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 MARCH 31, 2021

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	**36-2681268**
(State or Other Jurisdiction of Incorporation or Organization)	**(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)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	**Trading Symbol**	**Name of Each Exchange On Which Registered**
Common Stock, $0.01 par value	HSII	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 that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the 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	☐	Accelerated filer	☒
Non-Accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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. o

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 April 26, 2021, there were 19,498,734 shares of the Company’s common stock outstanding.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	March 31, 2021 (Unaudited)	December 31, 2020
Current assets		
Cash and cash equivalents	$ 184,055	$ 316,473
Marketable securities	—	19,999
Accounts receivable, net of allowances of $6,624 and $6,557, respectively	128,419	88,123
Prepaid expenses	26,600	18,956
Other current assets	25,496	23,279
Income taxes recoverable	5,205	5,856
Total current assets	369,775	472,686
Non-current assets		
Property and equipment, net	22,373	23,492
Operating lease right-of-use assets	85,318	92,671
Assets designated for retirement and pension plans	13,853	14,425
Investments	33,545	31,369
Other non-current assets	27,617	24,439
Goodwill	91,452	91,643
Other intangible assets, net	961	1,129
Deferred income taxes	35,712	35,958
Total non-current assets	310,831	315,126
Total assets	$ 680,606	$ 787,812
Current liabilities		
Accounts payable	$ 10,149	$ 8,799
Accrued salaries and benefits	112,830	217,908
Deferred revenue	38,847	38,050
Operating lease liabilities	27,947	28,984
Other current liabilities	20,114	23,311
Income taxes payable	7,383	1,186
Total current liabilities	217,270	318,238
Non-current liabilities		
Accrued salaries and benefits	44,301	56,925
Retirement and pension plans	54,826	53,496
Operating lease liabilities	81,536	86,816
Other non-current liabilities	4,103	4,735
Total non-current liabilities	184,766	201,972
Total liabilities	402,036	520,210
Commitments and contingencies (Note 17)		
Stockholders' equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued at March 31, 2021 and December 31, 2020	—	—
Common stock, $0.01 par value, 100,000,000 shares authorized, 19,585,777 shares issued, 19,497,365 and 19,359,586 shares outstanding at March 31, 2021 and December 31, 2020, respectively	196	196
Treasury stock at cost, 88,412 and 226,191 shares at March 31, 2021 and December 31, 2020, respectively	(3,090)	(8,041)
Additional paid in capital	225,998	231,048
Retained earnings	52,742	40,982
Accumulated other comprehensive income	2,724	3,417
Total stockholders' equity	278,570	267,602
Total liabilities and stockholders' equity	$ 680,606	$ 787,812

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
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2021	**2020**
Revenue		
Revenue before reimbursements (net revenue)	$ 193,656	$ 171,481
Reimbursements	1,075	3,366
Total revenue	194,731	174,847
Operating expenses		
Salaries and benefits	141,363	121,089
General and administrative expenses	28,824	32,240
Restructuring charges	3,861	—
Reimbursed expenses	1,075	3,366
Total operating expenses	175,123	156,695
Operating income	19,608	18,152
Non-operating income (expense)		
Interest, net	82	679
Other, net	3,082	(4,435)
Net non-operating income (expense)	3,164	(3,756)
Income before income taxes	22,772	14,396
Provision for income taxes	7,940	5,730
Net income	14,832	8,666
Other comprehensive loss, net of tax		
Foreign currency translation adjustment	(693)	(3,716)
Net unrealized loss on available-for-sale investments	—	(30)
Other comprehensive loss, net of tax	(693)	(3,746)
Comprehensive income	$ 14,139	$ 4,920
Weighted-average common shares outstanding		
Basic	19,387	19,192
Diluted	20,171	19,776
Earnings per common share		
Basic	$ 0.77	$ 0.45
Diluted	$ 0.74	$ 0.44
Cash dividends paid per share	$ 0.15	$ 0.15

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, 2020	19,586	$ 196	226	$ (8,041)	$ 231,048	$ 40,982	$ 3,417	$ 267,602
Net income	—	—	—	—	—	14,832	—	14,832
Other comprehensive loss, net of tax	—	—	—	—	—	—	(693)	(693)
Common and treasury stock transactions:								
Stock-based compensation	—	—	—	—	2,991	—	—	2,991
Vesting of equity awards, net of tax withholdings	—	—	(138)	4,951	(8,041)	—	—	(3,090)
Cash dividends declared ($0.15 per share)	—	—	—	—	—	(2,905)	—	(2,905)
Dividend equivalents on restricted stock units	—	—	—	—	—	(167)	—	(167)
Balance at March 31, 2021	19,586	$ 196	88	$ (3,090)	$ 225,998	$ 52,742	$ 2,724	$ 278,570

	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 awards, 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 11	$ 96,415	$ 78	$ 311,765

