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

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**FORM 10-K**

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

For the fiscal year ended December 31, 2007

OR

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

Commission File No. 0-25837

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**HEIDRICK & STRUGGLES INTERNATIONAL, INC.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

**233 South Wacker Drive, Suite 4200, Chicago, Illinois 60606-6303**

(Address of principal executive offices) (Zip Code)

**(312) 496-1200**

(Registrant's telephone number, including area code)

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

Title Of Each Class  
**Common Stock, \$.01 par value**

Name Of Each Exchange On Which Registered  
**The Nasdaq Global Stock Market**

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

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Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer       Accelerated Filer       Non-Accelerated Filer

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant on June 30, 2007 was approximately \$922,072,818 based upon the closing market price of \$51.24 on that date of a share of Common Stock as reported on the Nasdaq Global Stock Market. As of February 20, 2008, there were 17,277,025 shares of the Company's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 22, 2008, are incorporated by reference into Part III of this Form 10-K.

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**PART I**

**ITEM 1. BUSINESS**

**Overview**

Heidrick & Struggles International, Inc. (“Heidrick & Struggles”) is a leading provider of executive search and leadership consulting services. We help our clients build leadership teams by facilitating the recruitment, management and deployment of senior executives for their executive management and board positions. Focusing on top-level services offers us several advantages that include access to and influence with key decision makers, increased potential for recurring search consulting engagements, higher fees per search, enhanced brand visibility, and 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 a range of leadership consulting services to clients. These services include succession planning, top team effectiveness, executive assessment, talent management, executive development, and M&A human capital effectiveness.

Heidrick & Struggles has been in the executive search business for more than 50 years. We provide our services to a broad range of clients through the expertise of more than 386 consultants located in major cities around the world. For many of our clients, our global access to and knowledge of regional and functional markets and candidate talent is an important differentiator of our business. We provide our executive search services on a retained basis, recruiting senior executives whose first year base salary and bonus average approximately \$345,000 in 2007 on a worldwide basis. Our clients include the following:

- Fortune 1000 companies
- Major non-U.S. companies
- Middle market and emerging growth companies
- Governmental, higher education and not-for-profit organizations
- Other leading private and public entities

The executive search industry is highly fragmented, consisting of several thousand executive search firms worldwide. The Association of Executive Search Consultants (AESC) estimated that the market for retained executive search was \$9.8 billion in 2007, and based on trade publication reports, we estimate that five executive search firms/alliances each generated more than \$400 million in worldwide revenue during 2007. Executive search firms are generally separated into two broad categories: retained and contingency. 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. In contrast, contingency search firms are compensated only upon successfully placing a recommended candidate. Retained executive search firms normally charge a fee for their services equal to approximately one-third of the first year’s total compensation for the position being filled.

We are a retained executive search firm. Our search process typically consists of the following steps:

- Analyze the client’s business needs in order to understand its organizational structure, relationships, and culture; determine the required set of skills for the position; define the required experience; and identify the other characteristics desired of the successful candidate
- Select, contact, interview and evaluate candidates on the basis of experience and potential cultural fit with the client organization
- Present confidential written reports on the candidates who potentially fit the position specification

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- Schedule a mutually convenient meeting between the client and each candidate
- Complete references on the final candidate selected by the client
- Assist the client in structuring the compensation package and supporting the successful candidate's integration into the client team

### Available Information

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

### Organization

Our organizational structure, which is arranged by geography and industry/functional practices, is designed to enable us to better understand our clients' cultures, operations, business strategies, industries and regional markets for executive talent.

*Geographic Structure.* We provide senior-level executive search and leadership consulting services to our clients worldwide through a network of more than 60 offices in 33 countries. Major locations are staffed with consultants, research associates, administrative assistants and other support staff. Administrative functions are centralized where possible, although certain support and research functions are situated regionally because of variations in local requirements.

Our worldwide network also includes affiliate relationships in three countries. We have no financial investment in these affiliates but receive licensing fees from them for the use of our name and our databases. Licensing fees were \$0.8 million and \$1.0 million for the years ended December 31, 2007 and 2006, respectively.

*Industry Practices.* We report and operate our executive search business in seven broad industry groups: Financial Services, Consumer, Industrial, Technology, Health Care/Life Sciences, Professional Services and Higher Education/Nonprofit/Other. These industry categories and their relative sizes, as measured by net revenue for 2007 are as follows:

<u>Industry Categories</u>	<u>Percentage of Net Revenue</u>
Financial Services	33%
Industrial	21%
Consumer	18%
Technology	10%
Health Care/Life Sciences	9%
Professional Services	7%
Higher Education/Nonprofit/Other	2%
	<u>100%</u>

Within each broad industry group are a number of industry subsectors. Consultants often specialize in one or more subsectors to provide clients with market intelligence and candidate knowledge specific to their industry. For example, within the Financial Services sector our business is quite diversified among a number of industry

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subsectors including Asset & Wealth Management, Consumer Financial Services, Investment Banking and Capital Markets, Insurance, Private Equity/Venture Capital, and Real Estate.

In an effort to more effectively service our global accounts, we undertook an initiative in July 2007 to change our go-to-market strategy and provide our clients with a more unified executive search team. We shifted our client approach from teams working with a geographic orientation to worldwide industry practice-based teams. This change in focus allows us to better leverage our global diversity and market intelligence to improve client service. Each client is served by one global account team instead of a different account team in each region. We believe that this client service approach is a key differentiator from our competition.

*Functional Practices.* Our executive search consultants also specialize in searches for specific “C-level” functional positions, which are roles that generally report directly to the chief executive officer. These include chief financial officers, chief information officers, chief legal officers, chief marketing officers and chief human resources officers. Our functional specialists maintain continuous awareness of candidate talent.

Our Global Functional Practices include CEO & Board of Directors; Chief Information Officers; Chief Sales Officers; Chief Marketing Officer; Financial Officer; Chief Human Resources Officers; Legal, Risk & Compliance; Real Estate; Research & Development; and Supply Chain & Transportation.

Executive search consultants from each of our Client Services groups may work from any one of our offices around the world. For example, an executive search for a chief financial officer of an industrial company located in the United Kingdom may involve a consultant in the United Kingdom with an existing relationship with the client, another executive search consultant in the United States with expertise in our Industrial practice and a third executive search consultant with expertise in chief financial officer recruiting. This same industrial client may also engage us to perform skill-based assessments for each of its senior managers, which could require the expertise of a professional trained in this service.

### **Information by Geographic Segment**

*Americas.* As of December 31, 2007, we had 204 executive search consultants operating in our Americas segment, which includes the United States, Canada, Mexico and Latin America, principally Argentina, Brazil and Chile. Our Americas segment generated approximately 53.8% of our worldwide net revenue in 2007. The largest offices in this segment in terms of net revenue are located in New York, Chicago and Los Angeles.

*Europe.* As of December 31, 2007, we had 121 executive search consultants operating in our European segment which includes the Middle East and Africa. Our European segment generated approximately 33.5% of our worldwide net revenue in 2007. The United Kingdom, Germany and France produced the highest levels of net revenue in this segment.

*Asia Pacific.* As of December 31, 2007, we had 61 executive search consultants operating in the Asia Pacific segment. This segment generated approximately 12.7% of our worldwide net revenue in 2007. China (including Hong Kong), Australia and Japan produced the highest levels of net revenue in this segment.

For financial information relating to each geographic segment, see Note 18, *Segment Information*, in the Notes to Consolidated Financial Statements.

### **Seasonality**

There is no discernible seasonality in our business and revenue and operating income have historically varied by quarter and are hard to predict from quarter to quarter. Although as a percentage of total annual net revenue, the first quarter is typically the lowest. On average, the variance between the highest and lowest amount of quarterly net revenue, as expressed as a percentage of annual net revenue, is approximately two percentage points.

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### **Clients and Marketing**

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

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

No single client accounted for more than 3% of our net revenue in 2007, 2006 or 2005. Our top ten clients in 2007 in aggregate accounted for less than 9% of total net revenue.

### **Information Management Systems**

We rely on technology to support our consultants and staff in the search process. Our technology infrastructure consists of internally developed databases containing candidate profiles and client records, coupled with online services and industry reference sources. We use technology to manage and share information on current and potential clients and candidates, to communicate to both internal and external constituencies and to support administrative functions.

### **Professional Staff and Employees**

Our executive search professionals are generally categorized either as consultants or associates. Associates assist consultants by conducting research, making initial contact with candidates in some instances and performing other search-related functions. As of December 31, 2007, we had 1,647 full-time equivalent employees, of whom 386 were executive search consultants, 465 were associates and 796 were other search, support and corporate staff.

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

### **Competition**

The executive search industry is highly competitive. While we face competition to some degree from all firms in the industry, we believe our most direct competition comes from four established global retained executive search firms that conduct searches primarily for the most senior-level positions within an organization. In particular, our competitors include Egon Zehnder International, Korn/Ferry International, Russell Reynolds Associates, Inc. and Spencer Stuart & Associates. To a lesser extent, we also face competition from smaller boutique or specialty firms that specialize in certain regional markets or industry segments. Each firm with which we compete is also a competitor in the marketplace for effective consultants. The AESC estimated the market

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size for the executive recruiting industry was \$9.8 billion worldwide in 2007. We believe that the combined revenues of our Company and our top four competitors represent approximately 29% of this market.

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

Competition in our leadership consulting services is highly fragmented, with no universally recognized market leaders.

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### EXECUTIVE OFFICERS

Our executive officers as of February 28, 2008 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position With Company</u>
L. Kevin Kelly	42	Chief Executive Officer; Director
K. Steven Blake	43	Executive Vice President, General Counsel and Secretary
Charles G. Davis	50	Regional Managing Partner, Asia Pacific
Valerie E. Germain	44	Managing Partner, Strategic Partnerships
Sanjay Gupta	44	Senior Vice President and Chief Information Officer
Eileen A. Kamerick	49	Executive Vice President, Chief Financial Officer and Chief Administrative Officer
David C. Peters	55	Regional Managing Partner, Europe/Middle East/Africa

There are no family relationships between any executive officer or director. The following information sets forth the business experience for at least the past five years for each of our executive officers as of February 28, 2008:

**L. Kevin Kelly** was elected as our Chief Executive Officer and a Director in September 2006. Previously, Mr. Kelly was President, Europe/Middle East/Africa and Asia Pacific from March 2005 to September 2006, Regional Managing Partner, Asia Pacific from September 2002 to March 2005, and Office Managing Partner, Tokyo from February 2002 to September 2002. He joined us in 1997.

**K. Steven Blake** has been our General Counsel and Secretary since joining us in July 2005 and was named Executive Vice President in January 2007. Previously, Mr. Blake was General Counsel of Aquion Partners, LP from 2001 to 2005. From 1998 to 2001, Mr. Blake was Associate General Counsel for General Electric Capital Corporation.

**Charles G. Davis** has been our Regional Managing Partner, Asia Pacific since September 2006, Office Managing Partner, Sydney since January 2006, and Managing Partner of our Chief Information Officer Practice in Asia Pacific since October 2002. Previously, Mr. Davis was Managing Partner of our Technology and Business & Professional Services Practices in Asia Pacific from April 1999 to December 2005. He joined us in 1998.

**Valerie E. Germain** has been our Managing Partner, Strategic Partnerships since July 2007 and has been a Partner in our Financial Services Practice since joining us in September 2003. From 1991 to 2003, Ms. Germain was a Managing Director at Jay Gaines & Company.

**Sanjay Gupta** has been our Senior Vice President and Chief Information Officer since joining us in April 2007. From 1999 to 2007, Mr. Gupta was Managing Partner and Vice President at Gartner Inc.

**Eileen A. Kamerick** has been our Chief Financial Officer since joining us in June 2004. Ms. Kamerick was named Chief Administrative Officer in December 2006 and Executive Vice President in January 2007. Previously, she was Chief Financial Officer and Executive Vice President of Bcom3 Group, Inc. from 2001 to 2003.

**David C. Peters** has been our Regional Managing Partner, Europe/Middle East/Africa since September 2006. Previously, Mr. Peters was Office Managing Partner, London from October 2003 to November 2006, Area Managing Partner, Europe/Middle East/Africa from July 2004 to March 2005, and Head of our Interim Practice from November 2002 to June 2005. He joined us in 2000.



## ITEM 1A. RISK FACTORS

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

### **We depend on attracting and retaining qualified consultants.**

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

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

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

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

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

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

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

If a prospective client believes that we are overly restricted by these off-limits arrangements from recruiting the employees of our existing clients, these prospective clients may not engage us to perform their executive searches, and as a result, our business, financial condition and results of operations may suffer.

**We face aggressive competition.**

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

**We rely heavily on information management systems.**

Our success depends upon our ability to store, retrieve, process and manage substantial amounts of information. To achieve our goals, we must continue to improve and upgrade our information management systems. We may be unable to license, design and implement, in a cost-effective and timely manner, improved information systems that allow us to compete effectively. In addition, business process reengineering efforts may result in a change in software platforms and programs. Such efforts may result in an acceleration of depreciation expense over the shortened expected remaining life of the software. In addition, if we experience any interruptions or loss in our information processing capabilities, our business, financial condition and results of operations may suffer.

**We face the risk of liability in the services we perform.**

We are exposed to potential claims with respect to the executive search process. A client could assert a claim for violations of off-limits arrangements, breaches of confidentiality agreements or professional malpractice. The growth and development of our other leadership consulting services brings with it the potential for new types of claims. In addition, candidates and client employees could assert claims against us. Possible claims include failure to maintain the confidentiality of the candidate's employment search or for discrimination or other violations of the employment laws or malpractice. In various countries, we are subject to data protection laws impacting the processing of candidate information. We maintain professional liability insurance in amounts and coverage that we believe are adequate; however, we cannot guarantee that our insurance will cover all claims or that coverage will always be available. Significant uninsured liabilities could have a negative impact on our business, financial condition and results of operations.

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

We generate substantial revenue outside the United States. We offer our services through offices in 30 countries around the world. We are exposed to the risk of changes in social, political, legal and economic conditions inherent in international operations which could have a significant impact on our business, financial condition and results of operations. In particular, we conduct business in countries where the legal systems, local laws and trade practices are unsettled and evolving. Commercial laws in these countries are sometimes vague, arbitrary and inconsistently applied. Under these circumstances, it is difficult for us to determine at all times the exact requirements of such local laws. If we fail to comply with local laws, our business, financial condition and results of operations could suffer. In addition, the global nature of our operations poses challenges to our management, and financial and accounting systems. Failure to meet these challenges could seriously harm our business, financial condition and results of operations.

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

We must ensure that our costs and workforce continue to be in proportion to demand for our services. Failure to align our cost structure and headcount with net revenue could adversely affect our business, financial condition, and results of operations.

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### **Our net revenue may be affected by adverse economic conditions.**

Although our net revenue increased in 2007, there can be no assurances that economic conditions will continue to improve or even remain stable. If economic conditions weaken, our business, financial condition and results of operations could suffer.

### **We may not be able to generate sufficient profits to realize the benefit of our net deferred tax assets.**

We establish valuation allowances against deferred tax assets when there is insufficient evidence that we will be able to realize the benefit of these deferred tax assets. We reassess the realizability of the deferred tax assets as facts and circumstances dictate. If after future assessments of the realizability of the deferred tax assets, we determine that a lesser or greater allowance is required, we record a reduction or increase to the income tax expense and the valuation allowance in the period of such determination.

### **Our inability to successfully integrate consultants hired through acquisitions may have an adverse effect on our business.**

We acquired Highland Partners in the fourth quarter of 2006 and RentonJames in the first quarter of 2007. We intend to continue to grow through selective acquisitions, however, we may not be able to identify appropriate acquisition candidates, consummate acquisitions on satisfactory terms or integrate the acquired businesses effectively and profitably into our existing operations. Our future success will depend in part on our ability to complete the integration of acquisitions successfully into our operations. Failure to successfully integrate new employees and complementary businesses may adversely affect our profitability by creating operating inefficiencies that could increase operating expenses as a percentage of net revenues and reduce operating income. Further, after any acquisition, the acquired businesses' clients may choose not to move their business to us causing an adverse affect on our business, financial condition and results of operations.

### **We may experience impairment of our goodwill and other intangible assets.**

Periodically, we perform assessments of the carrying value of our goodwill and other intangible assets. If future events, including our financial performance and economic conditions, cause us to conclude that the value of these assets has become impaired, we would need to record impairment charges. Any resulting impairment loss could have an adverse impact on our business, financial condition and results of operations.

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

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

- a classified board of directors
- limitations on the removal of directors
- limitations on stockholder actions
- the ability to issue one or more series of preferred stock by action of our Board of Directors

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

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our corporate headquarters is located in Chicago, Illinois. We have offices in major metropolitan areas in 30 countries around the world. All of our offices are leased. We do not own any real estate. The aggregate square footage of office space under lease was approximately 822 thousand as of December 31, 2007. These office leases call for future minimum lease payments of approximately \$204 million and have terms that expire between 2008 and 2024, exclusive of renewal options that we can exercise. Approximately 150 thousand square feet of office space has been sublet to third parties.

**ITEM 3. LEGAL PROCEEDINGS**

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

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

*Contingencies*

During the fourth quarter of 2005, a European country commenced a tax audit for the years 2001 to 2004, including an examination of our arrangement with professional services companies that provide consulting services to us. On November 24, 2006, the examining tax authority issued a final assessment in the amount of €4.3 million (equivalent to \$6.2 million at December 31, 2007). No penalty has been included in this assessment. This final assessment has been appealed by us and the enforcement of the assessment has been suspended until a final determination of the appeal. We have provided a bank guarantee to the tax authority in the amount of the final assessment as required by local law. See Note 4, *Restricted Cash* and Note 19, *Guarantees*, in the Notes to Consolidated Financial Statements. At this time, we believe that the likelihood of an unfavorable outcome is not probable and that the potential amount of any loss cannot be reasonably estimated. We also believe that the amount of a final assessment, if any, would not be material to our financial condition.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market for Registrant's Common Equity**

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

<u>Year Ended December 31, 2007</u>	<u>High</u>	<u>Low</u>
First Quarter	\$49.62	\$41.20
Second Quarter	51.59	45.86
Third Quarter	55.22	34.92
Fourth Quarter	45.57	30.96
<u>Year Ended December 31, 2006</u>		
First Quarter	\$37.12	\$30.88
Second Quarter	37.50	29.87
Third Quarter	37.86	30.10
Fourth Quarter	43.49	35.48

As of February 20, 2008, the last reported price on the Nasdaq Global Stock Market for our common stock was \$30.16 per share and there were approximately 129 stockholders of record of the common stock.

**Dividends**

In September of 2007, our Board of Directors approved the initiation of a quarterly cash dividend payment in the amount of \$0.13 per share. On an annual basis, the cash dividend is expected to be \$0.52 per share. The first quarterly dividend payment was made on November 16, 2007, to shareholders of record as of November 2, 2007, for a total of \$2.3 million. In connection with the initiation of a dividend, the Board of Directors also approved the payment of a dividend equivalent on outstanding restricted stock units. The amounts related to the quarterly dividend equivalent for restricted stock units will be accrued over the vesting period and paid upon vesting.

Our second quarterly cash dividend payment in the amount of \$0.13 per share was paid on February 15, 2008 to shareholders of record as of February 1, 2008. The dividend payable and related dividend equivalents on outstanding restricted stock units are accrued in the Consolidated Balance Sheet as of December 31, 2007.

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### Issuer Purchases of Equity Securities

The following table provides information related to the Company's purchase of common shares for the quarter ended December 31, 2007. For further information of the Company's share repurchase activity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs</u>
Oct. 1, 2007 – Oct. 31, 2007	—	\$ —	—	\$ 32,884,323
Nov. 1, 2007 – Nov. 30, 2007	115,461	35.62	115,461	28,772,071
Dec. 1, 2007 – Dec. 31, 2007	270,300	35.21	270,300	19,254,908
Total	<u>385,761</u>		<u>385,761</u>	

On May 24, 2006, the Company's Board of Directors authorized management to repurchase shares of the Company's common stock under an open market share repurchase authorization with an aggregate purchase price up to \$50 million. The Company purchased 1,132,073 shares of our common stock for \$50 million under the May 2006 authorization, which was completed during the third quarter of 2007.

On May 24, 2007, the Company's Board of Directors authorized management to repurchase shares of the Company's common stock with an aggregate purchase price up to \$50 million. The Company intends from time to time as business conditions warrant, to purchase shares of its common stock on the open market or in negotiated or block trades. No time limit has been set for completion of this program. A portion of the repurchased shares is intended to offset dilution associated with the Company's employee equity programs. Through December 31, 2007, the Company has purchased 808,931 shares of its common stock for \$30.7 million under the May 2007 authorization. As of December 31, 2007, \$19.3 million of the \$50 million stock repurchase authorization remained.

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**ITEM 6. SELECTED FINANCIAL DATA**

The selected financial data presented below have been derived from our audited consolidated financial statements. The data as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 are derived from the audited historical consolidated financial statements which are included elsewhere in this Form 10-K. The data as of December 31, 2005, 2004 and 2003 and for the years ended December 31, 2004 and 2003 are derived from audited historical consolidated financial statements that are not included in this report. The data set forth are qualified in their entirety by, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations," the audited consolidated financial statements, the notes thereto, and the other financial data and statistical information included in this Form 10-K.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
(in thousands, except per share and other operating data)					
<b>Statement of Operations Data:</b>					
Revenue:					
Revenue before reimbursements (net revenue)	\$619,654	\$478,523	\$412,297	\$375,432	\$317,934
Reimbursements	28,612	23,471	20,553	22,744	22,683
Total revenue	<u>648,266</u>	<u>501,994</u>	<u>432,850</u>	<u>398,176</u>	<u>340,617</u>
Operating expenses:					
Salaries and employee benefits	418,952	328,714	273,949	251,186	223,537
General and administrative expenses	121,198	99,352	94,369	96,533	87,250
Reimbursed expenses	28,612	23,471	20,553	21,247	22,683
Restructuring charges (1)	—	408	22,493	550	29,443
Total operating expenses	<u>568,762</u>	<u>451,945</u>	<u>411,364</u>	<u>369,516</u>	<u>362,913</u>
Operating income (loss)	79,504	50,049	21,486	28,660	(22,296)
Non-operating income (expense):					
Interest income	8,099	6,318	5,951	2,588	1,687
Interest expense	(64)	(61)	(379)	(197)	(166)
Net realized and unrealized gains (losses) on equity and warrant portfolio	(116)	510	(19)	57,072(2)	673
Other, net	(288)	(1,550)	1,443	(1,024)	(1,722)
Net non-operating income	<u>7,631</u>	<u>5,217</u>	<u>6,996</u>	<u>58,439</u>	<u>472</u>
Income (loss) before income taxes	87,135	55,266	28,482	87,099	(21,824)
Provision for (benefit from) income taxes	30,672	21,023	(10,736)(3)	4,791(3)	58,844(3)
Net income (loss)	<u>\$ 56,463</u>	<u>\$ 34,243</u>	<u>\$ 39,218</u>	<u>\$ 82,308</u>	<u>\$ (80,668)</u>
Basic earnings (loss) per common share	\$ 3.16	\$ 1.91	\$ 2.08	\$ 4.35	\$ (4.43)
Basic weighted average common shares outstanding	17,854	17,925	18,898	18,941	18,217
Diluted earnings (loss) per common share	\$ 2.97	\$ 1.81	\$ 1.98	\$ 4.11	\$ (4.43)
Diluted weighted average common shares outstanding	18,984	18,916	19,761	20,012	18,217
Dividends per common share	\$ 0.26	\$ —	\$ —	\$ —	\$ —
<b>Balance Sheet Data (at end of period):</b>					
Working capital	\$148,999	\$135,880	\$159,964	\$150,198	\$ 65,211
Total assets (4)	616,884	513,309	406,409	415,656	301,876
Long-term debt, less current maturities	—	—	—	—	26
Stockholders' equity	309,800	263,705	237,485	216,126	126,209
<b>Other Operating Data:</b>					
Average number of consultants during the period	401	348	307	299	328

**Notes to Selected Financial Data:**

- (1) See Note 16, *Restructuring Charges*, in the Notes to Consolidated Financial Statements.
- (2) In 2004, we recognized a realized gain of \$57.0 million related to the equity and warrant portfolio, net of the consultants' share of the gain and other costs, including \$56.8 million related to the monetization of our shares of common stock of Google Inc.
- (3) The 2003 income tax provision includes a non-cash income tax expense of \$57.9 million, recorded in the fourth quarter of 2003, to provide a full valuation allowance against the net deferred tax assets for the U.S. income tax paying entity. In 2004 and again in 2005, we determined that a lesser valuation allowance was required relating to certain deferred tax assets in the U.S. and recorded reductions to the valuation allowance of \$28.5 million and \$24.6 million, respectively. See Note 17, *Income Taxes*, in the Notes to Consolidated Financial Statements.
- (4) In 2007, the Company determined that the UK Employee Benefit Trust should not be consolidated and as a result has reduced total assets and liabilities by \$6.5 million, \$4.5 million, \$5.6 million, and \$2.6 million in 2006, 2005, 2004 and 2003, respectively. See Note 1, *Basis of Presentation*, in the Notes to Consolidated Financial Statements.



