment by the Company or a Subsidiary or Affiliate (for any reason whatsoever and whether or not in breach of local labor laws) and the Participant hereby releases the Company and its Subsidiaries and Affiliates from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by signing this Agreement, the Participant shall be deemed irrevocably to have waived the Participant's entitlement to pursue such claim.
- b. The Agreement shall, subject to the terms hereof, terminate upon the forfeiture and/or vesting of all PSUs and dividend equivalents granted to the Participant hereunder, unless otherwise agreed upon by the parties hereto.
- c. The Agreement may be amended by the written agreement of the Company and the Participant. Notwithstanding the foregoing, (i) the Company may amend, alter or discontinue the Agreement, without the consent of the Participant so long as such amendment, alteration or discontinuance would not impair any of the rights or obligations under any Award theretofore granted to the Participant under the Program; and (ii) the Committee may amend the Agreement in such manner as it deems necessary to permit the granting of Awards meeting the requirements of the Code or other applicable laws.
- d. The parties agree that the Agreement shall be governed by and interpreted and construed in accordance with the laws of the United States and, in particular, those of the State of Illinois without regard to its conflict of law principles, as Illinois is the situs of the principal corporate office of the Company. Furthermore, to the extent not prohibited under applicable law, and unless the Company affirmatively elects in writing to allow the proceeding

to be brought (or itself brings such a proceeding) in a different venue, the parties agree that any suit, action or proceeding with respect to the Program, the PSUs or the Agreement shall be brought in the state courts in Chicago, Illinois or in the U.S. District Court for the Northern District of Illinois. The parties hereby accept the exclusive jurisdiction of those courts for the purpose of any such suit, action or proceeding. Venue for any such action, in addition to any other venue required or otherwise mandated by statute, will be in Chicago, Illinois. Each party further agrees to waive any applicable right to a jury trial, and expressly elects to have the matter heard as a bench trial.

- e. Unless waived by the Company, any notice to the Company required under or relating to the Agreement shall be in writing and addressed to:

General Counsel & Corporate Secretary
Heidrick & Struggles International, Inc.
233 South Wacker Drive
Suite 4900
Chicago, IL 60606-6303

13. Program Governs. All terms and conditions of the Program are incorporated herein and made part hereof as if stated herein. If there is any conflict between the terms and conditions of the Program and the Agreement, the terms and conditions of the Program, as interpreted by the Committee, shall govern.
14. Data Privacy. By signing below, the Participant voluntarily acknowledges and consents to the collection, use, processing and transfer of personal data as described in this Section 14. The Participant is not obliged to consent to such collection, use, processing and transfer of personal data. However, the Participant's failure to provide the consent may affect the Participant's ability to participate in the Program. The Company and its Subsidiaries and Affiliates hold certain personal information about the Participant, including the Participant's name, home address and telephone number, date of birth, employee identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all options or any other rights or entitlements to shares of stock in the Participant's favor, for the purpose of managing and administering the Program ("Data"). The Company, its Subsidiaries and its Affiliates will transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of the Participant's participation in the Program, and the Company and any of its Subsidiaries or Affiliates may each further transfer Data to any third parties assisting in the implementation, administration and management of the Program. These recipients may be located in the European Economic Area, or elsewhere throughout the world, such as the United States. The Participant authorizes them to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Participant's participation in the Program, including any requisite transfer of such Data as may be required for the administration of the Program and/or the subsequent holding of Shares on the Participant's behalf to a broker or other third party with whom the Participant may elect to deposit any Shares acquired pursuant to the Program. The Participant may, at any time, review Data, require any necessary amendments to it or withdraw the consents herein in writing by contacting the Company; however, by withdrawing consent, the Participant will affect his or her ability to participate in the Program.
15. Execution of the Agreement.
- a. The Parties agree that this Agreement shall be considered executed by both parties executing the Agreement as the first page hereof, which is a part hereof.
- b. This Agreement, or any amendments thereto, may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

Form of Non-Employee Director Restricted Stock Unit Participation Agreement

This Non-Employee Director Restricted Stock Unit Participation Agreement (the "Agreement") is dated as of this ___th day of _____ and sets forth the terms and conditions of the Award described below made by Heidrick & Struggles International, Inc. (the "Company") to _____ (the "Participant"), pursuant to the Third Amended and Restated Heidrick & Struggles 2012 GlobalShare Program (the "Program" or the "Plan").