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)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Cash flows - operating activities		
Net income	$ 14,832	$ 8,666
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	6,068	2,337
Deferred income taxes	(495)	110
Stock-based compensation expense	2,991	2,614
Gain on marketable securities	(1)	(111)
Loss on disposal of property and equipment	21	1
Changes in assets and liabilities:		
Accounts receivable	(41,209)	(24,656)
Accounts payable	1,365	1,897
Accrued expenses	(116,327)	(147,265)
Restructuring accrual	(2,902)	(138)
Deferred revenue	963	837
Income taxes recoverable and payable, net	6,819	4,082
Retirement and pension plan assets and liabilities	1,235	2,033
Prepaid expenses	(7,894)	(6,566)
Other assets and liabilities, net	(8,037)	(9,441)
Net cash used in operating activities	(142,571)	(165,600)
Cash flows - investing activities		
Capital expenditures	(945)	(1,753)
Purchases of marketable securities and investments	(1,354)	(2,125)
Proceeds from sales of marketable securities and investments	20,153	61,395
Net cash provided by investing activities	17,854	57,517
Cash flows - financing activities		
Proceeds from line of credit	—	100,000
Cash dividends paid	(3,072)	(3,002)
Payment of employee tax withholdings on equity transactions	(3,090)	(1,550)
Acquisition earnout payments	—	(2,788)
Net cash (used in) provided by financing activities	(6,162)	92,660
Effect of exchange rate fluctuations on cash, cash equivalents and restricted cash	(1,539)	(5,296)
Net decrease in cash, cash equivalents and restricted cash	(132,418)	(20,719)
Cash, cash equivalents and restricted cash at beginning of period	316,489	271,719
Cash, cash equivalents and restricted cash at end of period	$ 184,071	$ 251,000

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

(All tables in thousands, except per share figures)

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 March 31, 2021 and December 31, 2020, the results of operations for the three months ended March 31, 2021 and 2020 and its cash flows for the three months ended March 31, 2021 and 2020 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, 2020, as filed with the SEC on February 24, 2021.

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, 2020.

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 March 31, 2021 and 2020, and December 31, 2020 and 2019:

	March 31,		December 31,	
	2021	2020	2020	2019
Cash and cash equivalents	$ 184,055	$ 251,000	$ 316,473	$ 271,719
Restricted cash included within other non-current assets	$ 16	$ —	$ 16	$ —
Total cash, cash equivalents and restricted cash	$ 184,071	$ 251,000	$ 316,489	$ 271,719

Earnings per Common Share

Basic earnings per common share is computed by dividing net income by weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted. Common equivalent shares are excluded from the determination of diluted earnings per share in periods in which they have an anti-dilutive effect.

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

	Three Months Ended March 31,	
	2021	2020
Net income	$ 14,832	$ 8,666
Weighted average shares outstanding:		
Basic	19,387	19,192
Effect of dilutive securities:		
Restricted stock units	589	418
Performance stock units	195	166
Diluted	20,171	19,776
Basic earnings per share	$ 0.77	$ 0.45
Diluted earnings per share	$ 0.74	$ 0.44

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, an incremental borrowing rate based on the information available at the commencement date is used 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. 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 Issued Financial Accounting Standards

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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.

Recently Adopted Financial Accounting Standards

On January 1, 2021, the Company adopted 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 adoption had no impact on the Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Cash Flows and Condensed Consolidated Statement of Changes in Stockholders' Equity in any period presented.

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 is 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 from December 31, 2020 to March 31, 2021:

	March 31, 2021	December 31, 2020	Change
Contract assets			
Unbilled receivables, net	$ 11,806	$ 9,907	$ 1,899
Contract assets	9,826	9,745	81
Total contract assets	21,632	19,652	1,980
Contract liabilities			
Deferred revenue	$ 38,847	$ 38,050	$ 797

During the three months ended March 31, 2021, the Company recognized revenue of $26.3 million that was included in the contract liabilities balance at the beginning of the period. The amount of revenue recognized during the three months ended March 31, 2021, from performance obligations partially satisfied in previous periods as a result of changes in the estimates of variable consideration was $13.6 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 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, 2020	$ 6,557
Provision for credit losses	945
Write-offs	(839)
Foreign currency translation	(39)
Balance at March 31, 2021	$ 6,624

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:

	Less Than 12 Months		Balance Sheet Classification	
Balance at December 31, 2020	Fair Value	Unrealized Loss	Cash and Cash Equivalents	Marketable Securities
U.S. Treasury securities	$ 31,997	$ 1	$ 31,997	$ —

There were no available for sale debt securities in a loss position at March 31, 2021.

5. Property and Equipment, net

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

	March 31, 2021	December 31, 2020
Leasehold improvements	$ 40,304	$ 40,320
Office furniture, fixtures and equipment	14,580	14,816
Computer equipment and software	25,914	25,544
Property and equipment, gross	80,798	80,680
Accumulated depreciation	(58,425)	(57,188)
Property and equipment, net	$ 22,373	$ 23,492

Depreciation expense for the three months ended March 31, 2021 and 2020 was $1.8 million and $2.1 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 and 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 12.3 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.

As part of the Company's restructuring plan, a lease component related to one of the Company's offices was abandoned and the useful life of the associated right-of-use asset was shortened to correspond with the cease-use date. As a result of the change in the useful life, approximately $4.0 million of right-of-use asset amortization was accelerated and recorded in *Restructuring charges* in the Condensed Consolidated Statements of Comprehensive Income and *Depreciation and amortization* in the Condensed Consolidated Statements of Cash Flows during the three months ended March 31, 2021.