## ITEM 7. 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 annual report on Form 10-K contain forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. The forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate and management's beliefs and assumptions. Forward-looking statements may be identified by the use of words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "projects," "forecasts," and similar expressions. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, forecasted or implied in the forward-looking statements. Factors that may affect the outcome of the forward-looking statements include, among other things, our ability to attract and retain qualified executive search consultants; the condition of the economies in the United States, Europe, or elsewhere; social or political instability in markets where we operate; the impact of foreign currency exchange rate fluctuations; price competition; the ability to forecast, on a quarterly basis, variable compensation accruals that ultimately are determined based on the achievement of annual results; our ability to realize our tax loss carryforwards; the timing of a partial release or full reversal of deferred tax asset valuation allowance; the mix of profit or loss by country; an impairment of our goodwill and other intangible assets; and delays in the development and/or implementation of new technology and systems. For more information on the factors that could affect the outcome of forward-looking statements, see Risk Factors in Item 1A of this Form 10-K. We caution the reader that the list of factors may not be exhaustive. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.*

### Executive Overview

#### *Our Business*

We are a leading provider of executive search and leadership consulting services. We help our clients build leadership teams by facilitating the recruitment, management and deployment of senior executives for their executive management and board positions. Focusing on top-level services offers us several advantages that include access to and influence with key decision makers, increased potential for recurring search consulting engagements, higher fees per search, enhanced brand visibility, and 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 a range of leadership consulting services to clients. These services include succession planning, top team effectiveness, executive assessment, talent management, executive development, and M&A human capital effectiveness.

We provide our services to a broad range of clients through the expertise of more than 386 consultants located in 30 countries throughout the world. Our executive search services are provided on a retained basis. Revenue before reimbursements of out-of-pocket expenses ("net revenue") consists of retainers and indirect expenses billed to clients. Typically, we are paid a retainer for our executive search services equal to approximately one-third of the estimated first year compensation for the position to be filled. In addition, if the actual compensation of a placed candidate exceeds the estimated compensation, we often are authorized to bill the client for one-third of the excess. Indirect expenses are calculated as a percentage of the retainer with certain dollar limits per search.

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### *Key Performance Indicators*

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

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

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

### *Our Compensation Model*

Our compensation model closely aligns the interests of our consultants, our company and our shareholders. Consultants are rewarded for individual performance based on a system that directly ties compensation to the amount of net revenue for which the consultant is responsible. Each quarter, we review and update the expected annual performance and compensation accruals for our consultants. At the group and company level, variable compensation is based, and thus recorded, on our performance against revenue and profitability targets approved by the Human Resources and Compensation Committee of the Board of Directors. As a result, the variable portion of compensation expense may fluctuate significantly from quarter to quarter.

In the second quarter of 2005, we adopted a new compensation policy for consultants and management. Under this policy, a portion of consultant and management bonuses are paid in the form of restricted stock units that vest ratably over a three-year period from the date of grant. The amount paid in the form of restricted stock units varies between 10% and 20% (plus a premium of 10% on the shares received) depending on the employee's level or position. The restricted stock units are issued in the quarter following the year in which the performance portion of the awards is earned. Compensation expense related to awards requiring satisfaction of both service and performance conditions is recognized using a graded vesting attribution method over the requisite service period which for 2007, began January 1, 2007 and continues through the final vesting date, which is generally three years from the date of grant. This change in policy was made to better align consultants' and management's interests with those of the shareholders. In addition, the change will result in increased share ownership for consultants and management.

### *2007 Overview*

Consolidated net revenue increased 29.5%, or \$141.1 million in 2007, compared to 2006. The first nine months of 2007 includes net revenue of approximately \$46 million associated with former Highland Partners' consultants, which were acquired on October 2, 2006. Double-digit percentage revenue increases were reported in 2007 in the Americas, Europe and Asia Pacific. The Financial Services, Industrial, and Health Care/Life Sciences industry groups were the largest contributors to year-over-year revenue growth. Consultant productivity measured by average revenue per executive search consultant increased to \$1.5 million for the year ended December 31, 2007 from \$1.3 million for the year ended December 31, 2006. The average fee per executive search was \$114,900 for the year ended December 31, 2007 compared to \$101,100 for the year ended December 31, 2006.

Operating income as a percentage of net revenue increased to 12.8% in 2007 from 10.5% in 2006 primarily as a result of an increase in net revenue in 2007 of 29.5%. Salaries and employee benefits expense as a percentage of net revenue decreased from 68.7% in 2006 to 67.6% in 2007, and general and administrative expenses as a percentage of net revenue decreased from 20.8% in 2006 to 19.6% in 2007.

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We ended the year with a strong cash and short-term investment balance of \$282.9 million, an increase of \$62.1 million, compared to \$220.8 million at December 31, 2006. The increase in year-over-year ending cash and short-term investment balances primarily reflects the decision in early 2006 to consolidate the two bonus payments made to consultants into one payment to be paid in the first quarter following the year in which the bonus is earned, along with increased cash flows from operations. In early 2008, we expect to pay approximately \$150 million related to the 2007 bonus accruals.

In September of 2007, our Board of Directors approved the initiation of a quarterly cash dividend payment in the amount of \$0.13 per share. On an annual basis, the cash dividend is expected to be \$0.52 per share. The first quarterly dividend payment was made on November 16, 2007 to shareholders of record as of November 2, 2007 for a total of \$2.3 million. The second quarterly dividend was paid on February 15, 2008 to shareholders of record at the close of business on February 1, 2008.

### *2008 Outlook*

In 2008, we expect net revenue of between \$650 and \$670 million, representing growth of between 5% and 8% over 2007 net revenue. We are targeting a 2008 full-year operating margin of approximately 13%. Net income and earnings per share in 2008 are expected to reflect a full-year effective tax rate of between 38 percent and 42 percent. Quarterly and full-year tax rate estimates can be impacted by country-level results and can also vary significantly by reporting period as a result of discrete items that require immediate recognition in a particular quarter. In 2008, we intend to incorporate additional branches which will have a discrete impact in the quarter in which they are incorporated, but will lower the effective tax rate in the future.

## **Results of Operations**

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

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

The following table summarizes, for the periods indicated, the results of operations (in thousands):

	Year Ended December 31,		
	2007	2006	2005
<b>Revenue:</b>			
Revenue before reimbursements (net revenue)	\$ 619,654	\$ 478,523	\$ 412,297
Reimbursements	28,612	23,471	20,553
Total revenue	648,266	501,994	432,850
<b>Operating expenses:</b>			
Salaries and employee benefits	418,952	328,714	273,949
General and administrative expenses	121,198	99,352	94,369
Reimbursed expenses	28,612	23,471	20,553
Restructuring charges	—	408	22,493
Total operating expenses	568,762	451,945	411,364
Operating income	79,504	50,049	21,486
Net non-operating income	7,631	5,217	6,996
Income before income taxes	87,135	55,266	28,482
Provision for (benefit from) income taxes	30,672	21,023	(10,736)
Net income	<u>\$ 56,463</u>	<u>\$ 34,243</u>	<u>\$ 39,218</u>

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

	Year Ended December 31,		
	2007	2006	2005
<b>Revenue:</b>			
Revenue before reimbursements (net revenue)	100.0%	100.0%	100.0%
Reimbursements	4.6	4.9	5.0
Total revenue	104.6	104.9	105.0
<b>Operating expenses:</b>			
Salaries and employee benefits	67.6	68.7	66.4
General and administrative expenses	19.6	20.8	22.9
Reimbursed expenses	4.6	4.9	5.0
Restructuring charges	0.0	0.1	5.5
Total operating expenses	91.8	94.4	99.8
Operating income	12.8	10.5	5.2
Net non-operating income	1.2	1.1	1.7
Income before income taxes	14.1	11.5	6.9
Provision for (benefit from) income taxes	4.9	4.4	(2.6)
Net income	9.1%	7.2%	9.5%

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

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

	Year Ended December 31,		
	2007	2006	2005
<b>Revenue:</b>			
Americas	\$333,561	\$265,421	\$238,582
Europe	207,504	163,605	134,259
Asia Pacific	78,589	49,497	39,456
Revenue before reimbursements (net revenue)	619,654	478,523	412,297
Reimbursements	28,612	23,471	20,553
Total	<u>\$648,266</u>	<u>\$501,994</u>	<u>\$432,850</u>
<b>Operating income:</b>			
Americas	\$ 67,480	\$ 53,929	\$ 50,356
Europe	31,865	14,883	7,651
Asia Pacific	15,946	13,278	10,401
Total regions	115,291	82,090	68,408
Corporate	(35,787)	(31,633)	(24,429)
Operating income before restructuring charges	79,504	50,457	43,979
Restructuring charges	—	(408)	(22,493)
Total	<u>\$ 79,504</u>	<u>\$ 50,049</u>	<u>\$ 21,486</u>

### 2007 Compared to 2006

*Total revenue.* Consolidated total revenue increased \$146.3 million, or 29.1%, to \$648.3 million in 2007 from \$502.0 million in 2006. The increase in total revenue was due primarily to the increase in revenue before reimbursements (net revenue).

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*Revenue before reimbursements (net revenue).* Consolidated net revenue increased \$141.1 million, or 29.5%, to \$619.7 million in 2007 from \$478.5 million in 2006. Net revenue increased across all regions in 2007. Strong results from the Financial Services, Industrial and Health Care/Life Sciences industry groups contributed to the year over year revenue growth in 2007 as compared to 2006. In 2007, the number of confirmed executive searches increased 15% to 5,102 from 4,447 in 2006. We believe this increase reflects our success in winning business and the successful integration of former Highland Partners consultants. The positive impact of exchange rate fluctuations resulted in an increase in revenue in 2007 of approximately 5 percentage points year over year.

Net revenue in the Americas was \$333.6 million in 2007, an increase of \$68.1 million, or 25.7%, from \$265.4 million in 2006. The Health Care/Life Sciences, Professional Services and Industrial industry groups realized the largest year-over-year revenue growth in 2007. The positive impact of exchange rate fluctuations in Canada and Latin America contributed to less than one percentage point of revenue growth in 2007. Net revenue in Europe was \$207.5 million in 2007, an increase of \$43.9 million, or 26.8%, from \$163.6 million in 2006. The year-over-year revenue growth in 2007 was driven by especially strong results in the Industrial, Financial Services and Consumer industry groups. The positive impact of exchange rate fluctuations resulted in an increase in net revenue of approximately 10 percentage points in 2007. In Asia Pacific, net revenue was \$78.6 million in 2007, an increase of \$29.1 million, or 58.8%, from \$49.5 million in 2006. The positive impact of exchange rate fluctuations resulted in an increase in revenue of approximately 8 percentage points year over year. Business was strong across the region with significant revenue contribution from the Financial Services, Industrial and Consumer industry groups.

*Salaries and employee benefits.* Consolidated salaries and employee benefits expense increased \$90.2 million, or 27.5%, to \$419.0 million in 2007 from \$328.7 million in 2006. Fixed salaries and employee benefits expense increased \$44.5 million and performance-related compensation expense increased \$45.7 million. Fixed salaries and employee benefits expense includes stock-based compensation expense earned under prior year equity awards requiring satisfaction of both service and performance conditions.

During the third quarter of 2006, we revised our policy relating to the vesting of certain restricted stock units upon the eligible retirement of employees that hold such awards. This policy revision constituted a modification of those equity awards. According to the Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), we are required to recognize the original grant date fair value compensation cost over an accelerated service period (through the earliest date each equity award holder is eligible to retire) for those awards affected by the modification. During 2006, we recorded an additional \$2.7 million of non-cash compensation expense related to the accelerated vesting of these restricted stock unit awards.

Fixed salaries and employee benefits expense increased \$44.5 million or 19.9% in 2007 compared to 2006. Fixed cash-based compensation expense increased \$41.9 million in 2007 compared to 2006 primarily due to a 15.2% increase in average consultant headcount and higher year over year base salaries for existing consultants. In addition, 2007 includes an additional \$1.9 million of amortization expense related to Highland Partner retention awards, offset by \$4.4 million of additional severance related costs in 2006 associated with a realignment of management responsibilities for the new CEO's senior team and a realignment of management in Germany. Fixed stock-based compensation expense increased \$2.6 million in 2007 compared to 2006 due in part to approximately \$1.2 million of additional expense recorded in the second quarter of 2007 associated with the continued vesting of all outstanding unvested equity awards for Thomas J. Friel, who retired as chairman in May 2007. Fixed stock-based compensation expense also increased due to a higher number of restricted stock units granted to retain our largest revenue producers partially offset by increased forfeitures during 2007. Stock option expense decreased by \$0.7 million in 2007 compared to 2006 as a result of Company granting fewer options in 2007 versus prior years and the vesting of previously granted options.

Performance-related compensation expense increased \$45.7 million in 2007 compared to 2006 as a result of higher net revenue levels and increased average consultant headcount.

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Salaries and employee benefits expense as a percentage of net revenue decreased from 68.7% in 2006 to 67.6% in 2007.

Excluding a negative impact of \$12.7 million due to exchange rate fluctuations, which management believes provides a better comparison of operational performance, consolidated salaries and employee benefits expense increased approximately 23.6% compared to 2006.

*General and administrative expenses.* Consolidated general and administrative expenses increased \$21.8 million, or 22.0%, to \$121.2 million in 2007 from \$99.4 million in 2006. Fees for professional services increased \$10.4 million of which \$2.7 million relates to legal costs incurred for litigation related to our hiring of certain Whitney Group consultants in the Asia Pacific region, \$2.1 million relates to certain consulting assignments in Europe which required third party expertise and \$5.6 million of other fees for professional services. In 2007, general and administrative expenses were also higher due to an additional \$2.5 million of expense related to the worldwide consultants' meeting held in the second quarter of 2007 and \$1.5 million of expense associated with our acquisition of Highland Partners, including the amortization of intangible assets and costs related to the transitional services agreement. In the Americas, one of the remaining two principal consultants from our 2000 acquisition of the executive search company, Lynch Miller Moore O'Hara, Inc., retired from the Company triggering the review of the remaining client relationship intangible asset and resulted in an impairment charge of \$1.0 million in the third quarter of 2007. Premise-related costs increased by \$4.8 million in 2007 compared to 2006 due to new offices and new lease agreements for existing offices. Other operating and infrastructure expenses increased \$1.6 million.

General and administrative expenses as a percentage of net revenue decreased from 20.8% in 2006 to 19.6% in 2007.

Excluding a negative impact of \$4.0 million due to exchange rate fluctuations, which management believes provides a better comparison of operational performance, consolidated general and administrative expenses increased approximately 18% compared to 2006.

*Operating income.* Our consolidated operating income was \$79.5 million in 2007 compared to \$50.0 million in 2006 an increase of 58.9%. The increase in consolidated operating income was primarily due to higher net revenue and improved profitability, decreased restructuring charges and cost control, partially offset by increased operating expenses.

In the Americas, operating income increased to \$67.5 million in 2007 from \$53.9 million in 2006. The increase is the result of year over year increased net revenue of \$68.1 million offset by higher salaries and employee benefits expense of \$46.3 million, and general and administrative expenses of \$8.2 million. The increase in salaries and employee benefits expense is primarily a result of increased expenses associated with higher net revenue levels. The increase in general and administrative expenses of \$8.2 million is due to \$2.6 million in premise-related costs due to new lease agreements for existing offices, the impairment of intangible assets related to the acquisition of the executive search firm, Lynch Miller Moore O'Hara, Inc., of \$1.0 million, \$1.5 million due to increased practice and business development related spending and \$3.1 million of increased other operating and infrastructure expenses.

In Europe, operating income increased \$17.0 million in 2007, to \$31.9 million, from \$14.9 million in 2006. The increase in operating income was a result of higher net revenue of \$43.9 million offset by increases in salaries and employee benefits expense of \$23.3 million and general and administrative expenses of \$3.6 million. The increase in salaries and employee benefits expense is primarily a result of a 5.2% increase in headcount over last year offset by \$2.9 million in severance costs associated with a realignment of management in Germany in 2006. The increase in general and administrative expenses is primarily due to additional professional services fees of \$2.7 million of which \$2.1 million relates to certain consulting arrangements which required third party expertise and \$1.5 million in premise-related costs due to new offices and new lease agreements for existing offices and depreciation expense.

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In Asia Pacific, operating income was \$15.9 million in 2007, an increase of \$2.6 million, compared to \$13.3 million in 2006. The increase in operating income was a result of higher net revenue of \$29.1 million offset by an increase of \$19.7 million of salaries and employee benefits expense and \$6.8 million of general and administrative expenses. The increase in salaries and employee benefits expense was primarily a result of a 36.9% increase in headcount in 2007 compared to 2006. The increase in general and administrative expenses is primarily due to legal costs in the 2007 third and fourth quarters of \$2.7 million incurred for litigation related to our hiring of certain Whitney Group consultants in the region, \$1.7 million in premise-related costs due to new offices and new lease agreements for existing offices and \$1.3 million in additional professional services fees.

Corporate expenses increased \$4.2 million in 2007, to \$35.8 million from \$31.6 million in 2006. The increase is due to increases of \$1.0 million in salaries and employee benefits expense and \$3.2 million in general and administrative expenses. The increase in salaries and employee benefits expense is primarily due to a charge of approximately \$1.2 million associated with the continued vesting of all outstanding unvested equity awards for Thomas J. Friel, who retired as chairman in May 2007 offset by a decrease in other salaries and employee benefits expense due to severance expense recorded in 2006. The increase in general and administrative expenses is primarily due to increases of \$2.5 million related to the worldwide consultants' meeting, and \$3.2 million in fees for professional services offset by a year over year decrease in expenses associated with our acquisition of Highland Partners, including costs related to the transitional service agreement.

In 2007, there were no restructuring charges taken. In 2006, we revised our estimates related to previous restructuring initiatives and recorded an additional charge of \$0.4 million related to property reserves. Cash outlays in 2007 related to restructuring charges accrued at December 31, 2006 were \$3.3 million. The remaining accrued restructuring charges of \$9.5 million at December 31, 2007 related entirely to real estate are expected to be paid over the remaining lease terms of vacated properties.

*Net non-operating income.* Primarily due to higher cash balances and higher returns on invested cash, net non-operating income increased \$2.4 million in 2007 to \$7.6 million compared to \$5.2 million in 2006.

Net interest income in 2007 increased \$1.8 million to \$8.1 million primarily due to higher cash balances and higher returns on invested cash.

Net other non-operating expense was \$0.3 million in 2007, compared to net other non-operating expense of \$1.6 million in 2006. In the third quarter of 2007, we became aware of certain revaluation amounts included in various balance sheet accounts, primarily in the Asia Pacific region, that were not properly stated in prior years. As a result of adjusting these revaluation amounts, we recorded an exchange loss of \$0.8 million in the third quarter of 2007. Other non-operating income (expense) consists primarily of exchange gains and losses on intercompany balances which are denominated in currencies other than the functional currency and are not considered permanent in nature.

*Income taxes.* In 2007, we reported income before taxes of \$87.1 million and recorded an income tax provision of \$30.7 million. The effective tax rate for 2007 was 35.2%. This rate reflects a benefit of \$7.3 million associated with the reversal of valuation allowance on foreign tax credits.

In 2006, we reported income before taxes of \$55.3 million and recorded an income tax provision of \$21.0 million. The effective tax rate for 2006 was 38.0%. This rate reflects a net benefit of \$1.6 million from the correction of prior year misstatements associated with refund opportunities for past taxes paid in the U.S. taxing jurisdiction.

### **2006 Compared to 2005**

*Total revenue.* Consolidated total revenue increased \$69.1 million, or 16.0%, to \$502.0 million in 2006 from \$432.9 million in 2005. The increase in total revenue was due primarily to the increase in revenue before reimbursements (net revenue).

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*Revenue before reimbursements (net revenue).* Consolidated net revenue increased \$66.2 million, or 16.1%, to \$478.5 million in 2006 from \$412.3 million in 2005. Net revenue in 2006 includes \$13.7 million associated with former Highland Partners' consultants since the acquisition on October 2, 2006. Net revenue increased across all regions in 2006. The Financial Services, Consumer, and Industrial industry groups contributed to the increase in net revenue in 2006 as compared to 2005. In 2006, the number of confirmed executive searches increased 9.1% to 4,447 from 4,077 in 2005 as a result of the impact of moderate economic improvement in the global economy, our success in winning business and our acquisition of Highland Partners. The positive impact of exchange rate fluctuations resulted in an increase in revenue in 2006 of less than one percentage point year over year.

Net revenue in the Americas was \$265.4 million in 2006, an increase of \$26.8 million, or 11.2%, from \$238.6 million in 2005. Net revenue in 2006 includes \$10.9 million associated with former Highland Partners' consultants since the acquisition date of October 2, 2006. The Financial Services, Consumer and Industrial industry groups were the largest contributors to revenue in 2006. The positive impact of exchange rate fluctuations in Canada and Latin America contributed to less than one percentage point of revenue growth in 2006. Net revenue in Europe was \$163.6 million in 2006, an increase of \$29.3 million, or 21.9%, from \$134.3 million in 2005. Net revenue in 2006 includes \$2.3 million associated with former Highland Partners' consultants since October 2, 2006. The increase in net revenue over 2005 was driven by strong results in the Financial Services, Consumer, Health Care/Life Sciences and Industrial industry groups. The positive impact of exchange rate fluctuations resulted in an increase in net revenue of 1.5 percentage points in 2006. In Asia Pacific, net revenue was \$49.5 million in 2006, an increase of \$10.0 million, or 25.4%, from \$39.5 million in 2005. Net revenue in 2006 includes \$0.5 million associated with former Highland Partners' consultants since the acquisition on October 2, 2006. The negative impact of exchange rate fluctuations resulted in a decrease in revenue of less than one percentage point year over year. Most industry groups experienced significant net revenue growth in 2006 as compared to the prior year.

*Salaries and employee benefits.* Consolidated salaries and employee benefits expense increased \$54.8 million, or 20.0%, to \$328.7 million in 2006 from \$273.9 million in 2005. Fixed salaries and employee benefits increased \$40.7 million and performance-related compensation expense increased \$14.1 million. Fixed salaries and employee benefits expense includes stock-based compensation expense earned under prior year equity awards requiring satisfaction of both service and performance conditions.

During the third quarter of 2006, we revised our policy relating to the vesting of certain restricted stock units upon the eligible retirement of employees that hold such awards. This policy revision constituted a modification of those equity awards. According to the Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), we are required to recognize the original grant date fair value compensation cost over an accelerated service period (through the earliest date each equity award holder is eligible to retire) for those awards affected by the modification. During 2006, we recorded an additional \$2.7 million of non-cash compensation expense related to the accelerated vesting of these restricted stock unit awards.

Fixed salaries and employee benefits expense increased \$40.7 million in 2006 compared to 2005, of which \$6.7 million is associated with former Highland Partners' consultants. The remaining increase was primarily attributable to a 10% increase in headcount year over year, a \$8.0 million increase in stock-based compensation expense and \$5.3 million of severance costs associated with a realignment of management responsibilities for the new CEO's senior team and a realignment of management in Germany. Of the increase in stock-based compensation, \$5.3 million relates to an increase in the number of restricted stock units and more accelerated vesting of the units as compared to the prior year, and \$2.7 million relates to stock option expense now recorded in earnings under a new accounting standard.