As of _____ (the "Grant Date"), the Company has granted _____ Restricted Stock Units ("RSUs") to the Participant as set forth herein. The RSUs are granted pursuant to the Program and are governed by the terms and conditions of the Program. All defined terms used herein, unless specifically defined in this Agreement, have the meanings assigned to them in the Program. The Participant agrees to be bound by all terms and conditions of the Agreement and the Program, and has received and reviewed a copy of the Program and the Prospectus for the Program dated June 22, 2020.

The RSUs granted under this Agreement shall not become valid or enforceable unless and until the Participant executes the Agreement and it is accepted by the Company. By the Participant's signature and the Company's signature below, the Participant and the Company agree that this constitutes the signature page of the Agreement. Participant further agrees that the RSUs are granted under and governed by the terms and conditions of the Agreement and the Program. Agreements that are not signed and returned shall be invalid and unenforceable.

As a material condition and inducement to the Company's grant of RSUs to the Participant, the Participant agrees that he or she has received and reviewed the Program and the Prospectus, and the Participant further agrees to be bound by all of the terms and conditions of the Agreement and the Program, as may be amended by the Company from time to time.

IN WITNESS WHEREOF, the parties hereto have duly executed the Agreement as of the date first set forth above.

Name:

Heidrick & Struggles International, Inc.

By: _____
Name: Kamau Coar
Title: General Counsel & Corporate Secretary

NOW, THEREFORE, in consideration of the agreements of the Participant herein provided and pursuant to the Program, the parties agree as follows:

1. Definitions. All capitalized terms used herein, unless specifically defined herein, shall have the same meanings as established in the Program.
2. Participation. Pursuant to the Program and contingent upon the execution of the Agreement, the Company hereby grants to the Participant _____ RSUs subject to the terms and conditions herein.
3. Vesting of RSUs. All RSUs granted under the Agreement shall vest on the date the Participant ceases to be a Director of the Company.
4. Effect of Vesting.
 - a. When the Participant's RSUs vest under the terms of Section 3, such Participant shall receive as full consideration for the RSUs a number of shares of common stock with a par value \$0.01 per Share, of the Company ("Shares") equal to the number of RSUs which vested on such date.
 - b. The RSUs granted to the Participant shall be maintained in a bookkeeping account with the custodian appointed by the Human Resources and Compensation Committee (the "Committee") from time to time (the "Custodian") for such Participant until the RSUs are converted into Shares pursuant to this Section 4, at which time the Shares shall be issued to the Participant in accordance with Section 5 below.
5. Delivery of Shares to the Participant. As soon as practicable after the RSUs vest and are converted into Shares, the Custodian shall, without transfer or issue tax or other incidental expense to the Participant, deliver to the Participant by first-class insured mail addressed to the Participant at the address shown on page 1 or the last address of record on file with the Custodian, (i) a statement from the Custodian referencing the number of Shares held in the Participant's name in book entry account, or (ii) at the Participant's request, certificate(s) for the number of Shares as to which the Shares vested. In any event, Shares due the Participant shall be delivered as described above no later than March 15 of the year following the calendar year in which such RSUs vest.
6. Compensation Recovery. The Participant's RSUs are subject to the Company's Clawback Policy adopted by the Board of Directors, and as may be amended by the Company from time to time.
7. Dividend Equivalents. The Company shall credit the Participant's RSU account with an amount equal to the dividends, if any, that would be paid with respect to the unvested RSUs as if the RSUs were actual Shares to a shareholder as of the record date. Such amount shall be credited to the Participant's RSU account at the same time dividends are paid with respect to the Shares, shall be subject to the vesting provisions set forth in Section 3 of the Agreement, and shall be paid to the Participant in cash, as soon as practical following when the Participant's related RSUs vest and are issued as Shares to the Participant.
8. Miscellaneous.
 - a. The Agreement shall, subject to the terms hereof, terminate upon the vesting of all RSUs and dividend equivalents granted to the Participant hereunder, unless otherwise agreed upon by the parties hereto.
 - b. The Agreement may be amended by the written agreement of the Company and the Participant. Notwithstanding the foregoing, (i) the Company may amend, alter or discontinue the Agreement, without the consent of the Participant so long as such amendment, alteration or discontinuance would not impair any of the rights or obligations under any Award theretofore granted to the Participant under the Program; and (ii) the Committee may amend the Agreement in such manner as it deems necessary to permit the granting of Awards meeting the requirements of the Code or other applicable laws.
 - c. The parties agree that the Agreement shall be governed by and interpreted and construed in accordance with the laws of the United States and, in particular, those of the State of Illinois without regard to its conflict of law principles, as Illinois is the situs of the principal corporate office of the Company. Furthermore, to the extent not prohibited under applicable law, and unless the Company affirmatively elects in writing to allow the proceeding to be brought (or itself brings such a proceeding) in a different venue, the parties agree that any suit, action or proceeding with respect to the Program, the RSUs or the Agreement shall be brought in the state courts in Chicago, Illinois or in the U.S. District Court for the Northern District of Illinois. The parties hereby accept the