Equipment leases, which are comprised of vehicle and office equipment leases, have remaining terms that range from less than one year to 4.8 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 were as follows:

	Three Months Ended March 31,	
	2021	2020
Operating lease cost	$ 4,867	$ 6,261
Variable lease cost	1,228	2,073
Total lease cost	$ 6,095	$ 8,334

Supplemental cash flow information related to the Company's operating leases is as follows for the three months ended March 31:

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 7,566	$ 7,812
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 791	$ 1,641

The weighted average remaining lease term and weighted average discount rate for operating leases as of March 31, is as follows:

	2021	2020
Weighted Average Remaining Lease Term		
Operating leases	5.9 years	4.6 years
Weighted Average Discount Rate		
Operating leases	3.44 %	3.84 %

The future maturities of the Company's operating lease liabilities as of March 31, 2021, for the years ended December 31 is as follows:

	Operating Lease Maturity
2021	$ 20,785
2022	26,007
2023	24,047
2024	14,109
2025	6,700
Thereafter	30,205
Total lease payments	121,853
Less: Interest	(12,370)
Present value of lease liabilities	$ 109,483

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:

	Cash and Cash Equivalents
Balance at March 31, 2021	
Cash	$ 161,049
Level 1[1]:	
Money market funds	23,006
Total Level 1	23,006
Total	$ 184,055

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Balance Sheet Classification: Cash and Cash Equivalents	Balance Sheet Classification: Marketable Securities
		Fair Value				
Balance at December 31, 2020						
Cash					$ 230,490	$ —
Level 1[1]:						
Money market funds					53,986	—
U.S. Treasury securities	51,996	1	(1)	51,996	31,997	19,999
Total Level 1	51,996	1	(1)	51,996	85,983	19,999
Total	$ 51,996	$ 1	$ (1)	$ 51,996	$ 316,473	$ 19,999

(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 $20.8 million and $19.5 million as of March 31, 2021 and December 31, 2020, 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	Assets Designated for Retirement and Pension Plans	Investments	Other Current Liabilities	Retirement and Pension Plans
Balance at March 31, 2021						
Measured on a recurring basis:						
Level 1[1]:						
U.S. non-qualified deferred compensation plan	$ 33,545	$ —	$ —	$ 33,545	$ —	$ —
Level 2[2]:						
Retirement and pension plan assets	15,229	1,377	13,853	—	—	—
Pension benefit obligation	(21,463)	—	—	—	(1,377)	(20,087)
Total Level 2	(6,234)	1,377	13,853	—	(1,377)	(20,087)
Total	$ 27,311	$ 1,377	$ 13,853	$ 33,545	$ (1,377)	$ (20,087)

		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 December 31, 2020							
Measured on a recurring basis:							
Level 1[1]:							
U.S. non-qualified deferred compensation plan	$ 31,369	$ —	$ —	$ —	$ 31,369	$ —	$ —
Level 2[2]:							
Retirement and pension plan assets	15,859	1,434	—	14,425	—	—	—
Pension benefit obligation	(22,351)	—	—	—	—	(1,434)	(20,917)
Total Level 2	(6,492)	1,434	—	14,425	—	(1,434)	(20,917)
Measured on a non-recurring basis:							
Level 3[3][4]:							
Goodwill	91,643		91,643				
Total	$ 116,520	$ 1,434	$ 91,643	$ 14,425	$ 31,369	$ (1,434)	$ (20,917)

(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 during the three months ended June 30, 2020, resulting in the revised total goodwill of $91.6 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 compensation based on the attainment of certain operating metrics in the periods subsequent to acquisition. Contingent compensation 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 three months ended March 31, 2021:

	Contingent Compensation
Balance at December 31, 2020	$ (2,390)
Compensation expense	(454)
Foreign currency translation	201
Balance at March 31, 2021	$ (2,643)

Contingent compensation accruals are recorded within *Other non-current liabilities* in the Condensed Consolidated Balance Sheets as of March 31, 2021 and December 31, 2020.

8. Goodwill and Other Intangible Assets

Goodwill

The Company's goodwill by segment is as follows:

	March 31, 2021	December 31, 2020
Executive Search		
Americas	$ 91,452	$ 91,643
Total goodwill	$ 91,452	$ 91,643

Changes in the carrying amount of goodwill by segment for the three months ended March 31, 2021, are as follows:

	Executive Search			
	Americas	Europe	Asia Pacific	Total
Goodwill	$ 91,643	$ 24,475	$ 8,495	$ 124,613
Accumulated impairment losses	—	(24,475)	(8,495)	(32,970)
Balance at December 31, 2020	91,643	—	—	91,643
Foreign currency translation	(191)	—	—	(191)
Balance at March 31, 2021	$ 91,452	$ —	$ —	$ 91,452

Other Intangible Assets, net

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

	March 31, 2021	December 31, 2020
Executive Search		
Americas	$ 178	$ 225
Europe	735	852
Asia Pacific	48	52
Total other intangible assets, net	$ 961	$ 1,129

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

		March 31, 2021			December 31, 2020		
	Weighted Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	6.6	$ 16,536	$ (15,664)	$ 872	$ 16,600	$ (15,587)	$ 1,013
Trade name	5.0	258	(169)	89	280	(164)	116
Total intangible assets	6.5	$ 16,794	$ (15,833)	$ 961	$ 16,880	$ (15,751)	$ 1,129

Intangible asset amortization expense for each of the three months ended March 31, 2021 and 2020 was $0.2 million.

The Company's estimated future amortization expense related to intangible assets as of March 31, 2021, for the years ended December 31 is as follows:

2021	$ 349
2022	309
2023	183
2024	73
2025	47
Total	$ 961

9. Other Current Assets

The components of other current assets are as follows:

	March 31, 2021	December 31, 2020
Contract assets	$ 21,632	$ 19,652
Other	3,864	3,627
Total other current assets	$ 25,496	$ 23,279

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 three months ended March 31, 2020, the Company borrowed $100.0 million under the 2018 Credit Agreement. 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. The Company subsequently repaid $100.0 million during the three months ended September 30, 2020.