Performance-related compensation expense increased \$14.1 million, of which \$4.9 million is associated with former Highland Partners' consultants. The remaining increase is primarily the result of the increase in the number of consultants added during 2006 and increased net revenue. The accelerated vesting of certain restricted



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stock unit awards in 2006 increased performance-based compensation expense by \$1.3 million. Also, in 2006, the amount of certain consultant and management bonuses paid in the form of restricted stock units increased from an average of 10% to 15%. Compensation expense related to restricted stock units is recognized over a longer period (the service period of the equity award) as compared to cash compensation which is expensed entirely in the period in which the related services are performed. Therefore, as a result of increasing the amount of bonuses paid in the form of restricted stock units, compensation expense decreased \$3.3 million in 2006 as compared to 2005.

The negative impact of exchange rates on consolidated salaries and employee benefits expense was less than one percentage point year over year.

*General and administrative expenses.* Consolidated general and administrative expenses increased \$5.0 million, or 5.3%, to \$99.4 million in 2006 from \$94.4 million in 2005. Of this increase, \$3.0 million is associated with former Highland Partners' consultants. The remaining increase of \$2.0 million is related to operating expenses associated with higher net revenue levels and higher discretionary spending including \$0.9 million in travel costs, \$0.8 million related to marketing and business development activities and \$1.3 million in fees for professional services, partially offset by lower depreciation and premise-related costs of \$0.5 million. Also, 2005 included a \$0.5 million favorable settlement of an insurance claim.

*Operating income.* Our consolidated operating income was \$50.0 million in 2006 compared to \$21.5 million in 2005. The increase in the consolidated operating income was primarily due to improved net revenue and profitability in the geographic regions and decreased restructuring charges, partially offset by increased operating expenses.

In the Americas, operating income increased to \$53.9 million in 2006 from \$50.4 million in 2005. Of this \$3.5 million increase in operating income, \$1.7 million is associated with former Highland Partners' consultants. The remaining increase in operating income of \$1.8 million is the result of year over year increased net revenue of \$15.9 million offset by higher salaries and employee benefits expense of \$16.3 million, and lower general and administrative expenses of \$2.2 million. The increase in salaries and employee benefits expense is primarily as a result of a 27.2% increase in headcount over last year and \$1.9 million related to the accelerated vesting of certain restricted stock unit awards. The decrease in general and administrative expenses of \$2.2 million is a result of lower discretionary spending of \$1.0 million, premise-related costs of \$0.8 million and bad debt expense of \$0.4 million.

In Europe, operating income increased \$7.2 million in 2006, to \$14.9 million, from \$7.7 million in 2005. Although the former Highland Partners consultants added \$2.3 million of net revenue in 2006, the impact on operating income was negligible. Excluding the results associated with former Highland Partners' consultants, the increase in net revenue of \$27.0 million was offset by increases in salaries and employee benefits expense of \$18.1 million and general and administrative expenses of \$1.7 million. The increase in salaries and employee benefits expense is primarily a result of a 7.8% increase in headcount over last year and \$2.9 million in severance costs associated with a realignment of management in Germany.

In Asia Pacific, operating income was \$13.3 million, an increase of \$2.9 million, compared to \$10.4 million in 2005. The increase in net revenue of \$10.0 million was offset by an increase of \$5.7 million of salaries and employee benefits expense and \$1.3 million of general and administrative expenses.

Corporate expenses increased \$7.2 million in 2006, to \$31.6 million from \$24.4 million in 2005. Of this increase, \$2.4 million relates to costs associated with former Highland Partners' consultants, the majority of which relate to integration costs and fees incurred under a transitional service agreement with the former owner. The remaining increase of \$4.8 million was primarily the result of increased fixed salaries and employee benefits expense of \$2.0 million due to increased headcount and increased stock-based compensation expense related to restricted stock unit awards. Also included in 2006 is \$1.1 million of severance, \$0.8 million of stock option expense now recorded in earnings under a new accounting standard and \$0.5 million related to the accelerated

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vesting of certain restricted stock unit awards. In addition, general and administrative expenses increased \$0.4 million year over year.

Restructuring charges were \$0.4 million and \$22.5 million in 2006 and 2005, respectively. During 2005, we began initiatives to improve operating performance and increase operating margin. These initiatives focused primarily on Europe and included charges of \$14.1 million for severance and other employee-related costs related to reductions in workforce and \$8.4 million related to the consolidation of office space. The workforce reduction affected 57 employees, primarily in Europe, and included 15 executive search consultants. Included in the office-related charge of \$8.4 million is the reversal of \$1.0 million of restructuring accruals, which originated in a prior year, related to a renegotiated lease for one of our search offices.

*Net non-operating income.* Net non-operating income was \$5.2 million in 2006, compared to \$7.0 million in 2005.

Net interest income in 2006 increased \$0.7 million to \$6.3 million primarily due to higher cash balances and higher investment returns on the invested cash.

During 2006, we recognized \$0.6 million of realized gains and \$0.1 million of unrealized losses, net of the consultants' share of the gains (losses) and other costs, related to our equity and warrant portfolio. During 2005, we recognized \$1.0 million of realized gains and \$1.0 million of unrealized losses, net of the consultants' share of the gains (losses) and other costs, related to our equity and warrant portfolio.

Net other non-operating expense was \$1.6 million in 2006, compared to net other non-operating income of \$1.4 million in 2005. Other non-operating income (expense) consists primarily of exchange gains and losses on intercompany balances which are denominated in currencies other than the functional currency and are not considered permanent in nature.

*Income taxes.* In 2006, we reported income before taxes of \$55.3 million and recorded an income tax provision of \$21.0 million. The effective tax rate for 2006 was 38.0%. This rate reflects a net benefit of \$1.6 million from the correction of prior year misstatements associated with refund opportunities for past taxes paid in the U.S. taxing jurisdiction.

In 2005, we reported income before taxes of \$28.5 million and recorded an income tax benefit of \$10.7 million. An income tax benefit was recorded despite recording income before taxes because the valuation allowance was reduced throughout the year as tax deductions related to deferred tax assets were used to reduce current taxable income, significantly reducing the federal and state income tax provision. Also, the total annual effective tax benefit rate was substantially impacted by additional discrete reversals of portions of the tax valuation allowance established in 2003 against net deferred tax assets. In recent years, we began generating pre-tax book income on a consistent basis and expect to continue to do so. Under SFAS No.109, "Accounting for Income Taxes," a company must continually evaluate the need for a valuation allowance and reduce the allowance when it is more likely than not that some or all of the associated benefits of the deferred tax assets will be utilized. In 2005, we concluded it was more likely than not that a majority of our U.S. deferred tax assets would be recoverable and, as a result, reversed \$24.6 million of the valuation allowance on our U.S. deferred tax assets.

### **Liquidity and Capital Resources**

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

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Prior to 2006, we paid a portion of our bonuses in December and the remainder in March. As part of our normal bonus program, for the 2006 bonus year and going forward, we paid and expect to pay all 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.

We do not have material off-balance sheet arrangements, special purpose entities, trading activities of non-exchange traded contracts or transactions with related parties. In the ordinary course of business, we have at times performed executive search services for certain related parties that are considered immaterial in nature and amount and have been consummated on terms equivalent to those that prevail in arms-length transactions.

*Lines of credit.* During 2006, we had a \$60.0 million committed unsecured revolving credit facility (the “Old Facility”). Under the Old Facility, we could borrow U.S. dollars, euros, sterling and other major traded currencies, as agreed by the banks. Borrowings under the Old Facility bore interest at the existing Alternate Base Rate or LIBOR plus a margin as determined by our compliance with certain tests of financial condition. The Old Facility set limits on our ability to make acquisitions without bank approval and to incur additional debt outside of the Old Facility. We paid a facility fee whether or not the Old Facility was used during the year.

In October 2006, we terminated the Old Facility and replaced it with a new \$100 million committed unsecured revolving facility (the “New Facility”). Under the New Facility, we may borrow U.S. dollars, euros, or other major traded currencies as agreed by the banks. Borrowings under the New Facility bear interest at the existing Alternate Base Rate or LIBOR plus a spread as determined by our leverage ratio. The New Facility has more favorable terms, including increased flexibility with regard to potential acquisitions, and lower costs than the Old Facility that we terminated. A facility fee is charged even if no portion of the New Facility is used. The New Facility expires in October 2011.

There were no borrowings outstanding under the lines of credit existing at December 31, 2007 or 2006, nor were there any borrowings during the years ended December 31, 2007 and 2006, respectively, under the then existing lines of credit. During 2006 and 2007, we were in compliance with the financial covenants of the revolving credit facility in effect during those respective years and no event of default existed.

*Cash, cash equivalents and short-term investments.* Cash, cash equivalents and short-term investments at December 31, 2007 were \$282.9 million, an increase of \$62.1 million, compared to \$220.8 million at December 31, 2006. In 2006, we paid \$36.0 million, including \$1.2 million in capitalized acquisition costs, to acquire substantially all of the assets of Highland Partners. We expect to pay approximately \$150 million in bonuses in early 2008. In December 2006, we entered into a bank guarantee in the amount of \$7.9 million with regard to a tax assessment in a European country and increased the amount to \$8.3 million during 2007 due to foreign currency fluctuations. These amounts have been classified as restricted cash on the Consolidated Balance Sheets as of December 31, 2007 and 2006 and reduce the cash balances reported at December 31, 2007 and 2006. Refer to Note 4, *Restricted Cash* in the Notes to Consolidated Financial Statements.

*Cash from operating activities.* In 2007, cash provided by operating activities was \$105.8 million, principally reflecting our increase in net income plus an increase in bonus related accruals and other non-cash charges, less the payment of cash bonuses of approximately \$98 million in March 2007.

In 2006, cash provided by operating activities was \$99.8 million, principally reflecting our net income plus an increase in bonus related accruals and other non-cash charges partially offset by an increase in trade receivables related to higher 2006 revenues. In 2006, to better assess full year Company performance before paying bonuses, we consolidated our two bonus payments made to consultants into one payment to be paid in the first quarter following the year in which the bonus was earned. In prior years, part of the annual bonus was paid to consultants in December.

In 2005, cash provided by operating activities was \$33.4 million, primarily as a result of our net income adjusted for non-cash charges, offset by payments related to the restructuring charges.

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*Cash from investing activities.* Cash provided by investing activities was \$40.2 million in 2007, primarily as a result of net proceeds from sales and purchases of short-term investments of \$51.1 million offset by capital expenditures of \$8.0 million, \$1.3 million paid in connection with the acquisition of RentonJames and a \$1.8 million increase in restricted cash.

Cash used in investing activities was \$122.2 million in 2006, primarily as a result of net purchases and sales of short-term investments of \$73.4 million, \$36.0 million paid in connection with the acquisition of Highland Partners and a \$7.9 million increase in restricted cash.

Cash provided by investing activities was \$102.0 million in 2005 primarily as a result of the net proceeds from the sales and purchases of short-term investments partially offset by payments to consultants related to sales of equity securities. During the second quarter of 2005, we paid \$17.6 million of deferred compensation to Thomas J. Friel, representing his share of the net proceeds from the September 2004 monetization of our Google warrants. At the date of the payment, Mr. Friel was Chief Executive Officer of the Company. Mr. Friel's share of the net proceeds is related to his work as an executive search consultant in 2001, prior to the time he was appointed our Chief Executive Officer.

Capital expenditures were \$8.0 million, \$5.5 million, and \$6.1 million in 2007, 2006 and 2005, respectively. Capital expenditures were primarily for computer equipment, software, and leasehold improvements. We anticipate that our capital expenditures for 2008 will be approximately \$22 million to \$27 million for our new search system and the consolidation and relocation of our New York offices, as well as ongoing capital expenditures.

*Cash from financing activities.* Cash used in financing activities in 2007 was \$42.8 million primarily as a result of the repurchase of \$67.8 million of our common stock offset by \$19.4 million of proceeds from stock options exercised during the year and \$8.0 million of tax benefits associated with the exercise or vesting of equity awards.

In September 2007, our Board of Directors approved the initiation of a quarterly cash dividend payment in the amount of \$0.13 per share. On an annual basis, the cash dividend is expected to be \$0.52 per share. On November 16, 2007, \$2.3 million was paid to share holders of record as of November 2, 2007. A cash dividend payable of \$2.3 million has been reported as an other accrued liability on the Consolidated Balance Sheet as of December 31, 2007 related to the first quarter 2008 quarterly cash dividend payment.

Cash used in financing activities in 2006 was \$37.4 million primarily as a result of the repurchase of \$51.7 million of our common stock offset by proceeds from stock options exercised during the year. Cash flows for 2006 also includes \$4.2 million of tax benefits associated with the exercise or vesting of equity awards.

Cash used in financing activities in 2005 was \$27.6 million as a result of the repurchase of our common stock partially offset by proceeds from stock options exercised during the year. Cash from financing activities was \$5.5 million in 2004, primarily the result of proceeds from the exercise of stock options offset by repurchases of our common stock.

On October 22, 2004, our Board of Directors authorized management to repurchase shares of our common stock with an aggregate purchase price up to \$30 million. We purchased 1,115,375 shares of our common stock for \$30.0 million under the October 2004 authorization which was completed during the second quarter of 2005.

On September 16, 2005, our Board of Directors authorized the Company to repurchase shares of our common stock with an aggregate total amount up to \$50 million. We purchased 1,476,809 shares of our common stock for \$50 million under the September 2005 authorization, which was completed during the second quarter of 2006.

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

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On May 24, 2007, our Board of Directors authorized management to repurchase shares of our common stock with an aggregate total amount up to \$50 million. We intend from time to time and as business conditions warrant, to purchase shares of our common stock on the open market or in negotiated or block trades. No time limit has been set for completion of this program. A portion of the repurchased shares is intended to offset dilution associated with the Company's employee equity programs. As of December 31, 2007, we had repurchased 808,931 shares of our common stock for \$30.7 million under the May 2007 authorization and \$19.3 million remained under this authorization.

*Subsequent development.* On February 8, 2008, our Board of Directors, at its regularly scheduled meeting, authorized management to repurchase shares of our common stock with an aggregate total amount up to \$50 million. We intend from time to time and as business conditions warrant to purchase share of our common stock on the open market or in negotiated or block trades. No time limit has been set for completion of the program.

*Contractual obligations.* The following table presents our known contractual obligations as of December 31, 2007 and the expected timing of cash payments related to these contractual obligations (in millions):

<u>Contractual obligations:</u>	<u>Payments due for the years ended December 31,</u>				
	<u>Total</u>	<u>2008</u>	<u>2009 and 2010</u>	<u>2011 and 2012</u>	<u>Thereafter</u>
Office space and equipment lease obligations (1)	\$206.1	\$33.4	\$60.1	\$27.6	\$ 85.0
Asset retirement obligations (2)	1.5	0.3	1.2	—	—
<b>Total</b>	<b>\$207.6</b>	<b>\$33.7</b>	<b>\$61.3</b>	<b>\$27.6</b>	<b>\$ 85.0</b>

(1) See Note 20, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements for additional information.

(2) Represents the fair value of the obligation associated with the retirement of tangible long-lived assets, primarily related to our obligation at the end of the lease term to return office space to the landlord in its original condition. The obligation is recorded in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations."

In addition to the contractual obligations included in the above table, we have liabilities related to certain employee benefit plans. These liabilities are recorded in our Consolidated Balance Sheet at December 31, 2007. The obligations related to these employee benefit plans are described in Note 11, *Employee Benefit Plans*, and Note 12, *Pension Plan and Life Insurance Contract*. As the timing of cash disbursements related to these employee benefit plans is uncertain, we have not included these obligations in the above table. The table excludes our liability for uncertain tax positions including accrued interest and penalties, which totaled \$6.9 million as of January 1, 2007 and \$7.0 million as of December 31, 2007, since we cannot predict with reasonable reliability the timing of cash settlements to the respective taxing authorities.

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

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

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An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. Management believes the following critical accounting policies reflect its more significant estimates and assumptions used in the preparation of the Consolidated Financial Statements:

*Revenue recognition.* Revenue before reimbursements for out-of-pocket expenses (“net revenue”) is recognized when earned and realizable and therefore when the following criteria have been met: (a) persuasive evidence of an arrangement exists; (b) services have been rendered; (c) the fee to our client is fixed or determinable; and (d) collectibility is reasonably assured. Net revenue consists of retainers and indirect expenses billed to clients. Typically, we are paid a retainer for our executive search services equal to approximately one-third of the estimated first year compensation of the position to be filled. If actual compensation of the placed candidate exceeds the estimated compensation, we are generally authorized to bill the client for one-third of the excess. Net revenue from executive search engagements is recognized over the expected average period of performance, in proportion to the estimated personnel time incurred to fulfill our obligations under the arrangements. Net revenue in excess of the retainer, resulting from actual compensation of the placed candidate exceeding estimated compensation, is recognized upon completion of the executive search when the amount of the additional fee is known. Our assumptions about the duration of the time and extent of efforts for search teams to complete our services in an executive search engagement require significant judgment as these variables have fluctuated in the past and are expected to continue to do so. These assumptions are updated annually or whenever conditions exist to indicate that more frequent updates are necessary.

*Accruals related to the consolidation and closing of offices recorded as part of our restructuring charges.* In 2001, we began the restructuring of our business to better align costs with expected net revenue levels. These initiatives included the consolidation and closing of offices where we had long-term leases. At the time of the office closings and consolidations, we accrued the estimated costs associated with these actions. For initiatives which were announced prior to January 1, 2003, the accruals were established in accordance with EITF Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” For cost reduction initiatives announced after December 31, 2002, the accruals were established in accordance with SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities.”

Inherent in these accruals are estimates concerning vacancy periods, expected sublease income, and costs to terminate the leases. These accruals are periodically updated to reflect information concerning the commercial real estate markets in which the offices are located. During 2005, we recorded restructuring charges of \$22.5 million, which include \$14.1 million for severance and other employee-related costs related to reductions in workforce and \$8.4 million related to the consolidation of office space. Included in the office related charge of \$8.4 million is the reversal of \$1.0 million of restructuring accruals, which originated in a prior year, related to a renegotiated lease for one of our search offices. During 2006, we revised estimates of previously announced restructuring initiatives and recorded restructuring charges of \$0.4 million, primarily related to the final determination of certain severance accruals and the refinement of cost estimates concerning certain sublet properties. During 2007, there were no restructuring charges taken. We believe that the accounting estimate related to accruals for the consolidation and closing of offices is a critical accounting estimate because it is highly susceptible to changes in the commercial real estate markets and the local regional economic factors where this leased office space is located.

*Income taxes.* Determining the consolidated provision for income tax expense, income tax liabilities and deferred tax assets and liabilities involves judgment. As a global company, we calculate and provide for income taxes in each of the tax jurisdictions in which we operate. This involves estimating current tax exposures in each jurisdiction as well as making judgments regarding the recoverability of deferred tax assets. Tax exposures can involve complex issues and may require an extended period to resolve. Changes in the geographic mix or estimated level of annual income before taxes can affect the overall effective tax rate.

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We apply an estimated annual effective tax rate to our quarterly operating results to determine the provision for income tax expense. In the event there is a significant unusual or infrequent item recognized in our quarterly operating results, the tax attributable to that item is recorded in the interim period in which it occurs. Our effective tax rate for the year ended December 31, 2007 was 35.2%.

No deferred tax liabilities have been recorded for U.S. income taxes and foreign withholding taxes related to undistributed foreign earnings that are planned to be indefinitely reinvested. If future events, including material changes in estimates of cash, working capital and long-term investment requirements, necessitate that these earnings be distributed, an additional provision for taxes may apply, which could materially affect our future effective tax rate.

As a matter of course, we are regularly audited by various taxing authorities, and sometimes these audits result in proposed assessments where the ultimate resolution may result in our owing additional taxes. We establish reserves in accordance with FIN 48 on uncertain tax return positions that do not meet the more likely than not recognition criteria. We evaluate these reserves each quarter and adjust the reserves and the related accrued interest in light of changing facts and circumstances regarding the uncertainty of realizing tax benefits, such as the ultimate settlement of tax audits or the expiration of a statute of limitations. We believe the estimates and assumptions used to support our evaluation of tax benefit realization are reasonable. However, final determinations of prior-year tax liabilities, either by settlement with tax authorities or expiration of statutes of limitations, could be materially different than estimates reflected in assets and liabilities and historical income tax provisions. The outcome of these final determinations could have a material effect on our income tax provision, net income, or cash flows in the period in which that determination is made. We believe our tax positions comply with applicable tax law and that we have adequately provided for any known tax reserves in accordance with FIN 48.

*Goodwill and other intangible assets.* We review goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." The goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, goodwill of the reporting unit would be considered impaired. To measure the amount of the impairment loss, the implied fair value of a reporting unit's goodwill is compared to the carrying amount of that goodwill. If the carrying amount of a reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. The implied fair value of goodwill shall be determined in the same manner as the amount of goodwill recognized in a business combination is determined. The fair value of each of our reporting units was determined using a combination of valuation techniques, including a discounted cash flow methodology and comparable public company methodology, with the assistance of an independent valuation firm.

The discounted cash flow approach is dependent on a number of factors including estimates of future market growth and trends, forecasted revenue and costs, capital investments, appropriate discount rates, certain assumptions to allocate shared assets and liabilities, and other variables to calculate the carrying values for each of our reporting units. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. These assumptions are updated annually, at a minimum, to reflect information concerning our reportable segments.

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

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We believe that the accounting estimate related to goodwill and other intangible asset impairment is a critical accounting estimate because the assumptions used are highly susceptible to changes in the operating results and cash flows of our reportable segments.

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

The allowance for doubtful accounts is recorded as a reduction in revenue to the extent the provision relates to fee adjustments and other discretionary pricing adjustments. To the extent the provision relates to a customer's inability to make required payments on accounts receivables, the provision is recorded within operating expenses.

*Stock-based compensation.* We account for our stock-based compensation in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), which requires us to measure the fair value of the share-based payment on the date of grant. We apply a forfeiture rate to our share-based awards that represents our best estimate of the amount of awards that will be forfeited. Our estimate is based on our historical experience and specific analysis. We review our forfeiture rate quarterly or whenever events or changes in circumstances indicate our estimate may need to be revised. Actual forfeitures could differ from our estimates due to changes in retention rates of our employee population.

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

In June 2006, the FASB issued Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes,"—an interpretation of FASB Statement No. 109, "Accounting for Income Taxes" ("FIN 48"). FIN 48 establishes a single model to address accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted FIN 48 on January 1, 2007 resulting in an increase to our existing reserves for uncertain tax positions by \$0.2 million, largely related to an increase in non-U.S. income tax matters. This increase was recorded as a cumulative effect adjustment to retained earnings. For additional information, see Note 17, *Income Taxes*.

In June 2006, the FASB ratified the Emerging Issues Task Force ("EITF") consensus on EITF Issue No. 06-3, "How Taxes Collected From Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That Is, Gross versus Net Presentation)" ("EITF 06-3"). The scope of EITF 06-3 includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer, and allows for the adoption of an accounting policy of presenting taxes either on a gross basis within revenue or on a net basis. We collect various value added taxes on executive search and leadership consulting services, which have been and continue to be accounted for on a net basis. We adopted EITF 06-3 on January 1, 2007, the required effective date. The adoption of EITF 06-3 did not have an effect on our financial condition or results of operations.



## Recently Issued Financial Accounting Standards

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) 157-1, “Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13” (“FSP 157-1”) and FSP 157-2, “Effective Date of FASB Statement No. 157” (“FSP 157-2”). FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of fiscal year 2009. The measurement and disclosure requirements related to financial assets and financial liabilities are effective for us as of January 1, 2008. The adoption of SFAS No. 157 for financial assets and financial liabilities is not expected to have a significant impact on our financial condition and results of operations. However, the resulting fair values calculated under SFAS No. 157 after adoption may be different from the fair values that would have been calculated under previous guidance. We are currently evaluating the impact that SFAS No. 157 will have on our financial condition and results of operations when it is applied to non-financial assets and non-financial liabilities beginning January 1, 2009.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of SFAS No. 115” (“SFAS No. 159”), to permit entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. SFAS No. 159 is effective for us as of January 1, 2008. We do not believe the adoption of SFAS No. 159 will have a material impact on our financial condition and results of operations.

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

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an Amendment of ARB No. 51” (“SFAS No. 160”). SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 160 is effective for us on a prospective basis for business combinations with an acquisition date beginning as of January 1, 2009. We are currently evaluating the impact of SFAS No. 160 will have on our financial condition and results of operations.