exclusive jurisdiction of those courts for the purpose of any such suit, action or proceeding. Venue for any such action, in addition to any other venue required or otherwise mandated by statute, will be in Chicago, Illinois. Each party further agrees to waive any applicable right to a jury trial, and expressly elects to have the matter heard as a bench trial.

- d. Unless waived by the Company, any notice to the Company required under or relating to the Agreement shall be in writing and addressed to:

General Counsel
Heidrick & Struggles International, Inc.
233 South Wacker Drive
Suite 4900
Chicago, IL 60606-6303

9. Program Governs. All terms and conditions of the Program are incorporated herein and made part hereof as if stated herein. If there is any conflict between the terms and conditions of the Program and the Agreement, the terms and conditions of the Program, as interpreted by the Committee, shall govern.
10. Data Privacy. By signing above, the Participant voluntarily acknowledges and consents to the collection, use, processing and transfer of personal data as described in this Section 10. The Participant is not obliged to consent to such collection, use, processing and transfer of personal data. However, the Participant's failure to provide the consent may affect the Participant's ability to participate in the Program. The Company and its Subsidiaries and Affiliates hold certain personal information about the Participant, including the Participant's name, home address and telephone number, date of birth, social security number, nationality, any shares of stock or directorships held in the Company, details of all options or any other rights or entitlements to shares of stock in the Participant's favor, for the purpose of managing and administering the Program ("Data"). The Company, its Subsidiaries and its Affiliates will transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of the Participant's participation in the Program, and the Company and any of its Subsidiaries or Affiliates may each further transfer Data to any third parties assisting in the implementation, administration and management of the Program. These recipients may be located in the European Economic Area, or elsewhere throughout the world, such as the United States. The Participant authorizes them to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Participant's participation in the Program, including any requisite transfer of such Data as may be required for the administration of the Program and/or the subsequent holding of Shares on the Participant's behalf to a broker or other third party with whom the Participant may elect to deposit any Shares acquired pursuant to the Program. The Participant may, at any time, review Data, require any necessary amendments to it or withdraw the consents herein in writing by contacting the Company; however, by withdrawing consent, the Participant will affect his or her ability to participate in the Program.
11. Execution of the Agreement.
- a. The Parties agree that this Agreement shall be considered executed by both parties executing the Agreement as the first page hereof, which is a part hereof.
 - b. This Agreement, or any amendments thereto, may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

CERTIFICATION

I, Krishnan Rajagopalan, certify that:

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

Dated: July 27, 2020

/s/ Krishnan Rajagopalan

Krishnan Rajagopalan

President and Chief Executive Officer

CERTIFICATION

I, Mark R. Harris, certify that:

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

Dated: July 27, 2020

/s/ Mark R. Harris

Mark R. Harris

Executive Vice President and Chief Financial Officer

CERTIFICATION

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

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

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (the "Form 10-Q") of the Company fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 27, 2020

/s/ Krishnan Rajagopalan

Krishnan Rajagopalan

President and Chief Executive Officer

CERTIFICATION

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

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

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (the "Form 10-Q") of the Company fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 27, 2020

/s/ Mark R. Harris

Mark R. Harris

Executive Vice President and Chief Financial Officer