As of March 31, 2021 and December 31, 2020, 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 March 31, 2021, 3,267,281 awards have been issued under the Third A&R 2012 Program and 791,113 shares remain available for future awards, including 708,394 forfeited awards. The Third A&R 2012 Program provides that no awards can be granted after May 28, 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 March 31, 2021	Three Months Ended March 31, 2020
Salaries and benefits (1)	$ 5,461	$ 1,804
Income tax benefit related to stock-based compensation included in net income	1,453	479

(1) Includes $2.5 million of expense and $0.8 million of income related to cash settled restricted stock units for the three months ended March 31, 2021 and 2020, 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 three months ended March 31, 2021 is as follows:

	Number of Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Outstanding on December 31, 2020	707,864	$ 28.35
Granted	182,704	36.95
Vested and converted to common stock	(134,026)	29.60
Forfeited	—	—
Outstanding on March 31, 2021	756,542	$ 30.21

As of March 31, 2021, there was $12.0 million of pre-tax unrecognized compensation expense related to unvested restricted stock units, which is expected to be recognized over a weighted average of 2.6 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. 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. The performance stock units are expensed on a straight-line basis over the three-year vesting period.

Performance stock unit activity for the three months ended March 31, 2021 is as follows:

	Number of Performance Stock Units	Weighted-Average Grant-Date Fair Value
Outstanding on December 31, 2020	234,934	$ 29.80
Granted	83,220	33.98
Vested and converted to common stock	(90,284)	30.60
Forfeited	—	—
Outstanding on March 31, 2021	227,870	$ 31.01

As of March 31, 2021, there was $5.4 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 $2.5 million during the three months ended March 31, 2021. The Company recorded phantom stock-based compensation income of $0.8 million during the three months ended March 31, 2020.

Phantom stock unit activity for the three months ended March 31, 2021 is as follows:

	Number of Phantom Stock Units
Outstanding on December 31, 2020	351,634
Granted	—
Vested	—
Forfeited	—
Outstanding on March 31, 2021	351,634

As of March 31, 2021, there was $4.0 million of pre-tax unrecognized compensation expense related to unvested phantom stock units, which is expected to be recognized over a weighted average of 2.7 years.

12. Restructuring

During the three months ended September 30, 2020, the Company implemented a restructuring plan to optimize future growth and profitability. The primary components of the restructuring included a workforce reduction, a reduction of the Company's real estate expenses and professional fees, and the elimination of certain deferred compensation programs.

Restructuring charges for the three months ended March 31, 2021 by type of charge and reportable segment are as follows:

	Executive Search					
	Americas	Europe	Asia Pacific	Heidrick Consulting	Global Operations Support	Total
Employee related	$ 19	$ (52)	$ (124)	$ (44)	$ 7	$ (194)
Office related	3,676	—	—	366	—	4,042
Other	3	—	—	—	10	13
Total	$ 3,698	$ (52)	$ (124)	$ 322	$ 17	$ 3,861

Restructuring charges incurred to date, which includes prior period charges, by type of charge and reportable segment are as follows:

	Executive Search					
	Americas	Europe	Asia Pacific	Heidrick Consulting	Global Operations Support	Total
Employee related	$ 16,223	$ 8,302	$ 4,110	$ 2,590	$ 1,360	$ 32,585
Office related	17,918	226	374	2,319	2,115	22,952
Other	34	24	6	71	560	695
Total	$ 34,175	$ 8,552	$ 4,490	$ 4,980	$ 4,035	$ 56,232

The Company anticipates future restructuring charges of $3.0 million to $6.0 million related to further real estate optimization.

Changes to the accrual for restructuring charges for the three months ended March 31, 2021, are as follows:

	Employee Related	Office Related	Other	Total
Outstanding on December 31, 2020	$ 22,312	$ 953	$ —	$ 23,265
Restructuring charges	(194)	4,042	13	3,861
Cash payments	(11,945)	(467)	(13)	(12,425)
Non cash write offs	—	(4,041)	—	(4,041)
Exchange rate fluctuations	(127)	—	—	(127)
Outstanding on March 31, 2021	$ 10,046	$ 487	$ —	$ 10,533

Restructuring accruals are recorded within *Other current liabilities* in the Condensed Consolidated Balance Sheets with the exception of certain employee related accruals. Accruals associated with the elimination of certain deferred compensation programs of $4.9 million and $3.6 million are recorded within current and non-current *Accrued salaries and benefits*, respectively, as of March 31, 2021. Accruals associated with the elimination of certain deferred compensation programs of $7.2 million and $11.3 million are recorded within current and non-current Accrued salaries and benefits, respectively, as of December 31, 2020.

13. Income Taxes

The Company reported income before taxes of $22.8 million and an income tax provision of $7.9 million for the three months ended March 31, 2021. The Company reported income before taxes of $14.4 million and an income tax provision of $5.7 million for the three months ended March 31, 2020. The effective tax rates for the three months ended March 31, 2021 and 2020, were 34.9% and 39.8%, respectively. The effective tax rates for the three months ended March 31, 2021, and 2020 were each 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 three months ended March 31, 2021 are as follows:

	Foreign Currency Translation	Pension	AOCI
Balance at December 31, 2020	$ 6,184	$ (2,767)	$ 3,417
Other comprehensive loss before classification, net of tax	(693)	—	(693)
Balance at March 31, 2021	$ 5,491	$ (2,767)	$ 2,724

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 March 31,	
	2021	2020
Revenue		
Executive Search		
Americas	$ 116,506	$ 100,301
Europe	37,643	33,082
Asia Pacific	25,469	22,070
Total Executive Search	179,618	155,453
Heidrick Consulting	14,038	16,028
Revenue before reimbursements (net revenue)	193,656	171,481
Reimbursements	1,075	3,366
Total revenue	$ 194,731	$ 174,847

	Three Months Ended March 31,	
	2021	2020
Operating income (loss)		
Executive Search		
Americas (1)	$ 26,256	$ 25,732
Europe	4,540	3,049
Asia Pacific	4,144	2,502
Total Executive Search	34,940	31,283
Heidrick Consulting (2)	(4,710)	(4,092)
Total segment operating income	30,230	27,191
Global Operations Support	(10,622)	(9,039)
Total operating income	$ 19,608	$ 18,152

(1) Includes restructuring charges of $3.7 million for the three months ended March 31, 2021.
(2) Includes restructuring charges of $0.3 million for the three months ended March 31, 2021.