[Table of Contents](#)**Quarterly Financial Information**

The following table sets forth certain financial information for each quarter of 2007 and 2006. The information is derived from our quarterly consolidated financial statements which are unaudited but which, in the opinion of management, have been prepared on the same basis as the audited annual consolidated financial statements included in this document. The consolidated financial data shown below should be read in conjunction with the consolidated financial statements and notes thereto. The operating results for any quarter are not necessarily indicative of results for any future period.

	Quarter Ended							
	2007				2006			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Revenue before reimbursements (net revenue)	\$ 143,126	\$ 160,053	\$ 162,901	\$ 153,574	\$ 101,481	\$ 120,173	\$ 124,636	\$ 132,233
Operating income before restructuring charges	16,327	19,512	25,457	18,208	8,609	15,897	17,414	8,537
Restructuring charges	—	—	—	—	176	379	(149)	2
Operating income	16,327	19,512	25,457	18,208	8,433	15,518	17,563	8,535
Income before income taxes	18,339	21,515	26,608	20,673	10,626	16,222	19,193	9,225
Provision for income taxes	8,263	496	10,476	11,437	4,700	5,832	8,042	2,449
Net income	10,076	21,019	16,132	9,236	5,926	10,390	11,151	6,776
Basic earnings per common share	0.56	1.17	0.90	0.53	0.32	0.58	0.64	0.38
Diluted earnings per common share	0.53	1.11	0.84	0.49	0.30	0.55	0.60	0.36

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

*Currency market risk.* With our operations primarily in the Americas, Europe and Asia Pacific we conduct business using various currencies. Revenue earned in each country is generally matched with the associated expenses incurred, thereby reducing currency risk to earnings. However, because certain assets and liabilities are denominated in currencies other than the U.S. dollar, changes in currency rates may cause fluctuations in the valuation of such assets and liabilities. As the local currency of our subsidiaries has generally been designated as the functional currency, we are affected by the translation of foreign currency financial statements into U.S. dollars. Outside of the Americas, Europe is our largest region in terms of net revenue. A 1% change in the average exchange rate of the British pound and the euro would have increased or decreased our 2007 net income approximately \$0.3 million. For financial information by geographic segment, see Note 18, *Segment Information*, in the Notes to Consolidated Financial Statements.

*Derivative instruments.* We receive warrants for equity securities in our client companies, in addition to our cash fee, for services rendered on some searches. Some of the warrants meet the definition of a derivative instrument under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its subsequent amendments. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. These derivative instruments are initially recorded at their fair value using a Black-Scholes model, in the Consolidated Balance Sheets, with a corresponding amount recorded as net revenue in the Consolidated Statements of Operations. Bonus expense related to this net revenue is also recorded. Subsequent changes in the fair value of these derivative instruments are recorded in the Consolidated Statements of Operations as unrealized gains (losses), net of the consultants' share of the gains (losses). Upon a value event such as an initial public offering or an acquisition, the warrants are monetized, resulting in a realized gain, net of the consultants' share of the gain and other costs. In 2007, 2006 and 2005, we recorded realized gains, net of the consultants' share of the gain and other costs, of \$0.1 million, \$0.6 million, \$1.0 million, respectively, related to the equity and warrant portfolio.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Heidrick & Struggles International, Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2007. We also have audited the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heidrick & Struggles International, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 12 to the consolidated financial statements, the Company changed its method of accounting for pension and postretirement benefits effective December 31, 2006.

As discussed in Note 13 to the consolidated financial statements, the Company changed its method of accounting for share-based compensation effective January 1, 2006.

As discussed in Note 17 to the consolidated financial statements, the Company changed its method of accounting for uncertain income tax positions effective January 1, 2007.

/s/ KPMG LLP

Chicago, Illinois  
February 28, 2008

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

	December 31,	
	2007	2006
<b>Current assets:</b>		
Cash and cash equivalents	\$260,580	\$147,440
Short-term investments	22,275	73,375
Accounts receivable, net	82,240	80,677
Other receivables	5,868	6,868
Prepaid expenses	15,026	9,753
Other current assets	1,419	1,284
Income taxes recoverable, net	—	621
Deferred income taxes, net	15,290	14,944
Total current assets	<u>402,698</u>	<u>334,962</u>
<b>Property and equipment:</b>		
Leasehold improvements	28,913	24,461
Office furniture, fixtures and equipment	24,296	22,317
Computer equipment and software	59,612	55,960
Property and equipment, gross	112,821	102,738
Accumulated depreciation and amortization	(94,091)	(84,090)
Property and equipment, net	<u>18,730</u>	<u>18,648</u>
<b>Other non-current assets:</b>		
Restricted cash	9,826	7,900
Assets designated for retirement and pension plans	26,067	23,635
Investments	7,832	3,470
Other non-current assets	6,296	6,220
Goodwill	84,217	75,961
Other intangible assets, net	15,363	17,884
Deferred income taxes, net	45,855	24,629
Total other non-current assets	<u>195,456</u>	<u>159,699</u>
<b>Total assets</b>	<u><u>\$616,884</u></u>	<u><u>\$513,309</u></u>

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

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

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Current liabilities:</b>		
Accounts payable	\$ 8,699	\$ 7,217
Accrued salaries and employee benefits	197,954	153,900
Other current liabilities	43,238	34,637
Current portion of accrued restructuring charges	2,813	3,328
Income taxes payable, net	995	—
Total current liabilities	<u>253,699</u>	<u>199,082</u>
<b>Non-current liabilities:</b>		
Retirement and pension plans	28,831	26,587
Non-current portion of accrued restructuring charges	6,735	9,386
Other non-current liabilities	17,819	14,549
Total non-current liabilities	<u>53,385</u>	<u>50,522</u>
<b>Total liabilities</b>	<u>307,084</u>	<u>249,604</u>
<b>Commitments and contingencies (Note 20)</b>	—	—
<b>Stockholders' equity:</b>		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, no shares issued at December 31, 2007 and 2006	—	—
Common stock, \$.01 par value, 100,000,000 shares authorized, 19,585,777 shares issued, 17,272,005 and 17,744,361 shares outstanding at December 31, 2007 and 2006, respectively	196	196
Treasury stock at cost, 2,313,772 and 1,841,416 shares at December 31, 2007 and 2006, respectively	(88,871)	(59,295)
Additional paid in capital	273,287	261,179
Retained earnings	100,624	48,874
Accumulated other comprehensive income	24,564	12,751
Total stockholders' equity	<u>309,800</u>	<u>263,705</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$616,884</u>	<u>\$513,309</u>

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

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

	Year Ended December 31,		
	2007	2006	2005
<b>Revenue:</b>			
Revenue before reimbursements (net revenue)	\$619,654	\$478,523	\$412,297
Reimbursements	28,612	23,471	20,553
Total revenue	648,266	501,994	432,850
<b>Operating expenses:</b>			
Salaries and employee benefits	418,952	328,714	273,949
General and administrative expenses	121,198	99,352	94,369
Reimbursed expenses	28,612	23,471	20,553
Restructuring charges	—	408	22,493
Total operating expenses	568,762	451,945	411,364
<b>Operating income</b>	79,504	50,049	21,486
<b>Non-operating income (expense):</b>			
Interest income	8,099	6,318	5,951
Interest expense	(64)	(61)	(379)
Net realized and unrealized gains (losses) on equity and warrant portfolio, net of the consultants' share of the gains (losses)	(116)	510	(19)
Other, net	(288)	(1,550)	1,443
Net non-operating income	7,631	5,217	6,996
<b>Income before income taxes</b>	87,135	55,266	28,482
Provision for (benefit from) income taxes	30,672	21,023	(10,736)
<b>Net income</b>	<u>\$ 56,463</u>	<u>\$ 34,243</u>	<u>\$ 39,218</u>
Basic weighted average common shares outstanding	17,854	17,925	18,898
Diluted weighted average common shares outstanding	18,984	18,916	19,761
Basic earnings per common share	\$ 3.16	\$ 1.91	\$ 2.08
Diluted earnings per common share	\$ 2.97	\$ 1.81	\$ 1.98
Cash dividends paid per share	\$ 0.13	\$ —	\$ —

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



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

	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Deferred Stock-Based Compensation	Total
	Shares	Amount	Shares	Amount					
<b>Balance at December 31, 2004</b>	<b>19,586</b>	<b>\$ 196</b>	<b>427</b>	<b>\$ (8,448)</b>	<b>\$ 242,655</b>	<b>\$ (24,587)</b>	<b>\$ 9,033</b>	<b>\$ (2,723)</b>	<b>\$216,126</b>
Net income	—	—	—	—	—	39,218	—	—	39,218
Other comprehensive income:									
Unrealized loss on available-for-sale investments	—	—	—	—	—	—	(339)	—	(339)
Foreign currency translation adjustment	—	—	—	—	—	—	(5,739)	—	(5,739)
Other comprehensive income	—	—	—	—	—	39,218	(6,078)	—	33,140
Treasury and common stock transactions:									
Issuance of restricted stock units	—	—	—	—	24,169	—	—	(24,169)	—
Amortization of deferred compensation	—	—	—	—	—	—	—	10,810	10,810
Other stock-based compensation	—	—	—	—	110	—	—	—	110
Forfeitures of restricted stock units	—	—	—	—	(1,045)	—	—	713	(332)
Exercise of stock options	—	—	(599)	15,055	(5,486)	—	—	—	9,569
Purchases of treasury stock	—	—	1,324	(37,160)	—	—	—	—	(37,160)
Re-issuances of treasury stock	—	—	(2)	60	17	—	—	—	77
Vesting of restricted stock units, net of tax withholdings	—	—	(142)	2,337	(3,829)	—	—	—	(1,492)
Valuation allowance reduction related to deferred income taxes	—	—	—	—	2,640	—	—	—	2,640
Tax benefits related to stock-based compensation	—	—	—	—	3,997	—	—	—	3,997
<b>Balance at December 31, 2005</b>	<b>19,586</b>	<b>196</b>	<b>1,008</b>	<b>(28,156)</b>	<b>263,228</b>	<b>14,631</b>	<b>2,955</b>	<b>(15,369)</b>	<b>237,485</b>
Net income	—	—	—	—	—	34,243	—	—	34,243
Other comprehensive income:									
Unrealized gain on available-for-sale investments	—	—	—	—	—	—	133	—	133
Foreign currency translation adjustment	—	—	—	—	—	—	7,477	—	7,477
Other comprehensive income	—	—	—	—	—	34,243	7,610	—	41,853
Treasury and common stock transactions:									
Reclassify deferred stock-based compensation upon adoption of SFAS No. 123R	—	—	—	—	(15,369)	—	—	15,369	—
Cumulative effect of forfeitures	—	—	—	—	(351)	—	—	—	(351)
Issuance of restricted stock units previously classified as liabilities	—	—	—	—	4,370	—	—	—	4,370
Stock-based compensation	—	—	—	—	18,095	—	—	—	18,095
Exercise of stock options	—	—	(502)	15,699	(5,562)	—	—	—	10,137
Vesting of restricted stock units, net of tax withholdings	—	—	(175)	4,888	(7,146)	—	—	—	(2,258)
Purchases of treasury stock	—	—	1,510	(51,726)	—	—	—	—	(51,726)
Tax benefits related to stock-based compensation	—	—	—	—	3,914	—	—	—	3,914
Adjustment to initially apply SFAS No. 158, net of income taxes	—	—	—	—	—	—	2,186	—	2,186
<b>Balance at December 31, 2006</b>	<b>19,586</b>	<b>196</b>	<b>1,841</b>	<b>(59,295)</b>	<b>261,179</b>	<b>48,874</b>	<b>12,751</b>	<b>—</b>	<b>263,705</b>
Net income	—	—	—	—	—	56,463	—	—	56,463
Other comprehensive income:									
Unrealized gain on available-for-sale investments	—	—	—	—	—	—	236	—	236
Foreign currency translation adjustment	—	—	—	—	—	—	9,712	—	9,712
Pension adjustment, net of tax	—	—	—	—	—	—	1,865	—	1,865
Other comprehensive income	—	—	—	—	—	56,463	11,813	—	68,276
Adjustment for the adoption of FASB Interpretation No. 48	—	—	—	—	—	(167)	—	—	(167)
Treasury and common stock transactions:									
Issuance of restricted stock units previously classified as liabilities	—	—	—	—	7,524	—	—	—	7,524
Stock-based compensation	—	—	—	—	20,570	—	—	—	20,570
Exercise of stock options	—	—	(834)	29,139	(9,786)	—	—	—	19,353
Vesting of restricted stock units, net of tax withholdings	—	—	(301)	10,393	(15,334)	—	—	—	(4,941)
Purchases of treasury stock	—	—	1,615	(69,357)	—	—	—	—	(69,357)
Issuance of treasury stock	—	—	(7)	249	87	—	—	—	336
Cash dividends declared (\$0.26 per share)	—	—	—	—	—	(4,546)	—	—	(4,546)
Tax benefits related to stock-based compensation	—	—	—	—	9,047	—	—	—	9,047
<b>Balance at December 31, 2007</b>	<b>19,586</b>	<b>\$ 196</b>	<b>2,314</b>	<b>\$(88,871)</b>	<b>\$ 273,287</b>	<b>\$ 100,624</b>	<b>\$ 24,564</b>	<b>\$ —</b>	<b>\$309,800</b>

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

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

	Year Ended December 31,		
	2007	2006	2005
<b>Cash flows from operating activities:</b>			
Net income	\$ 56,463	\$ 34,243	\$ 39,218
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,279	10,382	11,245
Impairment of intangibles	1,029	—	—
(Gain) loss on sale of property and equipment	346	(13)	163
Gain on sale of equity securities	(95)	(649)	(996)
Deferred income taxes	(21,990)	(9,612)	(13,127)
Net unrealized loss on derivative instruments	211	139	1,015
Stock-based compensation expense, net	30,689	24,800	13,599
Restructuring charges	—	408	22,493
Cash paid for restructuring charges	(3,294)	(7,117)	(33,994)
Other, net	(1,115)	—	—
Changes in assets and liabilities, net of effects of acquisition:			
Trade and other receivables	4,244	(14,467)	(4,863)
Accounts payable	(311)	556	(4,615)
Accrued expenses	37,045	58,185	18,998
Income taxes recoverable (payable), net	2,143	2,589	(10,674)
Retirement and pension plan assets and liabilities	(12,176)	(2,514)	(2,067)
Other assets and liabilities, net	1,338	2,837	(2,972)
Net cash provided by operating activities	<u>105,806</u>	<u>99,767</u>	<u>33,423</u>
<b>Cash flows from investing activities:</b>			
Increase in restricted cash	(1,840)	(7,900)	—
Acquisition	(1,277)	(36,018)	—
Capital expenditures	(7,998)	(5,524)	(6,138)
Proceeds from sales of equity securities	444	1,198	1,962
Payments to consultants related to sales of equity securities	(219)	(740)	(18,310)
Proceeds from sales of short-term investments	207,075	117,500	236,925
Purchases of short-term investments	(155,975)	(190,875)	(112,600)
Other, net	16	110	116
Net cash provided by (used in) investing activities	<u>40,226</u>	<u>(122,249)</u>	<u>101,955</u>
<b>Cash flows from financing activities:</b>			
Proceeds from stock options exercised	19,353	10,137	9,569
Purchases of treasury stock	(67,752)	(51,726)	(37,160)
Excess tax benefits related to stock-based compensation	7,977	4,170	—
Cash dividends paid	(2,295)	—	—
Other	(37)	(15)	—
Net cash used in financing activities	<u>(42,754)</u>	<u>(37,434)</u>	<u>(27,591)</u>
<b>Effect of foreign currency exchange rates on cash and cash equivalents</b>	<u>9,862</u>	<u>3,667</u>	<u>(2,526)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>113,140</u>	<u>(56,249)</u>	<u>105,261</u>
<b>Cash and cash equivalents:</b>			
Beginning of year	147,440	203,689	98,428
End of year	<u>\$ 260,580</u>	<u>\$ 147,440</u>	<u>\$ 203,689</u>
<b>Supplemental disclosures of cash flow information</b>			
Cash paid for—			
Interest	\$ 34	\$ 15	\$ 74
Income taxes, net	43,534	23,069	10,338
<b>Supplemental schedule of noncash financing and investing activities</b>			
Unrealized gain (loss) on available-for-sale investments	\$ 221	\$ 162	\$ (339)
Total value of treasury stock purchases	\$ 69,357	\$ 51,726	\$ 37,160
Cash paid for treasury stock purchases	<u>(67,752)</u>	<u>(51,726)</u>	<u>(37,160)</u>
Accrued treasury stock purchases	<u>\$ 1,605</u>	<u>\$ —</u>	<u>\$ —</u>

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. Basis of Presentation**

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

The consolidated financial statements include Heidrick & Struggles International, Inc. and its wholly-owned subsidiaries and have been prepared using accounting principles generally accepted in the United States (“GAAP”). The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and certain financial statement disclosures. Significant items subject to estimates and assumptions include revenue recognition, allowance for doubtful accounts, allowances for deferred tax assets, assessment of goodwill and other intangible assets for impairment, accruals related to the consolidation and closing of offices recorded in conjunction with the Company’s restructuring charges, and stock-based compensation. Actual results could differ from these estimates.

A revision was made to decrease non-current assets and non-current liabilities by \$6.5 million. This revision was made to deconsolidate the assets and liabilities related to a deferred compensation plan in the United Kingdom that was previously believed to be subject to the general creditors of the Company. This correction had no effect on net income or cash flows for any prior periods presented. Certain other reclassifications have been made to prior year financial information to conform with current year presentations which also have no effect on net income or cash flows.

**2. Summary of Significant Accounting Policies**

*Cash and Cash Equivalents*

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

*Short-term Investments*

Short-term investments represent auction rate securities. The Company’s auction rate securities are classified as available-for-sale and are stated at current market value in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 115, “Accounting for Certain Investments in Debt and Equity Securities.” In January 2008, the Company liquidated all of its investments in auction rate securities given the current market conditions. The Company did not realize any loss in value upon liquidating these investments.

*Concentration of Credit Risk*

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of accounts receivable and auction rate securities. Concentrations of credit risk with respect to accounts receivable are limited due to the Company’s large number of clients and their dispersion across many different industries and geographies. The Company mitigates concentrations of credit risk with respect to auction rate securities by monitoring the Company’s level of investment in these types of financial instruments. At December 31, 2007, the Company had no significant concentrations of credit risk.

The allowance for doubtful accounts is developed based upon several factors including the age of our accounts receivable, historical write-off experience and specific account analysis. These factors may change over time, impacting the allowance level.

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

*Fair Value of Financial Instruments*

Cash and cash equivalents are stated at cost, which approximates fair market value. The carrying value for receivables from clients, accounts payable, deferred revenue and other accrued liabilities reasonably approximate fair market value due to the nature of the financial instruments and the short term nature of the items.

*Property and Equipment*

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

Office furniture, fixtures and equipment	5–10 years
Computer equipment and software	3–8 years

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

*Long-lived Assets*

In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” the Company reviews its long-lived assets, including property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge, equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset, is recognized.

*Investments*

The Company receives warrants for equity securities in client companies, in addition to the cash fee, for services rendered on some searches. Some of the warrants meet the definition of a derivative instrument under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and its subsequent amendments. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. These derivative instruments are initially recorded at their fair value, using a Black-Scholes model, in the Consolidated Balance Sheets, with a corresponding amount recorded as net revenue in the Consolidated Statements of Operations. Bonus expense related to this net revenue is also recorded. Subsequent changes in the fair value of these derivative instruments are recorded in the Consolidated Statements of Operations as unrealized gains (losses), net of the consultants’ share of the gains (losses).

Other warrants received and which do not meet the definition of a derivative instrument under SFAS No. 133 are initially recorded at their fair value, using a Black-Scholes model, in the Consolidated Balance Sheets, with a corresponding amount recorded as net revenue in the Consolidated Statements of Operations. Bonus expense related to this net revenue is also recorded. These warrants are accounted for using the cost method, and subsequent changes in fair value are not recognized. However, these warrants are regularly reviewed for other-than-temporary declines in fair value. Any permanent declines in the fair value of these warrants are recorded in the Consolidated Statements of Operations as realized losses, net of the consultants’ share of the losses.

Upon a value event such as an initial public offering or an acquisition, any changes in the fair value of the warrants, both derivatives and non-derivatives, are recorded in the Consolidated Statements of Operations as unrealized gains (losses), net of the consultants’ share of the gains (losses).

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

Any equity securities arising from the exercise of a warrant are accounted for as available-for-sale investments in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Subsequent changes in the fair value of these available-for-sale investments are recorded as a component of accumulated other comprehensive income. Upon the sale of these investments, the Company records a realized gain (loss), net of the consultants' share of the gain (loss) and other costs.

In 2005, the Company adopted a new deferred compensation plan in the United States, enabling certain U.S. employees to defer up to 25% of their base compensation and up to the lesser of \$500,000 or 25% of their eligible bonus compensation into several different investment vehicles, including a Company stock fund. These deferrals are immediately vested and are not subject to a risk of forfeiture.

*Goodwill and Other Intangible Assets*

Pursuant to the requirements of SFAS No. 142, "Goodwill and Other Intangible Assets," the Company evaluates its goodwill for impairment on an annual basis during the fourth quarter, or whenever indicators of impairment exist. The goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, goodwill of the reporting unit would be considered impaired. To measure the amount of the impairment loss, the implied fair value of a reporting unit's goodwill is compared to the carrying amount of that goodwill. If the carrying amount of a reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. The implied fair value of goodwill shall be determined in the same manner as the amount of goodwill recognized in a business combination is determined. The fair value of each of the Company's reporting units was determined using a combination of valuation techniques, including a discounted cash flow methodology and comparable public company methodology, with the assistance of an independent valuation firm. These impairment tests indicated that the fair value of each reporting unit exceeded its carrying amount. As a result, no impairment charge was recorded.

Other intangible assets acquired are amortized using the straight-line method over their estimated useful lives or based on the projected cash flow associated with the respective intangible assets and have been segregated as a separate line item on the Consolidated Balance Sheets.

*Restructuring Charges*

For restructuring activities announced prior to January 1, 2003, the accruals for restructuring charges were established in accordance with Emerging Issue Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." For restructuring activities initiated subsequent to December 31, 2002, the accruals for restructuring charges were established in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which the Company adopted on January 1, 2003.

*Revenue Recognition*

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

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

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.

Net revenue is recognized when earned and realizable and therefore when the following criteria have been met: (a) persuasive evidence of an arrangement exists, (b) services have been rendered, (c) the fee to our client is fixed or determinable, and (d) collectibility is reasonably assured. Net revenue from executive search engagements is recognized over the expected average period of performance, in proportion to the estimated personnel time incurred to fulfill our obligations under the arrangements. Net revenue in excess of the retainer, resulting from actual compensation of the placed candidate exceeding the estimated compensation, is recognized upon completion of the executive search when the amount of the additional fee is known.

*Reimbursements*

The Company incurs certain out-of-pocket expenses that are reimbursed by its clients. The Company accounts for its reimbursed out-of-pocket expenses as revenue in its Consolidated Statements of Operations in accordance with EITF Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred."

*Salaries and Employee Benefits*

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

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

In the second quarter of 2005, we adopted a new compensation policy for consultants and management. Under this policy, a portion of consultant and management bonuses are paid in the form of restricted stock units that vest ratably over a three-year period from the date of grant. The amount paid in the form of restricted stock units varies between 10% and 20% (plus a premium of 10% on the shares received) depending on the employee's level or position. The restricted stock units are issued in the quarter following the year in which the performance portion of the awards is earned. Compensation expense related to awards requiring satisfaction of both service and performance conditions is recognized using a graded vesting attribution method over the requisite service period which began on January 1 of the applicable year and continues through the final vesting date, which is generally three years from the date of grant. This change in compensation policy was made to better align consultant's and management's interests with those of the shareholder. In addition, the change will result in increased share ownership for consultants and management.

*Stock-Based Compensation*

The Company accounts for stock-based compensation in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"). This statement requires that the costs of all employee share-based payments be measured at fair value on the award's grant date and be recognized in the financial statements over the requisite service period.