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 2033. 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 $5.4 million as of March 31, 2021. 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

On April 1, 2021, the Company acquired Business Talent Group, LLC ("BTG"). BTG is a market-leader in sourcing high-end, on-demand independent talent. Initial consideration of $32.6 million was paid in the 2021 second quarter with an anticipated future payment in 2023, subject to the achievement of certain agreed upon financial performance targets. As previously disclosed, on January 15, 2019, the Company announced an exclusive collaboration with BTG and has been offering the Company's clients access to BTG’s pool of top independent business professionals for specialized, project-based work since such date.

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, 2020, 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 435 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. Productivity is measured by annualized Executive Search net revenue per consultant.

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 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 consultants and accrue variable compensation accordingly. The amount of variable compensation that is accrued for each 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.

The mix of individual consultants who generate revenue 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 the Company’s management cash bonuses are deferred and paid over a three-year vesting period. The portion of the bonus is approximately 15% depending on the employee’s level or position. The compensation expense related to the amounts being deferred is recognized on a graded vesting attribution method over the requisite service period. This service period begins on January 1 of the respective fiscal year and continues through the deferral date, which coincides with the Company’s 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 within both Current liabilities and Non-current liabilities in the Consolidated Balance Sheets.

Historically, the Company's consultants participated in the same cash bonus deferral program as management. In 2020, the Company terminated the cash bonus deferral for consultants and now pays 100% of the cash bonuses earned by consultants in the first quarter of the following year. Consultant cash bonuses earned prior to 2020 will continue to be paid under the terms of the cash bonus deferral program.

Impact of COVID-19

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. COVID-19 has significantly impacted 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. Our offices are now accessible to our employees, however, we continue to encourage all employees to work remotely. 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.

Beginning in the 2020 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. As a result, we 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 and determined that no impairment was necessary. We continue to monitor the impact of the economic downturn for additional potential impairment of goodwill, other intangible assets and long-lived assets.

In the 2020 third quarter, we implemented 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 included a workforce reduction, and a reduction of the firm's real estate expenses, professional fees and the future elimination of certain deferred compensation programs.

As part of this restructuring plan, we implemented several real estate initiatives including downsizing and terminating certain of our existing office leases. Our success working from home, utilizing Heidrick Connect and our digital consulting solutions, allowed us to reevaluate how we utilize our offices and plan to use them in a post-pandemic environment. Upon the expiration of the leases included in the restructuring, we will have reduced our square footage under lease by approximately 20%.

Moving forward, we will continue with our real estate strategy, which consists of three objectives: 1) matching our real estate footprint to the new, post-pandemic office occupancy expectations 2) creating open and collaborative environments, including unassigned work spaces that facilitate work from anywhere; and 3) increasing our focus on reducing our carbon footprint as part of our long-term sustainability goals. We believe we have opportunity to further decrease costs primarily through lease renewals and rightsizing offices where it makes business sense.

In the 2021 first quarter, our results of operations were minimally impacted by the pandemic. Our business was well positioned to mitigate the impacts of the pandemic through innovation and finding new ways to serve our clients. Heidrick Connect allowed our Executive Search teams to operate effectively and efficiently while engaging virtually with our clients. Newly created digital solutions for Heidrick Consulting allowed our teams to overcome the barriers presented by an inability to conduct in-person consulting engagements. These innovations and new ways of serving our clients laid the foundation for our improved operating performance this quarter. Consolidated net revenue increased to $193.7 million for the three months ended March 31, 2021 compared to $161.0 million for the three months ended December 31, 2020 and $171.5 million for the three months ended March 31, 2020. Profitability also increased with operating income of $19.6 million for the three months ended March 31, 2021 compared to $8.5 million for the three months ended December 31, 2020 and $18.2 million for the three months ended March 31, 2020.

While our 2021 first quarter results are encouraging, 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.

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. In the event we require additional liquidity, our 2018 Credit Agreement (as defined below) 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.

We have not experienced any material impact to our internal controls over financial reporting 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.

Second Quarter 2021 Outlook

We are currently forecasting 2021 second quarter net revenue of between $215 million and $225 million, while acknowledging the continued fluidity of the COVID-19 pandemic that will continue to impact quarterly results. Our 2021 second quarter guidance is based upon, among other things, management's assumptions for the anticipated volume of new Executive Search confirmations, Heidrick Consulting assignments, BTG projects, the current backlog, consultant productivity, consultant retention, the seasonality of our business and average currency rates in March 2021.

Our 2021 guidance is subject to a number of risks and uncertainties, including those discussed under Item 1A - Risk Factors in our 2020 Annual Report on Form 10-K. As such, actual results could vary from these projections.