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

*Consultants' Share of Gains Related to Warrant Monetizations*

Historically, the Company's policy with respect to warrants was that 55% of the net proceeds resulting from the monetizations of warrants was payable to the consultants involved in the search. For warrants received by the Company after April 1, 2005, the portion of the net proceeds payable to consultants was reduced from 55% to 50% and is limited to \$10.0 million per monetization. In addition, of the 50% of the net proceeds retained by the Company, 20% (or 10% of the total net proceeds) will be reserved for discretionary distributions to the broader employee population.

*Income Taxes*

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

*Earnings per Common Share*

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

*Translation of Foreign Currencies*

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

*Recently Adopted Financial Accounting Standards*

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes,"—an interpretation of FASB Statement No. 109, "Accounting for Income Taxes" ("FIN 48"). FIN 48 establishes a single model to address accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 on January 1, 2007 resulting in an increase to its existing reserves for uncertain tax positions by \$0.2 million, largely related to an increase in non-U.S. income tax matters. This increase was recorded as a cumulative effect adjustment to retained earnings. For additional information, see Note 17, *Income Taxes*.

In June 2006, the FASB ratified the Emerging Issues Task Force ("EITF") consensus on EITF Issue No. 06-3, "How Taxes Collected From Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That Is, Gross versus Net Presentation)" ("EITF 06-3"). The scope of EITF

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

06-3 includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer, and allows for the adoption of an accounting policy of presenting taxes either on a gross basis within revenue or on a net basis. The Company collects various value added taxes on executive search and leadership consulting services, which have been and continue to be accounted for on a net basis. The Company adopted EITF 06-3 on January 1, 2007, the required effective date. The adoption of EITF 06-3 did not have an effect on the Company's financial condition or results of operations.

*Recently Issued Financial Accounting Standards*

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" ("FSP 157-1") and FSP 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2"). FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of fiscal year 2009. The measurement and disclosure requirements related to financial assets and financial liabilities are effective for the Company as of January 1, 2008. The adoption of SFAS No. 157 for financial assets and financial liabilities is not expected to have a significant impact on the Company's financial condition and results of operations. However, the resulting fair values calculated under SFAS No. 157 after adoption may be different from the fair values that would have been calculated under previous guidance. The Company is currently evaluating the impact that SFAS No. 157 will have on its financial condition and results of operations when it is applied to non-financial assets and non-financial liabilities beginning January 1, 2009.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of SFAS No. 115" ("SFAS No. 159"), to permit entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. SFAS No. 159 is effective for the Company as of January 1, 2008. The Company does not believe the adoption of SFAS No. 159 will have a material impact on its financial condition and results of operations.

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

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 160 is effective for the Company on a prospective basis for business



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

combinations with an acquisition date beginning as of January 1, 2009. The Company is currently evaluating the impact of SFAS No. 160 will have on its financial condition and results of operations.

### 3. Allowance for Doubtful Accounts

The following table summarizes the activity of the allowance for doubtful accounts for the years ending:

	<u>December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Balance at January 1,	\$4,603	\$2,668	\$ 3,049
Charged to expense	(243)	792	854
Translation adjustments	(98)	632	(1,235)
Highland Partners acquisition (1)	—	511	—
Balance at December 31,	<u>\$4,262</u>	<u>\$4,603</u>	<u>\$ 2,668</u>

- (1) In connection with the acquisition of Highland Partners in 2006, the Company acquired the allowance for doubtful accounts associated with the acquired accounts receivable.

### 4. Restricted Cash

The Company had deposits of \$8.3 million and \$7.9 million at December 31, 2007 and 2006, respectively, in a U.S dollar bank account in support of a €5.7 million (equivalent to \$8.3 million at December 31, 2007) bank guarantee related to a tax audit in a European country. The Company earns a market rate of interest on this cash deposit, which is reviewed quarterly. The bank guarantee is determined based upon the tax audit assessment of €4.3 million (equivalent to \$6.2 million at December 31, 2007) plus future accrued interest on that assessment amount. See Note 20, *Commitments and Contingencies* for a discussion of the tax audit.

Upon review of the terms of the restrictions of the use of the pledged cash, the Company has reported these funds as restricted cash on the Consolidated Balance Sheets as of December 31, 2007 and 2006. The restricted cash is reflected in non-current assets based on the terms of the guarantee which require that it be renewed annually until the results of the tax audit are settled. At this time, the Company is not able to determine when a settlement will be reached.

In 2007, the restricted cash balance included \$1.5 million of restricted cash in support of lease guarantees. In accordance with the terms of the lease agreements, the cash balances are restricted through the term of the lease agreements which extend through 2013.

### 5. Investments

The components of the Company's investments at December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
U.S. non-qualified deferred compensation plan	\$4,301	\$1,725
Warrants and equity securities	1,359	1,745
VisualCV, Inc.	<u>2,172</u>	<u>—</u>
Total	<u>\$7,832</u>	<u>\$3,470</u>

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

The aggregate cost of the Company's cost method investments totaled \$3.4 million and \$1.1 million at December 31, 2007 and 2006, respectively, none of which were evaluated for impairment since there were no triggering events in the respective years.

In November 2007, the Company invested \$2.2 million in Series A-1 Preferred stock of VisualCV, Inc. VisualCV, Inc. is the developer of VisualCV.com, a new approach to creating and sharing Internet-based resumes that take advantage of Web 2.0 capabilities such as information keyword pop-ups, video, attachments, and social networking.

#### **6. Other Non-current Assets**

At December 31, 2007 and 2006, the Company had \$6.3 million and \$6.2 million of other non-current assets, respectively. Other non-current assets consists of \$6.2 million of prepaid rent in 2007 and 2006, respectively, and \$0.1 million of prepaid deferred compensation in 2007.

#### **7. Acquisitions**

##### *Highland Partners Acquisition*

In October 2006, the Company acquired Highland Partners, a leading retained executive search boutique and a division of Hudson Highland Group, Inc., through an asset purchase funded from existing cash for \$36.0 million including \$1.2 million of capitalized acquisition costs. Hudson Highland Group, Inc. is eligible to receive up to \$15 million in earnout payments based on the acquired consultants achieving certain revenue metrics in 2007 and 2008. The Company anticipates paying approximately \$3.4 million of the earnout related to 2007 performance in the first quarter of 2008. The total purchase price of \$36.0 million, including \$1.2 million of acquisition costs, and the 2007 and 2008 earnout payments will not exceed \$51.0 million. All 48 of the Highland Partners consultants who were offered employment accepted and joined the Company. This acquisition benefited all of the Company's clients, enabling the Company to expand the service offerings and scope of the combined businesses. The results of operations of Highland Partners are included in the Company's financial statements from the date of acquisition.

The following table summarizes the final purchase price allocation:

<b>Assets acquired:</b>	
Accounts receivable, net	\$12,041
Current assets	688
Property and equipment	604
Intangible assets	12,800
Goodwill	25,447
<b>Total assets</b>	<b>51,580</b>
<b>Liabilities assumed:</b>	
Accounts payable and other accrued liabilities	5,601
Accrued salaries and employee benefits	9,961
<b>Total liabilities</b>	<b>15,562</b>
<b>Net assets acquired</b>	<b>\$36,018</b>

The assets acquired and liabilities assumed of approximately \$36.0 million consisted of \$36.6 million cash paid at closing, less a \$1.8 million working capital adjustment and \$1.2 million of capitalized acquisition costs.

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

The following table summarizes the pro forma results of operations for 2006 and 2005 as though the business combination had been completed at the beginning of these years.

	Pro forma Results	
	Years Ended December 31,	
	2006	2005
Net revenue	\$ 523,237	\$ 475,584
Operating income (1)	51,998	22,503
Net income	35,498	39,828
Basic earnings per common share	1.98	2.11
Diluted earnings per common share	1.88	2.02

(1) Includes \$1.8 million of intangible amortization in 2006 and 2005.

#### *RentonJames Acquisition*

In January 2007, the Company completed the acquisition of RentonJames, a privately held executive search and leadership consultancy boutique based in New Zealand for a total cash payment of \$1.2 million. The previous owners of RentonJames, who are now Heidrick & Struggles employees, will be eligible to receive earnout payments up to \$2.8 million based on the achievement of certain revenue metrics in 2007, 2008 and 2009 such that the total purchase price will not exceed \$4.0 million. The Company anticipates paying approximately \$1.6 million of the earnout related to 2007 performance in the first quarter of 2008. This acquisition is not considered material to the Company, and, therefore, pro forma information has not been presented. See Note 8, *Goodwill and Other Intangible Assets*, for a discussion of the acquired assets.

## **8. Goodwill and Other Intangible Assets**

### *Goodwill*

In 1999, upon acquisition of the remaining 65% of its European operations, the Company recorded goodwill and certain intangible assets of approximately \$23 million and \$12 million, respectively. At that time, these assets were U.S. dollar denominated and not subject to foreign currency translation. In 2005, in conjunction with the Company's annual impairment testing of goodwill and intangible assets, the Company determined that these assets should have been denominated in the European currencies to which they relate.

The cumulative impact of not subjecting the European goodwill and intangible assets to foreign currency translation since the 1999 acquisition through December 31, 2004 amounts to a \$0.7 million increase in the asset balances and a corresponding increase in other comprehensive income. This amount is not considered material and has been recorded as part of the foreign currency translation adjustment included in the statement of comprehensive income (loss) for the year ended December 31, 2005. The impact of not subjecting the European goodwill and intangible assets to foreign currency translation on the statements of comprehensive income (loss) for the years prior to 2005 is also not considered material.

In 2006, the Company recorded \$27.7 million of goodwill, substantially all of which is expected to be deductible for income tax purposes, and \$12.8 million of identifiable intangible assets related to the acquisition of Highland Partners as discussed in Note 7, *Acquisitions*, and has allocated these amounts to the Americas, Europe and Asia Pacific based on their respective valuations. During 2007, the Company recorded \$2.2 million of adjustments to the initial purchase price allocation, of which \$1.2 million of the adjustment is a result of the final settlement of certain liabilities that were based on estimates recorded at the time of acquisition and \$1.0 million of the adjustment is the reduction of goodwill to account for the amount of deferred tax assets that will provide the Company with future tax deductions.

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

In 2007, the Company recorded \$0.8 million of goodwill related to the acquisition of RentonJames, as discussed in Note 7, *Acquisitions*, and has recorded these amounts in the Asia Pacific region.

During the fourth quarter of 2007, the Company revised its deferred tax liability associated with the 1999 merger of Heidrick & Struggles Inc. with Heidrick & Struggles International, Inc. This revision increased the current carrying value of goodwill by \$2.7 million, established a deferred tax liability of \$1.3 million, and resulted in a foreign currency translation adjustment of \$0.3 million and an income tax benefit of \$1.1 million. These adjustments resulted in immaterial misstatements to prior period financial statements.

Changes in the carrying amount of goodwill by segment for the years ended December 31, 2007 and 2006 were as follows:

	<u>Americas</u>	<u>Europe</u>	<u>Asia Pacific</u>	<u>Total</u>
Balance at December 31, 2005	\$31,117	\$13,904	\$1,634	\$46,655
Highland Partners acquisition	25,927	1,582	153	27,662
Exchange rate fluctuations	(120)	1,720	44	1,644
Balance at December 31, 2006	56,924	17,206	1,831	75,961
Highland Partners acquisition adjustment	(1,302)	(913)	—	(2,215)
RentonJames acquisition	—	—	862	862
Highland Partners earnout	3,295	11	69	3,375
RentonJames earnout	—	—	1,638	1,638
Other adjustments	—	2,746	—	2,746
Exchange rate fluctuations	424	1,359	67	1,850
Balance at December 31, 2007	<u>\$59,341</u>	<u>\$20,409</u>	<u>\$4,467</u>	<u>\$84,217</u>

*Other Intangible Assets*

The carrying amount of amortizable intangible assets and the related accumulated amortization at December 31, 2007 and 2006 were as follows:

	<u>Weighted Average Life (in years)</u>	<u>2007</u>			<u>2006</u>		
		<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Client relationships	14.3	\$22,924	\$ (9,130)	\$13,794	\$22,849	\$ (6,848)	\$16,001
Candidate database	6.0	1,800	(375)	1,425	1,800	(75)	1,725
Other	5.1	175	(31)	144	170	(12)	158
Total intangible assets	13.5	<u>\$24,899</u>	<u>\$ (9,536)</u>	<u>\$15,363</u>	<u>\$24,819</u>	<u>\$ (6,935)</u>	<u>\$17,884</u>

One of the two remaining principal consultants from the 2000 acquisition of the executive search firm, Lynch Miller Moore O'Hara, Inc., retired from the Company in 2007 triggering the review of the remaining client relationship intangible asset and resulted in a \$1.0 million impairment charge in the Americas region in the third quarter of 2007.

During 2007, the Company recorded \$0.4 million of intangible assets related to the acquisition of RentonJames, consisting entirely of client relationships amortized over 12 years.

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During 2006, the Company acquired \$12.8 million of intangible assets in conjunction with the acquisition of Highland Partners, consisting of client relationships of \$10.4 million amortized over 13 years; candidate database of \$1.8 million amortized over 6 years; non-compete agreements of \$0.2 million amortized over 3 years; and backlog of \$0.4 million which was completely amortized during the fourth quarter of 2006.

Intangible amortization expense for the years ended December 31, 2007 and 2006 was \$2.4 million and \$1.6 million, respectively. The estimated intangible amortization expense is approximately \$2.0 million per year for the fiscal years 2008 through 2009, \$1.9 million in fiscal year 2010, \$1.7 million in fiscal year 2011, and \$1.5 million in fiscal year 2012. These amounts are based on intangible assets recorded as of December 31, 2007 and actual amortization expense could differ from these estimates as a result of future acquisitions and other factors.

**9. Other Current Liabilities**

The Company had \$43.2 million and \$34.6 million of other current liabilities at December 31, 2007 and 2006, respectively. Other current liabilities primarily include deferred revenue of \$21.0 million and \$20.0 million at December 31, 2007 and 2006, respectively. The remainder of other current liabilities primarily consists of the accrued earnout for Highland Partners and RentonJames, the current portion of the liability for retirement and pension plans, accrued sales and value-added taxes and accrued accounting and legal fees.

**10. Line of Credit**

During 2006, the Company had a \$60.0 million committed revolving credit facility (the “Old Facility”). Under the Old Facility, the Company could borrow U.S. dollars, euros, sterling and other major traded currencies, as agreed by the banks. Borrowings under the Old Facility bore interest at the existing Alternate Base Rate or LIBOR plus a margin as determined by the Company’s compliance with certain tests of financial condition. The Old Facility set limits on the Company’s ability to make acquisitions without bank approval and to incur additional debt outside of the Old Facility. The Company paid a facility fee whether or not the Old Facility was used during the year.

In October 2006, the Company terminated the Old Facility and replaced it with a \$100 million committed unsecured revolving facility (the “New Facility”). Under the New Facility, the Company may borrow U.S. Dollars, euros, or other major traded currencies, as agreed by the banks. Borrowings under the New Facility bear interest at the existing Alternate Base Rate or LIBOR plus a spread as determined by the Company’s compliance with the leverage test. The New Facility sets limits on the Company’s ability to incur additional debt outside of the New Facility. The New Facility has more favorable terms, including increased flexibility with regard to potential acquisitions, and lower costs than the terminated Old Facility. A facility fee is charged even if no portion of the New Facility is used. The New Facility expires in October 2011.

There were no borrowings outstanding under the lines of credit existing at December 31, 2007 or 2006, nor were there any borrowings during the years ended December 31, 2007 and 2006, respectively, under the then existing lines of credit. During 2006 and 2007, the Company was in compliance with the financial covenants of the revolving credit facility in effect during those respective years and no event of default existed.

**11. Employee Benefit Plans**

*Qualified Retirement Plan*

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

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employee contributions on a one-for-one dollar basis per participant. The Company match was the greater of \$3,500 or 2.5% of eligible compensation, \$3,000 and \$2,500 per participant for the years ended December 31, 2007, 2006 and 2005, respectively. The plan provides that forfeitures will be used to reduce the Company's contributions. Forfeitures are created when participants terminate employment before becoming entitled to their full benefits under the plan. The Company also has the option of making discretionary contributions. There were no discretionary contributions made for the years ended December 31, 2007, 2006 and 2005. Plan expenses for the years ended December 31, 2007, 2006 and 2005 were \$1.8 million, \$1.3 million, and \$1.1 million, respectively.

Through September 30, 2004, the plan allowed participants the option of having their account balances or portions thereof invested in the Company's common stock. As of October 1, 2004, participants were no longer allowed the option of purchasing the Company's common stock under the plan. However, those participants who held the Company's common stock were allowed to maintain their shares. At December 31, 2007 and 2006, respectively, the plan held 262,652 and 313,630 shares of the Company's common stock.

*Deferred Compensation Plans*

In 2002, the Company adopted a deferred compensation plan in the United States (the "U.S. Plan"). Under this plan, certain U.S.-based employees were given the opportunity to defer up to 100% of their eligible cash compensation into several different investment vehicles, including a Company stock fund. Cash deferrals were to be made for a minimum of one year. These deferrals were immediately vested and are not subject to a risk of forfeiture. As of December 31, 2005, the U.S. Plan was not funded.

In 2005, the Company adopted a new plan for certain U.S. employees (the "New U.S. Plan") that became effective on January 1, 2006. All amounts deferred under the old plan were automatically transferred into the new plan with the exception of one existing account balance totaling \$0.6 million at December 31, 2007. The New U.S. Plan allows participants to defer up to 25% of their base compensation and up to the lesser of \$500,000 or 25% of their eligible bonus compensation into several different investment vehicles, including a Company stock fund. Consistent with the previous plan, these deferrals are immediately vested and are not subject to a risk of forfeiture. In conjunction with the New U.S. Plan in 2007 and 2006, all deferrals are funded currently, with the exception of the \$0.6 million carry over balance from the U.S. Plan. As of December 31, 2007 and 2006, the compensation deferred in the New U.S. Plan was \$4.3 million and \$2.0 million, respectively. The assets and liabilities of this plan are included in the Consolidated Balance Sheets at December 31, 2007 and 2006.

Effective January 1, 2005, the Company adopted the Non-Employee Directors Voluntary Deferred Compensation Plan whereby non-employee members of the Company's Board of Directors may elect to defer up to 100% of the cash component of their directors' fees into several different investment vehicles, including a Company stock fund. As of December 31, 2007 and 2006, the total amounts deferred under the plan were \$0.6 million and \$0.3 million, respectively, all of which was funded.

**12. Pension Plan and Life Insurance Contract**

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

The Company adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132 (R)" ("SFAS No. 158") on December 31, 2006 which resulted in a decrease in retirement and pension plan liabilities of \$3.3 million, an increase in accumulated other comprehensive income of \$2.2 million and a decrease in non-current deferred tax

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assets of \$1.1 million. As of December 31, 2007, the Company recorded a decrease in retirement and pension plan liabilities of \$6.2 million, an increase in accumulated other comprehensive income of \$4.0 million and a decrease in non-current deferred tax assets of \$2.2 million.

The following table provides a reconciliation of the change in projected benefit obligation for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Projected benefit obligation at January 1,	\$25,281	\$23,803
Service cost	144	290
Interest cost	1,115	1,056
Actuarial gain	(2,519)	(1,624)
Benefits paid	(1,328)	(1,003)
Translation difference	2,513	2,759
Projected benefit obligation at December 31,	<u>\$25,206</u>	<u>\$25,281</u>

The accumulated benefit obligation was \$25.1 million at December 31, 2007 and 2006.

The amounts recognized in the Consolidated Balance Sheets at December 31, 2007 and 2006, are as follows:

	<u>2007</u>	<u>2006</u>
Noncurrent assets	\$ —	\$ —
Current liabilities	1,419	1,284
Noncurrent liabilities	23,787	23,997
Net amount recognized in the consolidated balance sheets at December 31,	<u>\$25,206</u>	<u>\$25,281</u>

The components of net periodic benefit cost for December 31, 2007, 2006 and 2005 are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Service cost	\$ 144	\$ 290	\$ 375
Interest cost	1,115	1,056	1,134
Amortization of net gain	(124)	—	(326)
Net periodic benefit cost	<u>\$1,135</u>	<u>\$1,346</u>	<u>\$1,183</u>

The amounts in accumulated other comprehensive income as of December 31, 2007 and 2006 that had not yet been recognized as components of net periodic benefit cost were \$6.2 million and \$3.3 million, respectively. Accumulated other comprehensive income includes \$0.6 million that is expected to be recognized as a component of net periodic benefit cost in 2008.

Assumptions to determine the Company's net periodic benefit cost are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Discount rate (1)	4.35%	4.25%	4.25%
Rate of compensation increase	1.75%	2.00%	1.75%

(1) The discount rates are based on long-term bond indices adjusted to reflect the longer duration of the benefit obligation.

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During 2005, the Company recorded a \$0.9 million settlement of its benefit obligation related to two plan participants. In one instance, a plan participant terminated employment with the Company resulting in the transfer of the full amount of his pension obligation to his current employer. In the second instance, a plan participant elected to receive a partial lump sum payment of his pension benefits upon his retirement.

The Company's policy is to fully fund the pension plan such that sufficient assets will be available to meet future benefit requirements. The pension benefits are fully reinsured within a group insurance contract with Victoria Lebensversicherung AG. The surrender value, which approximates fair value, at December 31, 2007 and 2006 was \$27.5 million and \$24.9 million, respectively. The expected contribution to be paid to the plan in 2008 is \$1.4 million. Since the pension assets are not segregated in trust from the Company's other assets for purposes of SFAS No. 87, "Employers' Accounting for Pensions," the pension assets are not shown as an offset against the pension liabilities in the Consolidated Balance Sheets. This asset is included in the Consolidated Balance Sheets at December 31, 2007 and 2006, as a component of other current assets and assets designated for retirement and pension plans.

The benefits expected to be paid in each of the next five years, and in the aggregate for the five years thereafter are as follows:

<u>Years Ended December 31,</u>	
2008	\$1,419
2009	1,432
2010	1,446
2011	1,558
2012	1,568
2013 through 2017	9,228

### **13. Stock-Based Compensation**

On January 1, 2006, the Company adopted SFAS No. 123R using the modified prospective method. Upon adoption of SFAS No. 123R, the Company recognized income of \$0.4 million (\$0.2 million net of tax, or \$0.01 per diluted share) resulting from the application of an estimated forfeiture rate to its existing unvested awards, which was recorded as a component of salaries and employee benefits expense in the first quarter of 2006. The Company previously recognized forfeitures as they were incurred. Additionally, under SFAS No. 123R, the Company has elected to recognize compensation expense for all share-based awards with service periods beginning subsequent to the adoption of SFAS No. 123R on a straight-line basis over the service period of the award, unless the award has a performance condition, in which case compensation expense will be recognized using a graded vesting attribution method. Also, under SFAS No. 123R the benefits of tax deductions in excess of recognized compensation cost are now reported as a financing cash flow instead of as an operating cash flow as required under previous accounting literature.

Prior to the adoption of SFAS No. 123R, the Company applied the intrinsic-value-based method of accounting prescribed by APB No. 25 and related interpretations to account for its fixed-plan stock options. Under this method, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. The adoption of SFAS No. 123R results in compensation expense being recorded for stock options based on the grant date fair value of the options.



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Results for 2005 have not been restated to reflect the adoption of SFAS No.123R. Had compensation expense been determined based upon fair value at the grant date for all awards in accordance with SFAS No. 123R, the Company's pro forma net income and basic and diluted earnings per share for the year ended December 31, 2005 would have been as follows:

	2005
<b>Net income:</b>	
As reported	\$ 39,218
Add: Stock-based compensation expense already included in net income, net of tax in 2005	8,159
Deduct: Pro forma employee compensation cost related to stock options, restricted stock units and the performance share program, net of tax in 2005	(11,425)
Pro forma	<u>\$ 35,952</u>
<b>Basic earnings per share:</b>	
As reported	\$ 2.08
Pro forma	1.90
<b>Diluted earnings per share:</b>	
As reported	\$ 1.98
Pro forma	1.84

A summary of information with respect to share-based compensation for the years ended December 31, 2007, 2006, and 2005 was follows:

	2007	2006	2005
Total share-based compensation expense included in net income	\$ 30,689	\$ 24,800	\$ 13,599
Income tax benefit related to share-based compensation included in net income	11,969	9,672	5,440

For the years ended December 31, 2007 and 2006, the excess tax benefit of \$8.0 million and \$4.2 million, respectively, was reflected as a cash flow from financing activities in the consolidated statement of cash flows. Previously, under APB No. 25, excess tax benefits were recognized as a component of cash flows from operating activities. The total unrecognized compensation cost related to non-vested restricted stock and stock options that were not yet vested as of December 31, 2007 was approximately \$25.5 million pre-tax, which is expected to be recognized over a weighted average of 1.9 years.

#### **GlobalShare Program**

On May 24, 2007, the stockholders of the Company approved the 2007 Heidrick & Struggles GlobalShare Program (the "Plan") at the Company's Annual Meeting of Stockholders. The Plan had previously been approved by the Board of Directors of the Company on April 16, 2007, subject to approval of the stockholders of the Company.

The Plan, administered by the Human Resources and Compensation Committee of the Board of Directors, reflects the merger of the Company's prior stock-based plans, GlobalShare Program I and GlobalShare Program II. The Plan provides for grants of stock options, stock appreciation rights, restricted stock awards, restricted stock units and other stock-based awards that are valued based upon the fair market value of shares. These awards may be granted to directors, selected employees and independent contractors. Awards are paid in shares, but may not be paid in cash. No incentive option can have a term greater than ten years and the option price per

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share of common stock cannot be less than 100% of the fair market value of the Company's common stock on the date of grant.

The Plan provides 2,000,000 shares available for awards to be granted on or after May 24, 2007 (the effective date of the Plan). This number includes the shares that were not subject to awards and still available for issuance under the GlobalShare Programs I and II as of May 24, 2007.

The Plan limits the number of shares that may be granted to any participant who is or may be a "covered employee" under Code Section 162(m) to 200,000 stock options and stock appreciation rights and 200,000 performance-based awards.

The Company has the ability to settle equity awards by issuing shares held in treasury or through the issuance of authorized but unissued common stock.

The Plan provides that no awards can be granted after May 31, 2011.

#### **Restricted Stock Units**

The total number of restricted stock units and the underlying shares of the Company's common stock which may be issued or delivered under the Plan is determined by the Human Resources and Compensation Committee of the Board of Directors on an annual basis. The restricted stock units are generally subject to ratable vesting over a three year period. Compensation expense related to service-based restricted stock units is recognized on a straight-line basis over the vesting period. For awards requiring satisfaction of both service and performance conditions, compensation expense is recognized using a graded vesting attribution method.

Restricted stock unit activity for the years ended December 31, 2007, 2006 and 2005:

	<b>Number of Restricted Stock Units</b>	<b>Weighted- Average Grant- date Fair Value</b>
<b>Outstanding on December 31, 2004</b>	363,459	\$ 19.99
Granted	681,787	\$ 35.67
Vested and converted to common stock	(184,288)	\$ 19.91
Forfeited	(39,458)	\$ 31.68
<b>Outstanding on December 31, 2005</b>	821,500	\$ 32.46
Granted	861,962	\$ 33.58
Vested and converted to common stock	(234,762)	\$ 27.01
Forfeited	(76,514)	\$ 34.38
<b>Outstanding on December 31, 2006</b>	1,372,186	\$ 33.99
Granted	869,583	\$ 46.34
Vested and converted to common stock	(410,620)	\$ 33.20
Forfeited	(196,413)	\$ 38.36
<b>Outstanding on December 31, 2007</b>	<u>1,634,736</u>	\$ 40.23

As of December 31, 2007, there was \$24.4 million of total restricted stock unit compensation expense related to nonvested awards not yet recognized, which is expected to be recognized over a weighted average period of 2.0 years.

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**Non-qualified Stock Options**

Stock options granted under the Plan have an exercise price that is equal to the fair value of the Company's common stock on the grant date. Options under the Plan are generally subject to ratable vesting over a 3 year period and generally have a contractual term of 5 years. Compensation expense is recognized on a straight-line basis over the vesting period.

Activity for non-qualified stock options for the years ended December 31, 2007, 2006, and 2005 is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
<b>Outstanding on December 31, 2004</b>	3,027,953	\$ 24.18	3.6	\$ 39,650
Granted	145,000	\$ 34.25		
Exercised	(598,769)	\$ 15.94		
Expired	(392,856)	\$ 41.32		
Forfeited	(135,783)	\$ 20.46		
<b>Outstanding on December 31, 2005</b>	2,045,545	\$ 24.25	3.3	\$ 26,799
Granted	111,000	\$ 33.19		
Exercised	(501,520)	\$ 20.13		
Expired	(88,887)	\$ 35.14		
Forfeited	(38,768)	\$ 31.64		
<b>Outstanding on December 31, 2006</b>	1,527,370	\$ 25.44	2.7	\$ 20,514
Granted	80,250	\$ 47.38		
Exercised	(832,711)	\$ 23.16		
Expired	(6,824)	\$ 34.97		
Forfeited	(53,190)	\$ 26.91		
<b>Outstanding on December 31, 2007</b>	714,895	\$ 30.35	2.4	\$ 10,395
<b>Exercisable on December 31, 2005</b>	1,276,920	\$ 24.53	3.3	\$ 17,672
<b>Exercisable on December 31, 2006</b>	1,128,230	\$ 24.98	2.7	\$ 15,712
<b>Exercisable on December 31, 2007</b>	507,855	\$ 28.72	2.1	\$ 7,798

Information about non-qualified stock options at December 31, 2007 is as follows:

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 11.90 to \$14.00	186,757	1.2	\$ 13.84	142,645	\$ 13.79
\$ 25.43 to \$32.96	154,408	2.2	29.43	95,403	27.86
\$ 35.13 to \$40.73	301,480	2.7	36.84	269,807	36.92
\$46.86 to \$48.74	72,250	4.2	47.87	—	—
<b>\$11.90 to \$48.74</b>	<b>714,895</b>	<b>2.4</b>	<b>\$ 30.35</b>	<b>507,855</b>	<b>\$ 28.72</b>

As of December 31, 2007, there was \$1.1 million of total stock option compensation expense related to nonvested awards not yet recognized, which is expected to be recognized over a weighted average period of 1.1 years.

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

Additional information pertaining to non-qualified stock options:

	Year Ended December 31,		
	2007	2006	2005
Weighted average grant date fair value of stock options granted	\$ 13.61	\$ 11.65	\$ 15.24
Total grant date fair value of stock options vested	2,733	5,120	7,891
Total intrinsic value of stock options exercised	20,372	9,201	10,477

The fair value of each option grant is estimated on the date of grant using the Black-Scholes valuation model with the following weighted average assumptions.

	Year Ended December 31,		
	2007	2006	2005
Expected life (in years)	3.3	3.4	4.5
Risk-free interest rate	4.7%	4.7%	4.0%
Expected volatility	31.7%	40.8%	48.0%
Expected dividend yield (1)	0%	0%	0%

- (1) Options granted during 2007 were granted prior to the Company's initiation of a cash dividend in September 2007, thus the expected dividend at the date of grant was 0%.

The expected term input is based on a forward-looking stock price lattice model incorporating the Company's historical exercise data and projected post-vest turnover rate. Expected volatility is based on a simple average of the historical volatility of the Company's stock corresponding to the expected term of the option and the implied volatility provided by its traded options pursuant to SEC Staff Accounting Bulletin No. 107 which expressed the views of the SEC Staff regarding the interaction between SFAS No. 123R and certain SEC rules and regulations. The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero coupon issues with a remaining term equal to the expected option life.

**14. Comprehensive Income**

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

In 2005, the Company determined that goodwill and intangible assets related to the 1999 acquisition of European assets and liabilities should have been denominated in the European currencies to which they relate, rather than the U.S. dollar. The cumulative impact of not subjecting the European goodwill and intangible assets to foreign currency translation since the 1999 acquisition through December 31, 2004 amounted to a \$0.7 million decrease in other comprehensive loss. This amount is not considered material and has been recorded as part of the foreign currency translation adjustment included in the statement of comprehensive income for the year ended December 31, 2005. See Note 8, *Goodwill and Other Intangible Assets*, for further information.

	Years Ended December 31,		
	2007	2006	2005
Comprehensive Income:			
Net income	\$56,463	\$34,243	\$39,218
Change in foreign currency translation adjustment	9,712	7,477	(5,739)
Change in unrealized gain (loss) on available-for-sale investments, net of tax	236	133	(339)
Pension adjustment, net of tax	1,865	—	—
Total comprehensive income	<u>\$68,276</u>	<u>\$41,853</u>	<u>\$33,140</u>

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The Company recorded a tax benefit of \$15 thousand in 2007 and a tax payable of \$29 thousand in 2006 related to the unrealized gain on available-for-sale investments. In 2005, the Company did not record a tax provision on available-for-sale investments due to the valuation allowance on deferred income taxes recorded in that year. The Company recorded a deferred tax liability of \$1.0 million in 2007 related to the pension adjustment.

	December 31,	
	2007	2006
Accumulated other comprehensive income:		
Cumulative foreign currency translation adjustment	\$20,140	\$10,428
Pension adjustment, net of tax	4,051	2,186
Net unrealized gain on available-for-sale investments, net of tax	373	137
Total accumulated other comprehensive income	<u>\$24,564</u>	<u>\$12,751</u>

#### 15. Basic and Diluted Earnings Per Common Share

A reconciliation of the basic and diluted earnings per share, and the shares used in the computation, for the years ended December 31, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
Net income	\$56,463	\$34,243	\$39,218
Weighted average common shares outstanding	17,854	17,925	18,898
Dilutive common shares	1,130	991	863
Weighted average diluted common shares outstanding	<u>18,984</u>	<u>18,916</u>	<u>19,761</u>
Basic earnings per common share	\$ 3.16	\$ 1.91	\$ 2.08
Diluted earnings per common share	\$ 2.97	\$ 1.81	\$ 1.98

Options to purchase 0.2 million, zero and 0.7 million shares of common stock that were outstanding during 2007, 2006 and 2005, respectively, were not included in the computation of diluted earnings per share as the exercise prices of these options were greater than the average market price of common shares.

#### 16. Restructuring Charges

During 2005, the Company recorded restructuring charges of \$22.5 million in connection with initiatives to improve operating performance and increase operating margin. These initiatives focused primarily on Europe and included charges of \$14.1 million for severance and other employee-related costs related to reductions in workforce and \$8.4 million related to the consolidation of office space. The workforce reduction affected 57 employees, primarily in Europe, and included 15 executive search consultants. Included in the office-related charge of \$8.4 million is the reversal of \$1.0 million of restructuring accruals, which originated in a prior year, related to a renegotiated lease for one of our search offices. By segment, the restructuring charges recorded in 2005 include \$1.1 million in the Americas, \$19.3 million in Europe and \$2.1 million in Corporate.

Certain costs associated with the restructuring initiatives that began in 2005 are to be recognized in subsequent periods when a liability is incurred. The Company expects that any future costs associated with these restructuring initiatives will not have a material impact on the Company's financial condition or results of operations.

During 2006, the Company recorded restructuring charges of \$0.4 million related to the final determination of certain severance accruals and the refinement of cost estimates concerning subleases for certain previously restructured properties.

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The table below outlines the restructuring charges along with related cash payments and non-cash write-offs for each of the years in the three-year period ended December 31, 2007.

	Employee- related	Office- related	Total
<b>Accrued restructuring charges as of December 31, 2004</b>	<b>\$ 2,378</b>	<b>\$ 29,863</b>	<b>\$ 32,241</b>
Restructuring charges	14,139	8,354	22,493
Cash payments	(13,427)	(20,567)	(33,994)
Non-cash write-offs	—	(859)	(859)
Exchange rate fluctuations	(229)	(1,042)	(1,271)
<b>Accrued restructuring charges as of December 31, 2005</b>	<b>2,861</b>	<b>15,749</b>	<b>18,610</b>
Restructuring charges	(43)	451	408
Cash payments	(2,481)	(4,636)	(7,117)
Exchange rate fluctuations	133	680	813
<b>Accrued restructuring charges as of December 31, 2006</b>	<b>470</b>	<b>12,244</b>	<b>12,714</b>
Cash payments	(470)	(2,824)	(3,294)
Exchange rate fluctuations	—	128	128
<b>Accrued restructuring charges as of December 31, 2007</b>	<b>\$ —</b>	<b>\$ 9,548</b>	<b>\$ 9,548</b>

The accrued restructuring charges as of December 31, 2007 relate to real estate leases which require cash payments through the lease terms, reduced by sublease income, or until such time as negotiations with the lessor to terminate the lease are completed. Based on current estimates, of the \$9.5 million of restructuring charges unpaid as of December 31, 2007, approximately \$2.8 million is expected to be paid in 2008 with the remainder payable in years subsequent to 2008.

#### 17. Income Taxes

The sources of income before income taxes for the years ended December 31, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
United States	\$ 47,867	\$ 26,930	\$ 23,567
Foreign	39,268	28,336	4,915
Income before income taxes	<u>\$ 87,135</u>	<u>\$ 55,266</u>	<u>\$ 28,482</u>

The provision for (benefit from) income taxes for the years ended December 31, 2007, 2006 and 2005 is as follows:

	2007	2006	2005
Current—			
Federal	\$ 28,592	\$16,507	\$ 287
State and local	4,472	3,107	674
Foreign	19,688	10,428	5,095
Deferred	(22,080)	(9,019)	(16,792)
Total provision for (benefit from) income taxes	<u>\$ 30,672</u>	<u>\$21,023</u>	<u>\$ (10,736)</u>

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

A reconciliation of the provision for (benefit from) income taxes for the years ended December 31, 2007, 2006 and 2005 to income taxes at the statutory U.S. federal income tax rate of 35% is as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Income tax provision at the statutory U.S. federal rate	\$30,497	\$19,343	\$ 9,969
State income tax provision, net of federal tax benefit	2,914	1,966	558
Nondeductible expenses	3,225	493	872
Foreign tax higher (lower) than U.S. (includes changes in foreign valuation allowance)	(299)	334	622
Decrease in U.S. valuation allowance	(7,336)	—	(24,628)
Impact from U.S. branch incorporations in the United Kingdom and Japan	1,701	—	—
Other, net	(30)	(1,113)	1,871
Total provision for (benefit from) income taxes	<u>\$30,672</u>	<u>\$21,023</u>	<u>\$ (10,736)</u>

The deferred tax amounts have been classified in the Consolidated Balance Sheets as of December 31, 2007 and 2006 as follows:

	<u>2007</u>	<u>2006</u>
Current deferred tax assets	\$ 17,665	\$ 21,694
Current deferred tax liabilities	(1,929)	(3,143)
Valuation allowance	(446)	(3,607)
Current deferred tax asset, net	<u>15,290</u>	<u>14,944</u>
Non-current deferred tax assets	60,381	52,390
Non-current deferred tax liabilities	(3,930)	(2,647)
Valuation allowance	(10,596)	(25,114)
Non-current deferred tax asset, net	<u>45,855</u>	<u>24,629</u>
Net deferred tax assets	<u>\$ 61,145</u>	<u>\$ 39,573</u>

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

The deferred tax assets and liabilities as of December 31, 2007 and 2006 are attributable to the following components:

	<u>2007</u>	<u>2006</u>
Deferred tax assets attributable to:		
Receivable allowances	\$ 1,421	\$ 1,902
Accrued vacation	2,149	1,788
Accrued bonuses	11,246	7,429
Liability for nonqualified retirement plans	3,520	10,762
Accrued compensation – RSU plan	15,578	10,048
Accrued rent	2,809	1,674
Depreciation on property and equipment	3,056	1,818
Foreign net operating loss carryforwards	7,154	11,621
Goodwill	1,824	1,981
Accrued restructuring charges	2,646	5,624
Deferred compensation	5,096	6,748
U.S. foreign tax credit carryforwards	18,804	8,373
Other accrued expenses	2,743	3,304
Deferred tax assets, before valuation allowance	<u>78,046</u>	<u>73,072</u>
Deferred tax liabilities attributable to:		
Unrealized gain on equity and warrant portfolio	(695)	394
Prepaid expenses	(583)	(686)
Other	(4,581)	(4,486)
Deferred tax liabilities	<u>(5,859)</u>	<u>(4,778)</u>
Valuation allowance	<u>(11,042)</u>	<u>(28,721)</u>
Net deferred tax assets	<u>\$ 61,145</u>	<u>\$ 39,573</u>

The recognition of deferred tax assets is based on management's belief that it is more likely than not that the tax benefits associated with temporary differences, operating loss carryforwards and tax credits will be utilized. The Company assesses the recoverability of the deferred tax assets on an ongoing basis. In making this assessment, the Company considers all positive and negative evidence, including scheduled reversals of deferred tax liabilities, tax-planning strategies, projected future taxable income and recent financial performance.

The valuation allowance decreased from \$28.7 million as of December 31, 2006 to \$11.0 million as of December 31, 2007. During 2007 the Company recorded a tax provision benefit of approximately \$7.3 million related to the reversal of the valuation allowance on its U.S. foreign tax credits. The valuation allowances as of December 31, 2007 were related to certain foreign deferred tax assets and foreign net operating loss carryforwards. The Company intends to maintain these valuation allowances until sufficient positive evidence exists to support their reversal.

At December 31, 2007, the Company had \$25.0 million of net operating loss carryforwards related to its foreign tax filings. Depending on the tax rules of the foreign tax jurisdictions, the losses can be carried forward indefinitely or the carryforward periods are limited, ranging from 5 years to 7 years. The Company also had U.S. foreign tax credit carryforwards of \$18.8 million, expiring in 2009 through 2017.

As of December 31, 2007, the Company had unremitted earnings held in its foreign subsidiaries of approximately \$48.5 million. The Company did not recognize a deferred tax liability for U.S. income taxes and



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

foreign withholding taxes related to the unremitted earnings of its foreign operations because the Company intends to reinvest those earnings indefinitely. Determination of the amount of unrecognized deferred tax liability related to unremitted earnings of foreign subsidiaries is not practicable. A deferred tax liability will be recognized if and when the Company is no longer able to demonstrate that it plans to permanently reinvest unremitted earnings.

In June 2006, the FASB issued FIN 48 which establishes a single model to address accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement classification, interest and penalties, accounting in interim periods, disclosure and transition. Upon adoption as of January 1, 2007, the Company increased its existing reserves for uncertain tax positions by \$0.2 million, largely related to an increase in non-U.S. income tax matters. This increase was recorded as a cumulative effect adjustment to retained earnings.

As of January 1, 2007, the Company had \$5.8 million of unrecognized tax benefits. As of December 31, 2007 the Company has \$5.6 million of unrecognized tax benefits of which, if recognized, approximately \$3.5 million, net of federal tax benefits, would be recorded as a component of income tax expense. A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

Gross unrecognized tax benefits at January 1, 2007	\$5,803
Gross increases for tax positions of prior years	502
Gross decreases for tax positions of prior years	—
Lapse of statute of limitations	(753)
Gross unrecognized tax benefits at December 31, 2007	<u>\$5,552</u>

In many cases the Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant taxable authorities. The following table summarizes these open tax years by major jurisdiction:

<u>Jurisdiction</u>	<u>Open Tax Years</u>
Germany	2000–2006
Italy	2003–2006
United Kingdom	2002–2006
United States (1)	2000–2006

(1) Includes federal as well as state and local jurisdictions, as applicable.

The Company is currently under audit by several U.S. state and local jurisdictions and several foreign jurisdictions. It is likely that the examination phase of several of these audits will conclude in the next 12 months. Additionally, there are several statutes of limitation expected to close within the next 12 months. It is reasonably possible that a reduction of unrecognized tax benefits of \$2.0 million may occur by December 31, 2008.

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of the provision for income taxes in the Consolidated Statements of Operations. Accrued interest and penalties are \$1.5 million as of December 31, 2007.

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

**18. Segment Information**

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

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

The revenue, operating income, depreciation and amortization, and capital expenditures, by segment, for the years ended December 31, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
<b>Revenue:</b>			
Americas	\$333,561	\$265,421	\$238,582
Europe	207,504	163,605	134,259
Asia Pacific	78,589	49,497	39,456
Revenue before reimbursements (net revenue)	<u>619,654</u>	<u>478,523</u>	<u>412,297</u>
Reimbursements	28,612	23,471	20,553
Total	<u>\$648,266</u>	<u>\$501,994</u>	<u>\$432,850</u>
<b>Operating income:</b>			
Americas	\$ 67,480	\$ 53,929	\$ 50,356
Europe	31,865	14,883	7,651
Asia Pacific	15,946	13,278	10,401
Total regions	<u>115,291</u>	<u>82,090</u>	<u>68,408</u>
Corporate	<u>(35,787)</u>	<u>(31,633)</u>	<u>(24,429)</u>
Operating income before restructuring charges	79,504	50,457	43,979
Restructuring charges	—	(408)	(22,493)
Total	<u>\$ 79,504</u>	<u>\$ 50,049</u>	<u>\$ 21,486</u>
<b>Depreciation and amortization:</b>			
Americas	\$ 5,610	\$ 4,566	\$ 4,890
Europe	3,484	3,524	4,189
Asia Pacific	1,432	813	809
Total regions	<u>10,526</u>	<u>8,903</u>	<u>9,888</u>
Corporate	<u>753</u>	<u>1,479</u>	<u>1,357</u>
Total	<u>\$ 11,279</u>	<u>\$ 10,382</u>	<u>\$ 11,245</u>
<b>Capital expenditures:</b>			
Americas	\$ 2,117	\$ 1,977	\$ 2,477
Europe	2,157	1,765	1,923
Asia Pacific	3,412	895	1,095
Total regions	<u>7,686</u>	<u>4,637</u>	<u>5,495</u>
Corporate	<u>312</u>	<u>887</u>	<u>643</u>
Total	<u>\$ 7,998</u>	<u>\$ 5,524</u>	<u>\$ 6,138</u>

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

Identifiable assets, and goodwill and other intangible assets, by segment, at December 31, 2007 and 2006 are as follows:

	December 31,	
	2007	2006
<b>Identifiable assets:</b>		
Americas	\$ 199,854	\$ 174,046
Europe	188,030	171,620
Asia Pacific	82,059	59,661
Total regions	<u>469,943</u>	<u>405,327</u>
Corporate	146,941	107,982
Total	<u>\$ 616,884</u>	<u>\$ 513,309</u>
<b>Goodwill and other intangible assets, net:</b>		
Americas	\$ 69,941	\$ 70,281
Europe	24,428	21,313
Asia Pacific	5,211	2,251
Total regions	<u>99,580</u>	<u>93,845</u>
Corporate	—	—
Total	<u>\$ 99,580</u>	<u>\$ 93,845</u>

### 19. Guarantees

The Company has provided a bank guarantee to a European country's tax authority in the amount of the tax authority's audit assessment plus future interest as required by law. The amount of this bank guarantee is €5.7 million (equivalent to \$8.3 million at December 31, 2007). The bank guarantee is determined based upon the tax audit assessment plus future accrued interest. See Note 4, *Restricted Cash*.

The Company has issued guarantees supporting the payment of obligations of certain subsidiaries in Europe and Asia Pacific for office leases. The guarantees were made to secure the respective lease agreements and are for the term of the lease agreements, which extend through 2013. For each guarantee issued, should the subsidiary default on a lease payment, the Company would have to perform under the guarantee. The maximum amount of undiscounted payments the Company would be required to make in the event of default on all outstanding guarantees is approximately \$1.8 million as of December 31, 2007. No amount has been accrued for the Company's obligation under these guarantee arrangements as no event of default exists or is expected.

### 20. Commitments and Contingencies

#### *Operating Leases*

The Company leases office space in various buildings for its own use. The terms of these office-related leases provide that the Company pay base rent and a share of increases in operating expenses and real estate taxes in excess of defined amounts. These leases expire at various dates through 2024. The Company also leases certain computer equipment, the terms of which are accounted for as operating leases. Rent expense, which includes the base rent, operating expenses and real estate taxes, and the costs of equipment leases for the years ended December 31, 2007, 2006 and 2005, was \$34.2 million, \$29.2 million and \$28.0 million, respectively.

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

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

Year ending December 31,	Office Leases	Equipment Leases	Total
2008	\$ 32,294	\$ 1,085	\$ 33,379
2009	33,702	721	34,423
2010	25,381	289	25,670
2011	15,532	16	15,548
2012	12,097	—	12,097
Thereafter	84,950	—	84,950
Total	<u>\$ 203,956</u>	<u>\$ 2,111</u>	<u>\$ 206,067</u>

The aggregate minimum future lease payments on office leases is \$204.0 million. The Company has contractual sub-lease arrangements to receive aggregate sublease income of \$10.8 million related to certain leases that expire at various dates through 2013. The sublease income relates to properties which were sublet as part of the office consolidations and closings previously announced. See Note 16, *Restructuring Charges*, for additional information.