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 March 31,	
	2021	**2020**
Revenue		
Revenue before reimbursements (net revenue)	100.0 %	100.0 %
Reimbursements	0.6	2.0
Total revenue	100.6	102.0
Operating expenses		
Salaries and benefits	73.0	70.6
General and administrative expenses	14.9	18.8
Restructuring charges	2.0	—
Reimbursed expenses	0.6	2.0
Total operating expenses	90.4	91.4
Operating income	10.1	10.6
Non-operating income (expense)		
Interest, net	—	0.4
Other, net	1.6	(2.6)
Net non-operating income (expense)	1.6	(2.2)
Income before income taxes	11.8	8.4
Provision for income taxes	4.1	3.3
Net income	7.7 %	5.1 %

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 March 31,	
	2021	2020
Revenue		
Executive Search		
Americas	$ 116,506	$ 100,301
Europe	37,643	33,082
Asia Pacific	25,469	22,070
Total Executive Search	179,618	155,453
Heidrick Consulting	14,038	16,028
Revenue before reimbursements (net revenue)	193,656	171,481
Reimbursements	1,075	3,366
Total revenue	$ 194,731	$ 174,847

	Three Months Ended March 31,	
	2021	2020
Operating income (loss)		
Executive Search		
Americas (1)	$ 26,256	$ 25,732
Europe	4,540	3,049
Asia Pacific	4,144	2,502
Total Executive Search	34,940	31,283
Heidrick Consulting (2)	(4,710)	(4,092)
Total segment operating income	30,230	27,191
Global Operations Support	(10,622)	(9,039)
Total operating income	$ 19,608	$ 18,152

(1) Includes restructuring charges of $3.7 million for the three months ended March 31, 2021.
(2) Includes restructuring charges of $0.3 million for the three months ended March 31, 2021.

Three Months Ended March 31, 2021 Compared to the Three Months Ended March 31, 2020

Total revenue. Consolidated total revenue increased $19.9 million, or 11.4%, to $194.7 million for the three months ended March 31, 2021, from $174.8 million for the three months ended March 31, 2020. The increase in total revenue was primarily due to the increase in revenue before reimbursements (net revenue).

Revenue before reimbursements (net revenue). Consolidated net revenue increased $22.2 million, or 12.9%, to $193.7 million for the three months ended March 31, 2021 from $171.5 million for the three months ended March 31, 2020. Foreign exchange rate fluctuations positively impacted results by $4.7 million, or 2.5%. Executive Search net revenue was $179.6 million for three months ended March 31, 2021, an increase of $24.2 million, or 15.5%, compared to the three months ended March 31, 2020. The increase in Executive Search net revenue was primarily due to a 21.4% increase in the number of confirmed searches compared to the prior year. Heidrick Consulting net revenue decreased $2.0 million, or 12.4%, to $14.0 million for the three months ended March 31, 2021. The decline in Heidrick Consulting revenue was due a large consulting engagement in the prior year and an inability to conduct in-person consulting engagements in 2021, partially offset by a 17.5% increase in the number of consulting engagements compared to the prior year.

The number of Executive Search and Heidrick Consulting consultants was 373 and 64, respectively, as of March 31, 2021, compared to 396 and 70, respectively, as of March 31, 2020. Executive Search productivity, as measured by annualized net

Executive Search revenue per consultant, was $1.9 million and $1.6 million for the three months ended March 31, 2021 and 2020, respectively. The average revenue per executive search decreased to $112,900 from $118,600 in the prior year.

Salaries and benefits. Consolidated salaries and benefits expense increased $20.3 million, or 16.7%, to $141.4 million for the three months ended March 31, 2021 from $121.1 million for the three months ended March 31, 2020. Fixed compensation increased $0.2 million due to the deferred compensation plan and stock compensation, partially offset by decreases in base salaries and payroll taxes, talent acquisition and retention costs, and separation. Variable compensation increased $20.1 million due to higher bonus accruals related to increased consultant productivity. Foreign exchange rate fluctuations negatively impacted results by $3.3 million, or 2.4%.

For the three months ended March 31, 2021, we had an average of 1,583 employees compared to an average of 1,781 employees for the three months ended March 31, 2020.

As a percentage of net revenue, salaries and benefits expense was 73.0% for three months ended March 31, 2021, compared to 70.6% for the three months ended March 31, 2020.

General and administrative expenses. Consolidated general and administrative expenses decreased $3.4 million, or 10.6% to $28.8 million for the three months ended March 31, 2021 from $32.2 million for the three months ended March 31, 2020. The decrease in general and administrative expenses was due to office occupancy and internal travel, partially offset by increases in professional fees, bad debt, and the use of external third-party consultants. Foreign exchange rate fluctuations negatively impacted results by $0.5 million, or 1.8%.

As a percentage of net revenue, general and administrative expenses were 14.9% for the three months ended March 31, 2021, compared to 18.8% for the three months ended March 31, 2020.

Restructuring charges. The Company incurred approximately $3.9 million in restructuring charges during the three months ended March 31, 2021. During the three months ended September 30, 2020, the Company announced a restructuring plan including a workforce reduction, a reduction of the Company's real estate expenses and professional fees, and the future elimination of certain deferred compensation programs. The charges incurred during the three months ended March 31, 2021 primarily relate to a reduction in the Company's real estate footprint. The charges are recorded within *Restructuring charges* in the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2021. Expected annual costs savings as a result of the restructuring activities for the year ended December 31, 2021 is approximately $36.0 million.

Operating income. Consolidated operating income was $19.6 million, including restructuring charges of $3.9 million, for the three months ended March 31, 2021, compared to $18.2 million for the three months ended March 31, 2020. Foreign exchange rate fluctuations positively impacted operating income by $0.9 million, or 4.0%.

Net non-operating income (expense). Net non-operating income was $3.2 million for the three months ended March 31, 2021, compared to net non-operating expense of $3.8 million for the three months ended March 31, 2020.

Interest, net, was $0.1 million of income for the three months ended March 31, 2021, compared to $0.7 million of income for the three months ended March 31, 2020. The decrease was primarily the result of reduced yields on the Company's investments in U.S. Treasury bills and lower overall par value throughout the quarter on which interest could be earned.