Certain of the leases provide for renewal options and the payments of real estate taxes and other occupancy costs. In addition, certain leases contain rent escalation clauses that require additional rental amounts in later years of the term. Rent expense for leases with rent escalation clauses is recognized on a straight-line basis over the minimum lease term.

#### *Litigation*

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

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

#### *Contingencies*

During the fourth quarter of 2005, a European country commenced a tax audit for the years 2001 to 2004, including an examination of the Company's arrangement with professional services companies that provide consulting services to the Company. On November 24, 2006, the examining tax authority issued a final assessment in the amount of €4.3 million (equivalent to \$6.2 million at December 31, 2007). No penalty has been included in this assessment. This final assessment has been appealed by the Company and the enforcement of the assessment has been suspended until a final determination of the appeal. The Company has provided a bank guarantee to the tax authority in the amount of the final assessment as required by local law. See Note 4,

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

*Restricted Cash* and Note 19, *Guarantees*. At this time, the Company believes that the likelihood of an unfavorable outcome is not probable and that the potential amount of any loss cannot be reasonably estimated. The Company also believes that the amount of a final assessment, if any, would not be material to the Company's financial condition.

**21. Subsequent Event**

On February 8, 2008, the Board of Directors authorized management to repurchase shares of the Company's common stock with an aggregate total amount up to \$50 million. Following completion of the May 24, 2007 repurchase authorization, the Company intends from time to time and as business conditions warrant to purchase shares of our common stock on the open market or in negotiated or block trades. No time limit has been set for completion of the program.

**PART II (continued)**

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

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of December 31, 2007, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports we file, or submit, under the Exchange Act is recorded, processed, summarized and reported as and when required.

*Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007 using criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and concluded that the Company maintained effective internal control over financial reporting as of December 31, 2007.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies may deteriorate.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during the year ended December 31, 2007 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item will be included under the captions “Election of Class II Directors,” “Committees of the Board of Directors,” “Nominees for Directors,” “Code of Ethics” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our 2008 Proxy Statement and is incorporated herein by reference. See also “Executive Officers” included in Part I of this report.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item will be included under the captions “Executive Compensation,” “Director Compensation” in our 2008 Proxy Statement and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item will be included under the caption “Voting Securities of Certain Beneficial Owners and Management” in our 2008 Proxy Statement and is incorporated herein by reference.

**Equity Compensation Plan Information**

The following table sets forth additional information as of December 31, 2007, about shares of our common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements, divided between plans approved by our stockholders and plans or arrangements not submitted to the stockholders for approval.

<u>Plan Category</u>	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders (1)	2,349,631(2)	\$ 30.35	2,039,253
Equity compensation plans not approved by stockholders	—	—	—
<b>Total equity compensation plans</b>	<b>2,349,631</b>	<b>\$ 30.35</b>	<b>2,039,253</b>

(1) For a description of the types of securities that may be issued under our 2007 Heidrick & Struggles GlobalShare Program (the “Plan”), please read Note 13, *Stock-Based Compensation*, in the Notes to Consolidated Financial Statements contained in Item 8 to this annual report on Form 10-K. The amount of any type of security to be issued under the Plan is to be determined by the Compensation Committee at the date of grant.

(2) Includes 1,634,736 restricted stock units.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item will be included under the caption “Certain Relationships and Related Transactions,” “Corporate Governance” in our 2008 Proxy Statement and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item will be included under the caption “Principal Accountant Fees and Services” in our 2008 Proxy Statement and is incorporated herein by reference.

**PART IV****ITEM 15. EXHIBITS**

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

1. Index to Consolidated Financial Statements:

See Consolidated Financial Statements included as part of this Form 10-K beginning on page 34.

2. Exhibits:

<u>Exhibit No.</u>	<u>Description</u>
3.01	Amended and Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.02 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023))
3.02	Amended and Restated By-laws of the Registrant (Incorporated by reference to Exhibit 3.02 of the Registrant's Form 10-K Filed March 26, 2003)
4.01	Specimen Stock Certificate (Incorporated by reference to Exhibit 4.01 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023))
10.01	Credit Agreement among Heidrick & Struggles International, Inc., the Lenders party thereto and JPMorgan Chase Bank, as Administrative Agent dated October 26, 2006 (Incorporated by referred to Exhibit 10.03 of the Registrant's Form 10-K filed March 15, 2007)
*10.02	Amendment No. 1 to the Credit Agreement among Heidrick & Struggles International, Inc., the Lenders party thereto and JPMorgan Chase Bank, as Administrative Agent, dated as of February 25, 2008.
10.03	Purchase Agreement, dated as of September 18, 2006, by and among Hudson Highland Group, Inc., Highland Partners Co (Canada), Highland Partners (Aust) Pty Ltd and Highland Partners Limited, and the Company, Heidrick & Struggles Canada, Inc. and Heidrick & Struggles Australia, Ltd (Incorporated by reference to Exhibit 10.01 of the Registrant's Form 8-K Filed September 20, 2006)
*10.04	Lease between 1114 6 <sup>th</sup> Avenue Co., LLC and Heidrick & Struggles International, Inc., and Heidrick & Struggles, Inc., dated August 31, 2007
10.05	Employment Agreement of L. Kevin Kelly (Incorporated by reference to Exhibit 1.01 of the Registrants From 10-Q filed on April 3, 2007)
10.06	Employment agreement of Eileen A. Kamerick (Incorporated by reference to Exhibit 10.02 of the Registrant's Form 10-Q filed on August 6, 2004)
*10.07	Employment Agreement of K. Steven Blake
*10.08	Employment Agreement of David Peters
*10.09	Employment Agreement of Gerry Davis
*10.10	Employment Agreement of Valerie Germaine
*10.11	Employment Agreement of Sanjay Gupta
10.12	Separation Agreement and General Release between Vincent C. Perro and Heidrick & Struggles International, Inc., (Incorporated by reference to Exhibit 99.1 of the Registrants Form 8-K filed on February 20, 2007)



## Table of Contents

<u>Exhibit No.</u>	<u>Description</u>
10.13	2007 Heidrick & Struggles GlobalShare Plan (Incorporated by reference to Exhibit 10.01 of the Registrant's Form 8-K filed on June 8, 2007)
10.14	Heidrick & Struggles Incentive Plan (Incorporated by reference to Exhibit 10.02 of the Registrant's Form 8-K, filed on June 8, 2007)
10.15	Form of Heidrick & Struggles Non-Qualified Stock Option Agreement (Incorporated by reference to Exhibit 10.03 of the Registrant's Form 8-K filed on June 8, 2007)
10.16	Form of Heidrick & Struggles Restricted Stock Unit Participation Agreement (Incorporated by reference to Exhibit 10.04 of the Registrant's Form 8-K filed on June 8, 2007)
10.17	Heidrick & Struggles International, Inc. U.S. Employees Deferred Compensation Plan (Incorporated by reference to Exhibit 10.10 of the Registrant's Form 10-K filed on March 10, 2006)
10.18	Heidrick & Struggles International, Inc. Deferred Compensation Plan (Incorporated by reference to Exhibit 4.1 of this Registrant's Registration Statement on Form S-8 (File No. 333-82424))
*21.01	Subsidiaries of the Registrant
*23.01	Consent of Independent Registered Public Accounting Firm
*31.1	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed herewith.

(b)SEE EXHIBIT INDEX ABOVE

(c)FINANCIAL STATEMENTS NOT PART OF ANNUAL REPORT

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Chicago, State of Illinois, on February 28, 2008.

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

By	/s/ EILEEN A. KAMERICK
Title	Executive Vice President, Chief Financial Officer and Chief Administrative Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 28, 2008.

<u>Signature</u>	<u>Title</u>
/s/ L. KEVIN KELLY L. Kevin Kelly (principal executive officer)	Chief Executive Officer and Director
/s/ EILEEN A. KAMERICK Eileen A. Kamerick (principal financial and accounting officer)	Executive Vice President, Chief Financial Officer and Chief Administrative Officer
/s/ RICHARD I. BEATTIE Richard I. Beattie	Director
/s/ ANTONIO BORGES Antonio Borges	Director
/s/ JOHN A. FAZIO John A. Fazio	Director
/s/ JILL KANIN-LOVERS Jill Kanin-Lovers	Director
/s/ GARY E. KNELL Gary E. Knell	Director
/s/ ROBERT E. KNOWLING, JR. Robert E. Knowling, Jr.	Director
/s/ GERARD R. ROCHE Gerard R. Roche	Director
/s/ V. PAUL UNRUH V. Paul Unruh	Director

**AMENDMENT NO. 1**  
**to**  
**CREDIT AGREEMENT**

THIS AMENDMENT NO. 1 TO CREDIT AGREEMENT (this "Amendment") is dated as of February 25, 2008 (the "Effective Date") by and among HEIDRICK & STRUGGLES INTERNATIONAL, INC. (the "Borrower"), the financial institutions listed on the signature pages hereof (the "Lenders"), and JPMORGAN CHASE BANK, NATIONAL ASSOCIATION as Administrative Agent (the "Administrative Agent"), under that certain Credit Agreement dated as of October 26, 2006 by and among the Borrower, the financial institutions party thereto, and the Administrative Agent (as amended, the "Credit Agreement"). Defined terms used herein and not otherwise defined herein shall have the respective meanings given to them in the Credit Agreement.

WITNESSETH

WHEREAS, the Borrower, the Lenders and the Administrative Agent are parties to the Credit Agreement; and

WHEREAS, the Borrower has requested that the Administrative Agent and the requisite number of Lenders under Section 9.02 of the Credit Agreement amend the Credit Agreement on the terms and conditions set forth herein; and

WHEREAS, the Borrower, the requisite number of Lenders under Section 9.02 of the Credit Agreement, and the Administrative Agent have agreed to amend the Credit Agreement on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises set forth above, the terms and conditions contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto have agreed to the following:

1. Amendment to the Credit Agreement. Effective as of the Effective Date and subject to the satisfaction of the conditions precedent set forth in Section 2 below, the Credit Agreement is hereby amended as follows:

(a) Section 6.06(c) of the Credit Agreement is amended to delete the reference to "\$75,000,000" appearing therein and to substitute therefor a reference to "(x) for the period from and including the Effective Date to and including June 29, 2009, \$125,000,000 and (y) from and after June 30, 2009, \$75,000,000".

2. Conditions of Effectiveness. The effectiveness of this Amendment is subject to the conditions precedent that the Administrative Agent shall have received (i) counterparts of this Amendment duly executed by the Borrower, the Required Lenders and the Administrative Agent and the Consent and Reaffirmation attached hereto duly executed by the Subsidiary Guarantors and (ii) for the account of each Lender which delivers its executed signature page hereto by such time as is requested by the Administrative Agent, an amendment fee in an amount equal to \$5,000 for each such Lender.

3. Representations and Warranties of the Borrower.

(a) The Borrower hereby represents and warrants that this Amendment and the Credit Agreement, as previously executed and as amended hereby, constitute legal, valid and binding obligations of the Borrower and are enforceable against the Borrower in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(b) Upon the effectiveness of this Amendment and after giving effect hereto, the Borrower hereby (i) reaffirms all covenants, representations and warranties made in the Credit Agreement as amended hereby, and agrees that all such covenants, representations and warranties shall be true and correct as of the effective date of this Amendment (unless such representation and warranty is made as of a specific date, in which case such representation and warranty shall be true and correct as of such date) and (ii) certifies to the Lenders and the Administrative Agent that no Default has occurred and is continuing.

4. References to the Credit Agreement.

(a) Upon the effectiveness of Section 1 hereof, on and after the date hereof, each reference in the Credit Agreement (including any reference therein to "this Agreement," "hereunder," "hereof," "herein" or words of like import referring thereto) or in any other Loan Document shall mean and be a reference to the Credit Agreement as amended hereby.

(b) Except as specifically amended above, the Credit Agreement and all other Loan Documents shall remain in full force and effect, and are hereby ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Administrative Agent or the Lenders, nor constitute a waiver of any provision of the Credit Agreement or any other Loan Documents.

5. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

6. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

7. Counterparts. This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

IN WITNESS WHEREOF, this Amendment has been duly executed as of the day and year first above written.

**HEIDRICK & STRUGGLES INTERNATIONAL, INC.,**  
as the Borrower

By: /s/ Maureen J. Resac

Name: Maureen J. Resac

Title: Treasurer

Signature Page to Amendment No. 1 to Credit Agreement

**JPMORGAN CHASE BANK, NATIONAL ASSOCIATION,**  
individually and as Administrative Agent

By: /s/ Suzanne D. Ergastolo

Name: Suzanne D. Ergastolo

Title: Vice President

Signature Page to Amendment No. 1 to Credit Agreement

**LASALLE BANK NATIONAL ASSOCIATION**

By: /s/ Craig W. McGuire

Name: Craig W. McGuire

Title: Senior Vice President

Signature Page to Amendment No. 1 to Credit Agreement

**BANK OF AMERICA, N.A.**

By: /s/ Craig W. McGuire

Name: Craig W. McGuire

Title: Senior Vice President

Signature Page to Amendment No. 1 to Credit Agreement



**CITIBANK, N.A.**

By: /s/ Scott Miller

Name: Scott Miller

Title: Vice President

Signature Page to Amendment No. 1 to Credit Agreement

**THE NORTHERN TRUST COMPANY**

By: /s/ Phillip McCaulay

Name: Phillip McCaulay

Title: Vice President

Signature Page to Amendment No. 1 to Credit Agreement

CONSENT AND REAFFIRMATION

Each of the undersigned hereby acknowledges receipt of a copy of the foregoing Amendment No. 1 to the Credit Agreement dated as of October 26, 2006 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement") by and among Heidrick & Struggles International, Inc. (the "Borrower"), the financial institutions from time to time party thereto (the "Lenders") and JPMorgan Chase Bank, National Association, as Administrative Agent (the "Administrative Agent"), which Amendment No. 1 is dated as of February 25, 2008 (the "Amendment"). Capitalized terms used in this Consent and Reaffirmation and not defined herein shall have the meanings given to them in the Credit Agreement. Without in any way establishing a course of dealing by the Administrative Agent or any Lender, each of the undersigned consents to the Amendment and reaffirms the terms and conditions of the Subsidiary Guaranty and any other Loan Document executed by it and acknowledges and agrees that such agreements and each and every such Loan Document executed by the undersigned in connection with the Credit Agreement remains in full force and effect and is hereby reaffirmed, ratified and confirmed. All references to the Credit Agreement contained in the above-referenced documents shall be a reference to the Credit Agreement as so modified by the Amendment and as the same may from time to time hereafter be amended, modified or restated.

Dated: February 25, 2008

[Signature Page Follows]

HEIDRICK & STRUGGLES, INC.

By: /s/ Maureen J. Resac

Name: Maureen J. Resac

Title: Treasurer

HEIDRICK & STRUGGLES ASIA-PACIFIC, LTD.

By: /s/ Maureen J. Resac

Name: Maureen J. Resac

Title: Treasurer

HEIDRICK & STRUGGLES LATIN AMERICA, INC.

By: /s/ Maureen J. Resac

Name: Maureen J. Resac

Title: Treasurer

HEIDRICK & STRUGGLES ESPANA, INC.

By: /s/ Maureen J. Resac

Name: Maureen J. Resac

Title: Treasurer

HEIDRICK & STRUGGLES  
UNTERNEHMENSBERATUNG, GMBH & CO. KG

By: /s/ Maureen J. Resac

Name: Maureen J. Resac

Title: Power of Attorney

Signature Page to Consent and Reaffirmation

LEASE

between

1114 6<sup>TH</sup> AVENUE CO. LLC,

Landlord

and

HEIDRICK & STRUGGLES INTERNATIONAL, INC. and

HEIDRICK & STRUGGLES, INC.,

collectively, Tenant

August 31, 2007

PREMISES:

1114 Avenue of the Americas

New York, New York

Entire 24<sup>th</sup> and 25<sup>th</sup> Floors

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EXHIBIT – I	Form of Ground Lessor Nondisturbance Agreement
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EXHIBIT – K	Approved Contractors for Initial Alterations
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LEASE, dated as of August 31, 2007, between 1114 6<sup>TH</sup> AVENUE CO. LLC, having an office at c/o Brookfield Properties Management LLC, Three World Financial Center, 200 Vesey Street, New York, New York 10281-1021 ("Landlord") and HEIDRICK & STRUGGLES INTERNATIONAL, INC. a Delaware corporation, having an office at 233 South Wacker Drive-Suite 4200, Chicago, Illinois 60606-6303 and HEIDRICK & STRUGGLES, INC., a Delaware corporation, having an office at 245 Park Avenue, New York, New York 10017 (collectively, "Tenant").

Landlord and Tenant do hereby covenant and agree as follows:

## ARTICLE 1

### Term and Fixed Rent

1.01 Landlord hereby leases to Tenant, and Tenant hereby hires from Landlord, upon and subject to the terms, covenants, provisions and conditions of this Lease, the premises described in Section 1.02 in the building ("Building") known as 1114 Avenue of the Americas, in the City, County and State of New York. The Building is located on a portion of the land ("Land") described in *Exhibit A* annexed hereto and made a part hereof.

1.02 The premises ("Premises") leased to Tenant are located on the 24th and 25<sup>th</sup> floors of the Building, substantially as shown hatched on the floor plan attached hereto as *Exhibit B* and made a part hereof. Landlord and Tenant hereby covenant and agree that the Premises shall be deemed to contain 58,588 rentable square feet based on Landlord's current standards of measurement. Landlord hereby grants to Tenant the non-exclusive right to use, in common with others, the public areas of the Building to the extent required for access to the Premises or use of the Premises for general and executive offices, including, without limitation, common hallways on the floor on which the Premises are located, stairways, and the Building lobby, subject to the terms, covenants, provisions and conditions of this Lease.

1.03 The term of this Lease (a) shall commence on the Commencement Date (as defined in Section 1.05 hereof) and (b) shall end at 11:59 p.m. on the last day of the month in which the fifteenth (15) anniversary of the day preceding the Rent Commencement Date (as defined in Section 1.05 hereof) occurs (the "Expiration Date") or on such earlier date upon which the term of this Lease shall expire or be canceled or terminated pursuant to any of the conditions or covenants of this Lease or pursuant to law.

1.04 The rents shall be and consist of:

(a) fixed rent ("Fixed Rent") at the rate of:

(i) SIX MILLION TWO HUNDRED TEN THOUSAND THREE HUNDRED TWENTY-EIGHT DOLLARS (\$6,210,328.00) per annum (\$517,527.33 per month) from the Rent Commencement Date through the last day of the month preceding the month in which occurs the fifth anniversary of the Rent Commencement Date;

(ii) SIX MILLION SIX HUNDRED TWENTY THOUSAND FOUR HUNDRED FORTY-FOUR DOLLARS (\$6,620,444.00) per annum (\$551,703.67 per month)

from the first day of the month in which occurs the fifth anniversary of the Rent Commencement Date, through the last day of the month preceding the month in which occurs the tenth anniversary of the Rent Commencement Date; and

(iii) SEVEN MILLION THIRTY THOUSAND FIVE HUNDRED SIXTY DOLLARS (\$7,030,560.00) per annum (\$585,880.00 per month) from the first day of the month in which occurs the tenth anniversary of the Rent Commencement Date, through the Expiration Date;

(Fixed Rent shall be payable in equal monthly installments in advance on the first day of each and every calendar month during the term, and

(b) additional rent (“Additional Charges”) consisting of Tax Payments (hereinafter defined), Operating Payments (hereinafter defined), charges for electricity furnished to Tenant and all other sums of money as shall become due from and payable by Tenant to Landlord hereunder;

all to be paid in lawful money of the United States to Landlord at its office, or such other place, or to Landlord’s agent and at such other place, as Landlord shall designate by notice to Tenant.

1.05 The “Commencement Date” shall be the date which is the earlier to occur of: (i) five (5) Business Days after the date on which Landlord has delivered notice to Tenant that the work to be performed by Landlord to prepare the Premises for Tenant’s occupancy as described on *Exhibit C* attached hereto (“Landlord’s Work”) has been substantially completed and the Premises are vacant and free of rights of possession, or (ii) except as to Tenant’s access to the Premises as provided in the last sentence in this Section 1.05, the date Tenant or anyone claiming under or through Tenant, first occupies the Premises, or any part thereof, for the performance of Tenant’s Work or for any other purpose. Tenant shall, upon the demand of Landlord, execute, acknowledge and deliver to Landlord an instrument in form reasonably satisfactory to Landlord confirming the Commencement Date, the Rent Commencement Date and the Expiration Date of this Lease; *provided, however*, Tenant’s failure to execute, acknowledge and deliver such instrument shall not affect in any manner whatsoever the validity of the Commencement Date. The “Rent Commencement Date” shall be the date that is 210 days after the Commencement Date. During the period in which Landlord is performing Landlord’s Work, Tenant shall have access to the Premises during Business Hours for design and measurement purposes (without being deemed to have occupied the Premises), provided (i) Tenant has given Landlord advance notice (which may be by telephone), (ii) Tenant does not interfere with the completion of Landlord’s Work, and (iii) Landlord shall have the right to have a representative present during such access.

1.06 Tenant covenants and agrees to pay Fixed Rent and Additional Charges promptly when due without notice or demand therefor and without any abatement, deduction or setoff for any reason whatsoever, except as may be expressly provided in this Lease. Unless otherwise instructed by Landlord, Fixed Rent and Additional Charges shall be paid by good and sufficient check (subject to collection) or by wire transfer to an account designated by Landlord.

1.07 If the Rent Commencement Date or the Expiration Date occurs on a day other than the first day of a calendar month (in the case of the Rent Commencement Date) or the last day of a calendar month (in the case of the Expiration Date), the Fixed Rent and Additional Charges for the partial calendar month in which the Rent Commencement Date or the Expiration Date, as the case may be, occurs shall be prorated. The Fixed Rent for any partial calendar month in which the Rent Commencement Date occurs shall be paid on the Rent Commencement Date.

1.08 No payment by Tenant or receipt or acceptance by Landlord of a lesser amount than the correct Fixed Rent or Additional Charges shall be deemed to be other than a payment on account, nor shall any endorsement or statement on any check or any letter accompanying any check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance or pursue any other remedy in this Lease or at law provided.

1.09 Any apportionments or prorations of Fixed Rent or Additional Charges to be made under this Lease shall be computed on the basis of a 360-day year (based on 12 months of 30 days each).

1.10 If any of the Fixed Rent or Additional Charges payable under the terms and provisions of this Lease shall be or become uncollectible, reduced or required to be refunded because of any act or law enacted by a governmental authority, Tenant shall enter into such agreement(s) and take such other steps (without additional expense to Tenant) as Landlord may reasonably request and as may be legally permissible to permit Landlord to collect the maximum rents which from time to time during the continuance of such legal rent restriction may be legally permissible (but not in excess of the amounts reserved therefor under this Lease). Upon the termination of such legal rent restriction, (a) the Fixed Rent and/or Additional Charges shall become and thereafter be payable in accordance with the amounts reserved herein for the periods following such termination, and (b) Tenant shall pay to Landlord promptly upon being billed, to the maximum extent legally permissible, an amount equal to (i) the Fixed Rent and/or Additional Charges which would have been paid pursuant to this Lease but for such legal rent restriction less (ii) the rents paid by Tenant during the period such legal rent restriction was in effect.

1.11 Additional Charges shall be deemed to be rent and Tenant's failure to pay Additional Charges shall be considered a failure to pay Fixed Rent hereunder and Landlord shall be entitled to all rights and remedies provided herein or by law for a default in the payment of Additional Charges as for a default in the payment of Fixed Rent (notwithstanding the fact that Tenant may not then also be in default in the payment of Fixed Rent).