Other, net, was $3.1 million of income for the three months ended March 31, 2021, compared to $4.4 million of expense for the three months ended March 31, 2020. The additional income in the current year is due to a $1.7 million gain on warrants received in exchange for executive search services performed in prior periods and a $1.0 million gain on the Company's deferred compensation plan. Investments, including those held in the Company's deferred compensation plan, are recorded at fair value, which improved significantly during the three months ended March 31, 2021.

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

Executive Search

Americas

The Americas segment reported net revenue of $116.5 million for the three months ended March 31, 2021, an increase of 16.2% from $100.3 million for the three months ended March 31, 2020. The increase in net revenue was due to a 27.4% increase in the number of executive search confirmations from the prior year. All practice groups, with the exception of Consumer Markets, exhibited growth over the prior year. Foreign exchange rate fluctuations negatively impacted results by $0.3 million, or 0.3%. There were 194 Executive Search consultants as of March 31, 2021, compared to 206 as of March 31, 2020.

Salaries and benefits expense increased $14.1 million, or 22.5%, compared to the three months ended March 31, 2020. Fixed compensation decreased $0.9 million, due to base salaries and payroll taxes, and talent acquisition and retention costs, partially offset by an increase in the deferred compensation plan and stock compensation. Variable compensation increased $15.0 million due to higher bonus accruals related to increased consultant productivity.

General and administrative expenses decreased $2.1 million, or 17.5%, compared to the three months ended March 31, 2020, due to office occupancy, and internal travel, partially offset by an increase in bad debt.

Restructuring charges for the three months ended March 31, 2021 were $3.7 million. The charges are primarily related to a reduction in the Company's real estate footprint.

The Americas reported operating income of $26.3 million, including restructuring charges of $3.7 million, for the three months ended March 31, 2021, an increase of $0.5 million compared to $25.7 million for the three months ended March 31, 2020.

Europe

Europe reported net revenue of $37.6 million for the three months ended March 31, 2021, an increase of 13.8% from $33.1 million for the three months ended March 31, 2020. The increase in net revenue was due to a 17.7% increase in the number of executive search confirmations. The Life Sciences, Industrial, Financial Services, and Global Technology Services practice groups exhibited growth over the prior year. Foreign exchange rate fluctuations positively impacted results by $3.0 million, or 8.6%. There were 104 Executive Search consultants as of March 31, 2021, compared to 110 as of March 31, 2020.

Salaries and benefits expense increased $4.1 million, or 17.5%, compared to the three months ended March 31, 2020. Fixed compensation increased $0.6 million for the three months ended March 31, 2021, due to stock compensation, base salaries and payroll taxes, and separation. Variable compensation increased $3.5 million due to higher bonus accruals related to increased consultant productivity.

General and administrative expense decreased $1.0 million, or 15.0%, compared to the three months ended March 31, 2020, due to internal travel, hiring fees, office occupancy, and taxes and licenses, partially offset by increases in bad debt and professional fees.

Europe reported operating income of $4.5 million, including a restructuring charge credit of $0.1 million, for the three months ended March 31, 2021, an increase of $1.5 million compared to $3.0 million for the three months ended March 31, 2020.

Asia Pacific

Asia Pacific reported net revenue of $25.5 million for the three months ended March 31, 2021, an increase of 15.4% compared to $22.1 million for the three months ended March 31, 2020. The increase in net revenue was primarily due to an 11.6% increase in the number of executive search confirmations and an increase in the average revenue per executive search. The Consumer Markets, Life Sciences, Industrial, and Global Technology Services practice groups exhibited growth over the prior year. Foreign exchange rate fluctuations positively impacted results by $1.6 million, or 6.6%. There were 75 Executive Search consultants at March 31, 2021 compared to and 80 at March 31, 2020.

Salaries and benefits expense increased $2.2 million, or 14.6%, compared to the three months ended March 31, 2020. Fixed compensation increased $0.3 million due to base salaries and payroll taxes, and stock compensation, partially offset by a decrease in retirement and benefits. Variable compensation increased $1.9 million due to higher bonus accruals related to increased consultant productivity.

General and administrative expenses decreased $0.3 million, or 7.5%, compared to the three months ended March 31, 2020, due to internal travel, office occupancy, and bad debt, partially offset by an increase in professional fees.

Asia Pacific reported operating income of $4.1 million, including a restructuring charge credit of $0.1 million, for the three months ended March 31, 2021, an increase of $1.6 million compared to $2.5 million for the three months ended March 31, 2020.

Heidrick Consulting

Heidrick Consulting reported net revenue of $14.0 million for the three months ended March 31, 2021, a decrease of 12.4% compared to $16.0 million for the three months ended March 31, 2020. The decrease in Heidrick Consulting net revenue is due a large consulting project from the prior year that did not reoccur and an inability to execute in-person consulting engagements in 2021, partially offset by a 17.5% increase in the number of consulting engagements compared to the prior year. Foreign exchange rate fluctuations positively impacted results by $0.4 million, or 3.0%. There were 64 Heidrick Consulting consultants at March 31, 2021 compared to 70 at March 31, 2020.

Salaries and benefits expense decreased $1.6 million, or 10.8%, compared to the three months ended March 31, 2020. Fixed compensation decreased $0.8 million due to base salaries and payroll taxes, talent acquisition and retention costs, and separation, partially offset by an increase in retirement and benefits. Variable compensation decreased $0.8 million due to a decrease in production.

General and administrative expenses decreased $0.1 million, or 2.1%, compared to the three months ended March 31, 2020, due to due to internal travel, office occupancy, and IT, partially offset by increases in professional fees, the use of external third-party consultants, and hiring fees.

Restructuring charges for the three months ended March 31, 2021 were $0.3 million. The charges are primarily related to a reduction in the Company's real estate footprint.

Heidrick Consulting reported an operating loss of $4.7 million, including restructuring charges of $0.3 million, for the three months ended March 31, 2021, an increase of $0.6 million compared to an operating loss of $4.1 million for the three months ended March 31, 2020.

Global Operations Support

Global Operations Support expenses for the three months ended March 31, 2021, increased $1.6 million, or 17.3%, to $10.6 million from $9.0 million for the three months ended March 31, 2020.

Salaries and benefits expense increased $1.5 million, or 28.3%, due to base salaries and payroll taxes, variable compensation, and stock compensation, partially offset a decrease in separation.

General and administrative expenses increased $0.1 million, or 2.8%, due to information technology, insurance and bank fees, and hiring fees, partially offset by decreases in office occupancy, internal travel, marketing, and communication services.

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"). 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 three months ended March 31, 2020, we borrowed $100 million under the 2018 Credit Agreement, which was subsequently repaid during the three months ended September 30, 2020.

As of March 31, 2021 and December 31, 2020, 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 March 31, 2021, December 31, 2020, and March 31, 2020 were $184.1 million, $336.5 million and $251.0 million, respectively. The $184.1 million of cash, cash equivalents and marketable securities at March 31, 2021, includes $77.0 million held by our foreign subsidiaries. A portion of the $77.0 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. Cash used in operating activities was $142.6 million for the three months ended March 31, 2021. This use of cash was primarily the result of cash bonus payments related to 2020 and prior year cash bonus deferrals of $200.3 million partially offset by 2021 bonus accruals and an increase in accounts receivable of $41.2 million associated with an increase in revenue. Other uses of cash included an increase in other assets of $8.0 million associated with unbilled receivables, right-of-use assets and long-term prepaid expenses, an increase in prepaid expenses of $7.9 million, and payments on the restructuring accrual of $2.9 million. These uses of cash were partially offset by net income of $14.8 million, depreciation and amortization of $6.1 million and stock compensation of $3.0 million.

Cash used in operating activities was $165.6 million for the three months ended March, 31, 2020. 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, an increase in accounts receivable of $24.7 million, an increase in other assets of $9.4 million and an increase in prepaid expenses of $6.6 million, partially offset by net income of $8.7 million and an increase in taxes payable of $4.1 million.

Cash flows provided by investing activities. Cash provided by investing activities was $17.9 million for the three months ended March 31, 2021, due to proceeds from the maturity of available for sale investments of $20.1 million partially offset by purchases of available for sale investments of $1.4 million and capital expenditures of $0.9 million for office build-outs.

Cash provided by investing activities was $57.5 million for the three months ended March 31, 2020, primarily due to proceeds from available for sale investments of $61.4 million, partially offset by purchases of available for sale investments of $2.1 million, and capital expenditures of $1.8 million for office build-outs.

Cash flows provided by (used in) financing activities. Cash used in financing activities was $6.2 million for the three months ended March 31, 2021, due to dividend payments of $3.1 million and employee tax withholding payments on equity transactions of $3.1 million.

Cash provided by financing activities was $92.7 million for the three months ended March 31, 2020, primarily due to the draw on the line of credit of $100.0 million, partially offset by dividend payments of $3.0 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.

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. In the event we require additional liquidity, our 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.

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, 2020 as filed with the U.S. Securities and Exchange Commission ("SEC") on February 24, 2021, 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, 2020, as filed with the SEC on February 24, 2021.

Recently Issued and Adopted Financial Accounting Standards

The information presented in Note 2, *Summary of Significant Accounting Policies*, to our Condensed Consolidated Financial Statements within this Quarterly Report on Form 10-Q is incorporated herein by reference.

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. However, because certain assets and liabilities are denominated in currencies other than the U.S. dollar, changes in currency rates may cause fluctuations in the valuation of such assets and liabilities. As the local currency of our subsidiaries has generally been designated as the functional currency, we are affected by the translation of foreign currency financial statements into U.S. dollars. 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 by approximately $0.6 million for the three months ended March 31, 2021. For financial information by 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 March 31, 2021. 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 March 31, 2021.

(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 three months ended March 31, 2021 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 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

The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in Part I, Item 1A of the Company's 2020 Annual Report on Form 10-K under the heading "Risk Factors," any one or more of which could, directly or indirectly, cause the Company's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, operating results and stock price. There have been no material changes to 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, 2020 as filed with the SEC on February 24, 2021.

Item 6. Exhibits

Exhibit No.	Exhibit Description	Incorporated by Reference Form	Exhibit	Filing Date/Period End Date
*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 Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: April 26, 2021

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)

Exhibit 31.1

CERTIFICATION

I, Krishnan Rajagopalan, certify that:

1. I have reviewed this annual 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: April 26, 2021

/s/ Krishnan Rajagopalan
Krishnan Rajagopalan
President and Chief Executive Officer

CERTIFICATION

I, Mark R. Harris, certify that:

1. I have reviewed this annual 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: April 26, 2021

/s/ Mark R. Harris
Mark R. Harris
Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION

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

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

The Annual Report on Form 10-Q for the quarter ended March 31, 2021 (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: April 26, 2021

/s/ Krishnan Rajagopalan
Krishnan Rajagopalan
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION

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

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

The Annual Report on Form 10-Q for the quarter ended March 31, 2021 (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: April 26, 2021

/s/ Mark R. Harris
Mark R. Harris
Executive Vice President and Chief Financial Officer