## ARTICLE 2

### Delivery and Use of Premises

2.01 (a) Except as expressly provided to the contrary in this subsection 2.01(a), Tenant shall accept the Premises "as is" on the Commencement Date (subject to the completion of any Punchlist Items (as hereinafter defined) and Landlord shall not

thereafter be required to perform any work, install any fixtures or equipment or render any services to make the Building or the Premises ready or suitable for Tenant's use or occupancy. Landlord shall perform Landlord's Work prior to the Commencement Date in the manner and subject to the provisions of *Exhibit C* attached hereto and made a part hereof. Landlord's Work shall be deemed to have been substantially completed even though (i) minor details or adjustments may not then be completed, and (ii) items which, in accordance with good construction practice, must be performed after completion of Tenant's Work (items (i) and (ii) are collectively "Punchlist Items") may not then be completed, subject to Landlord's obligation to complete Landlord's Work. The taking of possession of the Premises by Tenant for the performance of Alterations (as hereinafter defined) or for any other reason whatsoever shall be deemed an acceptance of the Premises (but not including Tenant's access to the Premises as provided in the last sentence of Section 1.05 above) and substantial completion by Landlord of Landlord's Work. Landlord shall complete the clause (i) Punchlist Items with due diligence within sixty (60) days after the Commencement Date, subject to Force Majeure and the clause (ii) Punchlist Items within 60 days of the completion of Tenant's Work, subject to Force Majeure.

(b) If for any reason whatsoever, Landlord shall be unable to deliver possession of the Premises on the Commencement Date, which Landlord anticipates, without any representation or warranty, will occur on or before April 1, 2008, then notwithstanding anything to the contrary hereinbefore contained, the term of this Lease shall commence on, and the Commencement Date shall be, the date on which Landlord is able to so deliver possession of the Premises. Landlord shall not be subject to any liability for failure to give possession on any date as a result of Landlord's failure to obtain possession of the Premises and the validity of this Lease shall not be impaired under such circumstances, nor the same be construed in any way to extend the term of this Lease. Tenant hereby waives any right to rescind this Lease under the provisions of Section 223(a) of the Real Property Law of the State of New York, and agrees that the provisions of this Article are intended to constitute "an express provision to the contrary" within the meaning of said Section 223(a). Notwithstanding any provision contained in this Lease to the contrary, if the Commencement Date shall not have occurred on or before August 1, 2008 (as such date may be extended one day for each day of delay occasioned by reason of Force Majeure; hereinafter referred to as the "Outside Delivery Date"), then, Tenant may terminate this Lease on thirty (30) days' notice to Landlord given within the thirty (30) days after the Outside Delivery Date (but prior to the occurrence of the Commencement Date), time being of the essence with respect to Tenant's exercise of Tenant's right to terminate and, in such event, this Lease shall terminate effective as of the thirtieth (30th) day after the date such notice by Tenant is given as if the termination date were the Expiration Date; provided, however, that if the Commencement Date shall have occurred prior to such thirtieth (30th) day, Tenant's exercise of such right to terminate this Lease shall be void and of no force or effect. Tenant hereby acknowledges and agrees that such rescission right shall be Tenant's sole and exclusive remedy if the Commencement Date shall not have occurred on or before the Outside Delivery Date, and that Landlord shall have no other liability to Tenant for failure of the Commencement Date to occur.

(c) If the current tenant or occupant of the Premises holds over for more than thirty (30) days beyond the termination of its lease or sublease, Landlord shall diligently seek to recover possession of the Premises, including the commencement of summary dispossess proceedings and pursue the eviction of such tenant or occupant.

2.02 Tenant shall use and occupy the Premises for executive and general offices, and uses ancillary thereto (including standard office pantries without cooking other than coffee maker and microwave), initially for an executive search firm and for no other purpose.

2.03 If any governmental license or permit (other than a Certificate of Occupancy for the entire Building, a copy of which is attached hereto as Exhibit H) shall be required for the proper and lawful conduct of Tenant's business in the Premises or any part thereof, Tenant, at its expense, shall duly procure and thereafter maintain such license or permit and submit the same to Landlord for inspection. Tenant shall at all times comply with the terms and conditions of each such license or permit. Additionally, should Alterations (hereinafter defined) or Tenant's use of the Premises for other than executive and general offices require any modification or amendment of any Certificate of Occupancy for the Building, Tenant shall, at its expense, take all actions reasonably requested by Landlord in order to procure any such modification or amendment and shall reimburse Landlord (as Additional Charges) for all reasonable costs and expenses Landlord incurs in effecting said modifications or amendments. The foregoing provisions are not intended to be deemed Landlord's consent to any Alterations or to a use of the Premises not otherwise permitted hereunder nor to require Landlord to effect such modifications or amendments of any Certificate of Occupancy.

2.04 Tenant shall not at any time use or occupy the Premises or the Building, or suffer or permit anyone to use or occupy the Premises, or do anything in the Premises or the Building, or suffer or permit anything to be done in, brought into or kept on the Premises, which in any manner (a) violates the Certificate of Occupancy for the Premises or for the Building; (b) causes or is liable to cause injury to the Premises or the Building or any equipment, facilities or systems therein; (c) constitutes a violation of Legal Requirements or Insurance Requirements, provided such Insurance Requirements do not prohibit the use of the Premises for the purposes permitted under Section 2.02 hereof; (d) impairs the character, reputation or appearance of the Building as a first-class office building; (e) impairs the proper and economic maintenance, operation and repair of the Building and/or its equipment, facilities or systems; (f) unreasonably annoys or inconveniences other tenants or occupants of the Building; (g) constitutes a nuisance, public or private; (h) makes unobtainable from reputable insurance companies authorized to do business in New York State all-risk property insurance, or liability, elevator, boiler or other insurance at standard rates required to be furnished by Landlord under the terms of any mortgages covering the Premises; or (i) discharges objectionable fumes, vapors or odors into the Building's flues or vents or otherwise.

2.05 Tenant shall not use, or suffer or permit anyone to use, the Premises or any part thereof, for (a) a retail banking, trust company, or safe deposit business, (b) a retail savings bank, a savings and loan association, or a loan company operating an "off the street" business to the general public at the Premises, (c) the sale of travelers' checks and/or foreign exchange, (d) a retail stock brokerage office or for stock brokerage purposes for "off the street" business, (e) a restaurant and/or bar and/or the sale of confectionery and/or soda and/or beverages and/or sandwiches and/or ice cream and/or baked goods (except from vending machines in the Premises or if expressly provided otherwise elsewhere in this Lease), (f) the business of



photographic reproductions and/or offset printing (except that Tenant and its permitted assignees, subtenants and occupants may use part of the Premises for photographic reproductions and/or offset printing in connection with, either directly or indirectly, its own business and/or activities), (g) an employment or travel agency, (h) a school or classroom, (i) medical or psychiatric offices, (j) conduct of an auction, (k) gambling activities or (1) the conduct of obscene, pornographic or similar disreputable activities. Further, the Premises may not be used by (i) an agency, department or bureau of the United States Government, any state or municipality within the United States or any foreign government, or any political subdivision of any of them, (ii) any charitable, religious, union or other not-for-profit organization, or (iii) any tax exempt entity within the meaning of Section 168(j)(4)(A) of the Internal Revenue Code of 1986, as amended, or any successor or substitute statute, or rule or regulation applicable thereto (as same may be amended).

### ARTICLE 3

#### Escalations

3.01 The terms defined below shall for the purposes of this Lease have the meanings herein specified:

(a) "Base Operating Amount" shall mean the Operating Expenses for the Base Operating Year.

(b) "Base Operating Year" shall mean the calendar year commencing on January 1, 2008.

(c) "Base Tax Amount" shall mean one-half of the sum of the Taxes, as finally determined, for (i) the Tax Year commencing on July 1, 2007 plus (ii) the Tax Year commencing July 1, 2008.

(d) "Landlord's Statement" shall mean an instrument or instruments setting forth the Operating Payment (hereinafter defined) payable by Tenant for a specified Operating Year pursuant to this Article 3.

(e) "Operating Expenses" shall mean all expenses paid or incurred by Landlord and Landlord's affiliates and/or on their behalf in respect of the repair, replacement, maintenance, operation and/or security of the Real Property (hereinafter defined), including, without limitation, (i) salaries, wages, medical, surgical, insurance (including, without limitation, group life and disability insurance) of employees of Landlord or Landlord's affiliates, union and general welfare benefits, pension benefits, severance and sick day payments, and other fringe benefits of employees of Landlord and Landlord's affiliates and their respective contractors engaged in such repair, replacement, maintenance, operation and/or security; (ii) payroll taxes, worker's compensation, uniforms and related expenses (whether direct or indirect) for such employees; (iii) the cost of fuel, gas, steam, electricity, heat, ventilation, air conditioning, chilled and condenser water, water, sewer and other utilities, together with any taxes and surcharges on, and fees paid in connection with the calculation and billing of such utilities; (iv) the cost of painting and/or decorating all areas of the Real Property, excluding, however, any space

contained therein which is demised or to be demised to tenant(s); (v) the cost of casualty, liability, fidelity, rent and all other insurance regarding the Real Property and/or any property on, below or above the Real Property, and the repair, replacement, maintenance, operation and/or security thereof; (vi) the cost of all supplies, tools, materials and equipment, whether by purchase or rental, used in the repair, replacement, maintenance, operation and/or security of the Real Property, and any sales and other taxes thereon; (vii) the rental value of the Landlord's Building office utilized by the personnel of either Landlord or Landlord's affiliates, in connection with the repair, replacement, maintenance, operation and/or security thereof, and all Building office expenses, such as telephone, utility, stationery and similar expenses incurred in connection therewith; (viii) the cost of cleaning, janitorial and security services, including, without limitation, glass cleaning, snow and ice removal and garbage and waste collection and/or disposal; (ix) the cost of all interior and exterior landscaping and all temporary exhibitions located at or within the Real Property; (x) the cost of alterations and improvements made or installed after the expiration of the Base Operating Year by reason of Legal Requirements or Insurance Requirements and all tools and equipment related thereto; (xi) the cost of all other alterations, repairs, replacements and/or improvements made or installed after the expiration of the Base Operating Year by Landlord or Landlord's affiliates, at their respective expense, whether structural or non-structural, ordinary or extraordinary, foreseen or unforeseen, and whether or not required by this Lease, and all tools and equipment related thereto; *provided, however*, that if under generally accepted accounting principles consistently applied, any of the costs referred to in clause (x) or this clause (xi) are required to be capitalized, then such capitalized costs (and, at Landlord's option, any other costs included in Operating Expenses), together with interest thereon at the Base Rate (as defined in subsection 35.05(j) hereof) in effect as of December 31 of the year in which such expenditure is made, shall be amortized or depreciated, as the case may be, over a period of time which shall be the shorter of: (A) the useful life of the item in question, as reasonably determined by Landlord; or (B) ten (10) years; *provided, however*, that with respect to any capital improvement and/or any machinery or equipment which is made or becomes operational, as the case may be, after the Base Operating Year, and which has the effect of reducing the expenses which otherwise would be included in Operating Expenses, the amount included in Operating Expenses in any Operating Year until such improvement and/or machinery or equipment has been fully amortized or depreciated, as the case may be, shall be an amount which is the greater of: (X) the amortization or depreciation, as the case may be, of such capital improvement and/or machinery or equipment, which would have been included in Operating Expenses pursuant to the foregoing provisions; or (Y) the amount of savings, as reasonably estimated by Landlord, resulting from the installation and operation of such improvement and/or machinery or equipment; (xii) management fees, *provided, however*, that if Landlord or an affiliate of Landlord is the managing agent of the Building then the annual management fee shall be equal to two and one-half (2-1/2%) percent of gross revenues derived from the Building; (xiii) omitted; (xiv) all reasonable costs and expenses of legal, bookkeeping, accounting and other professional services incurred in connection with the operation, and management of the Real Property except as hereinafter excluded; (xv) fees, dues and other contributions paid by or on behalf of Landlord or Landlord's affiliates to civic or other real estate organizations provided however that the amount to be included in any Operating Year for such fees, dues and other contributions shall not exceed an amount equal to 105% of the amount included in Operating Expenses for such fees, dues and other contributions during the immediately preceding Operating Year (or the Base Operating Year in the case of the first

Operating Year); and (xvi) all other fees, costs, charges and expenses properly allocable to the repair, replacement, maintenance, operation and/or security of the Real Property, in accordance with then prevailing customs and practices of the real estate industry in the Borough of Manhattan, City of New York. The term "Operating Expenses", as used and defined under this subsection (d), shall not, however, include the following items: (1) depreciation and amortization (except as provided above in this subsection); (2) interest on and amortization of debts (and costs and charges incurred in connection with such financings); (3) the cost of tenant improvements or other preparations for occupancy made for tenant(s) of the Building or allowances in lieu thereof; (4) brokerage commissions; (5) financing or refinancing costs; (6) the cost of any work or services performed for any tenant(s) of the Building (including Tenant), whether at the expense of Landlord or Landlord's affiliates or such tenant(s), to the extent that such work or services are in excess of the work or services which Landlord or Landlord's affiliates are required to furnish Tenant under this Lease, at the expense of Landlord or Landlord's affiliates; (7) the cost of any electricity consumed in the Premises or any other space in the Building demised to tenant(s); (8) Taxes; (9) salaries and fringe benefits for officers, employees and executives above the grade of Building Manager; (10) amounts received by Landlord through the proceeds of insurance or condemnation or from a tenant (other than pursuant to an escalation provision similar to this Article 3) or otherwise to the extent such amounts are compensation for sums previously included in Operating Expenses for such Operating Year or any prior Operating Year; (11) costs of repairs or replacements incurred by reason of fire or other casualty or condemnation except that in connection therewith any amount equal to the deductibles under Landlord's insurance policies (or in the event Landlord shall not carry insurance, an amount of deductibles customarily carried by landlords of first-class office buildings comparable to the Building) may be included within Operating Expenses; (12) advertising and promotional expenditures; (13) legal, accounting and other professional fees incurred in connection with negotiations or disputes by Landlord, its affiliates or partners with lenders, superior lessors or tenants, or the filing of a petition in bankruptcy by or against Landlord or its affiliates; (14) any expenditure paid to any corporation or entity related to or affiliated with Landlord or the principals of Landlord to the extent such expenditure exceeds the amount which would be paid in the absence of such relationship; (15) the cost of any service furnished to tenants of the Building (including Tenant) to the extent that such cost is separately reimbursed to Landlord (other than through the Operating Payments or comparable payments pursuant to escalation-type provisions similar to the provisions of this Article 3); (16) cost of works of art of the quality and nature of "fine art" rather than decorative art work customarily found in first-class Park Avenue office buildings which are similar to the Building; (17) costs incurred in connection with the maintenance, repair, operation or leasing of the parking garage in the Building, except that Landlord may include in Operating Expenses (to the extent otherwise includable) the cost of any repairs and capital expenditures to portions of the Building, Building systems and facilities and equipment that is physically located in the garage but which serves the Building generally; (18) costs to correct construction defects in the Building; (19) cost of repairs due to Landlord's negligence (but not including costs that Landlord would have otherwise incurred notwithstanding Landlord's negligence); (20) auditing fees not incurred in connection with the operation and management of the Real Property and (21) base ground rent under any ground lease. No item of expense shall be counted more than once either as an inclusion in or an exclusion from Operating Expenses, and any expense which should be allocated, in accordance with generally accepted accounting principles, between the Real Property, on the one hand, and any other property owned by Landlord or an affiliate of Landlord, on the other hand, shall be properly allocated in accordance therewith.

(f) "Operating Year" shall mean each calendar year in which occurs any part of the term of this Lease following the end of the Base

Operating Year.

(g) "Real Property" shall mean, collectively, the Building (together with all personal property located therein and all fixtures, facilities, machinery and equipment used in the operation thereof, including, but not limited to, all cables, fans, pumps, boilers, heating and cooling equipment, wiring and electrical fixtures and metering, control and distribution equipment, component parts of the HVAC, electrical, plumbing, elevator and any life or property protection systems (including, without limitation, sprinkler systems, window washing equipment and snow removal equipment), the Land, any property beneath the Land, the curbs, sidewalks and plazas on and/or immediately adjoining the Land, and all easements, air rights, development rights and other appurtenances to the Building or the Land or both the Land and the Building.

(h) "Taxes" shall mean (A) the real estate taxes, vault taxes, assessments and special assessments, and business improvement district or similar charges levied, assessed or imposed upon or with respect to the Real Property, by any federal, state, municipal or other governments or governmental bodies or authorities, and (B) all taxes assessed or imposed with respect to the rentals payable hereunder other than general income and gross receipts taxes. If at any time during the term of this Lease the methods of taxation prevailing on the date hereof shall be altered so that in lieu of, or as an addition to or as a substitute for, the whole or any part of such real estate taxes, assessments and special assessments now imposed on real estate, there shall be levied, assessed or imposed (x) a tax, assessment, levy, imposition, license fee or charge wholly or partially as a capital levy or otherwise on the rents received therefrom, or (y) any other such additional or substitute tax, assessment, levy, imposition, fee or charge, then all such taxes, assessments, levies, impositions, fees or charges or the part thereof so measured or based shall be deemed to be included within the term "Taxes" for the purposes hereof. The term "Taxes" shall, notwithstanding anything to the contrary contained herein, exclude penalties and interest incurred as a result of late payment of Taxes, any gross or net income, franchise or "value added" tax, inheritance tax or estate tax imposed or constituting a lien upon Landlord or all or any part of the Land or Building, except to the extent that any of the foregoing are hereafter assessed against owners or lessors of real property in their capacity as such (as opposed to any such taxes which are of general applicability).

(i) "Tax Year" shall mean each period of twelve (12) months, commencing on the first day of July of each such period, in which occurs any part of the term of this Lease, or such other period of twelve (12) months occurring during the term of this Lease as hereafter may be duly adopted as the fiscal year for real estate tax purposes of the City of New York.

(j) "Tenant's Operating Share" shall mean 4.096%.

(k) "Tenant's Tax Share" shall mean 3.859%.

3.02 (a) If Taxes payable for any Tax Year, any part of which shall occur during the term of this Lease, shall exceed the Base Tax Amount, Tenant shall pay to Landlord as Additional Charges for such Tax Year an amount (herein called the "Tax Payment") equal to Tenant's Tax Share of the amount by which the Taxes for such Tax Year are greater than the Base Tax Amount. The Tax Payment for each Tax Year shall be due and payable in installments in the same manner that Taxes for such Tax Year are due and payable by Landlord to the City of New York. Tenant shall pay Tenant's Tax Share of each such installment within twenty (20) days after the rendering of a statement therefor by Landlord to Tenant, which statement may be rendered by Landlord so as to require Tenant's Tax Share of Taxes to be paid by Tenant thirty (30) days prior to the date such Taxes first become due. The statement to be rendered by Landlord shall set forth in reasonable detail the computation of Tenant's Tax Share of the particular installment(s) being billed (and, upon written request from Tenant, Landlord shall provide Tenant with a copy of the tax bill from the taxing authorities relevant to the computation of Tenant's Tax Payment). If there shall be any increase in the Taxes for any Tax Year, whether during or after such Tax Year, or if there shall be any decrease in the Taxes for any Tax Year, the Tax Payment for such Tax Year shall be appropriately adjusted and paid or refunded, as the case may be, in accordance herewith; in no event, however, shall Taxes be reduced below the Base Tax Amount. If during the term of this Lease, Taxes are required to be paid (either to the appropriate taxing authorities or as tax escrow payments to a superior mortgagee) in full or in monthly, quarterly, or other installments, on any other date or dates than as presently required, then at Landlord's option, Tenant's Tax Payments shall be correspondingly accelerated or revised so that said Tenant's Tax Payments are due at least thirty (30) days prior to the date payments are due to the taxing authorities or such superior mortgagee.

(b) If Landlord shall receive a refund of Taxes for any Tax Year, Landlord shall either pay to Tenant, or credit against subsequent Fixed Rent and Additional Charges under this Lease, Tenant's Tax Share of the net refund (after deducting from such total refund the reasonable third party out of pocket costs and expenses, including, but not limited to, appraisal, accounting and legal fees of obtaining the same, to the extent that such costs and expenses were not theretofore collected from Tenant for such Tax Year) and Landlord shall notify Tenant of the amount of such credit if Landlord elects to permit Tenant such credit; *provided, however*, such payment or credit to Tenant shall in no event exceed Tenant's Tax Payment paid for such Tax Year.

(c) Each Tax Year during the Term Landlord shall bring an application or proceeding seeking a reduction in Taxes or assessed valuation unless Landlord receives advice or a recommendation from certiorari counsel that a tax protest proceeding is not advisable. Tenant, for itself and its immediate and remote subtenants and successors in interest hereunder, hereby waives, to the extent permitted by law, any right Tenant may now or in the future have to protest or contest any Taxes or to bring any application or proceeding seeking a reduction in Taxes or assessed valuation or otherwise challenging the determination thereof.

(d) The benefit of any discount for the early payment or prepayment of Taxes shall accrue solely to the benefit of Landlord and such discount shall not be subtracted from Taxes.

(e) In respect of any Tax Year which begins prior to the Commencement Date or terminates after the Expiration Date, the Tax Payment in respect of each such Tax Year or tax refund pursuant to subdivision (b) above therefor shall be prorated to correspond to that portion of such Tax Year occurring within the term of this Lease.

(f) If the Taxes comprising the Base Tax Amount are reduced as a result of an appropriate proceeding or otherwise, the Taxes as so reduced shall, for all purposes be deemed to be the Taxes for the Base Tax Amount and Landlord shall give notice to Tenant of the amount by which the Tax Payments previously made were less than the Tax Payments required to be made under this Article 3, and Tenant shall pay the amount of the deficiency within twenty (20) days after demand therefor.

(g) Tenant shall pay to Landlord within twenty (20) days after being billed therefor, Tenant's Tax Share of any reasonable third party out of pocket expenses incurred by Landlord in contesting any items comprising Taxes and/or the assessed value of the Real Property.

3.03 (a) For each Operating Year, subsequent to the Base Operating Year, any part of which shall occur during the term of this Lease, commencing on January 1, 2009, Tenant shall pay an amount ("Operating Payment") equal to the sum of Tenant's Operating Share of the amount by which the Operating Expenses for such Operating Year exceed the Operating Expenses for the Base Operating Year.

(b) If during the Base Operating Year or any Operating Year (i) any rentable space in the Building shall be vacant or unoccupied, and/or (ii) the tenant or occupant of any space in the Building undertook to perform work or services therein in lieu of having Landlord (or Landlord's affiliates) perform the same and the cost thereof would have been included in Operating Expenses, then, in any such event(s), the Operating Expenses for such period shall be reasonably adjusted to reflect the Operating Expenses that would have been incurred if such space had been occupied or if Landlord (or Landlord's affiliates) had performed such work or services, as the case may be.

(c) Landlord may furnish to Tenant, prior to the commencement of each Operating Year a written statement setting forth in reasonable detail Landlord's reasonable estimate of the Operating Payment for such Operating Year. Tenant shall pay to Landlord on the first day of each month during the Operating Year in which the Operating Payment will be due, an amount equal to one-twelfth (1/12th) of Landlord's reasonable estimate of the Operating Payment for such Operating Year. If, however, Landlord shall not furnish any such estimate for an Operating Year or if Landlord shall furnish any such estimate for an Operating Year subsequent to the commencement thereof, then (i) until the first day of the month following the month in which such estimate is furnished to Tenant, Tenant shall pay to Landlord on the first day of each month an amount equal to the monthly sum payable by Tenant to Landlord under this Article 3 in respect of the last month of the preceding Operating Year; (ii) after such estimate is furnished to Tenant, Landlord shall give notice to Tenant stating whether the installments of the Operating Payment previously made for such Operating Year were greater or less than the installments of the Operating Payment to be made for the Operating Year in which the Operating Payment will be due in accordance with such estimate, and (A) if there shall be a

deficiency, Tenant shall pay the amount thereof within twenty (20) days after demand therefor, or (B) if there shall have been an overpayment, Landlord shall within thirty (30) days of such notice refund to Tenant the amount thereof; and (iii) on the first day of the month following the month in which such estimate is furnished to Tenant and monthly thereafter throughout the remainder of such Operating Year Tenant shall pay to Landlord an amount equal to one-twelfth (1/12th) of the Operating Payment shown on such estimate. Landlord may, during each Operating Year, but not more than twice during each Operating Year, furnish to Tenant a revised statement of Landlord's reasonable estimate of the Operating Payment for such Operating Year, and in such case, the Operating Payment for such Operating Year shall be adjusted and paid or refunded or credited as the case may be, substantially in the same manner as provided in the preceding sentence.

(d) Landlord shall furnish to Tenant a Landlord's Statement for each Operating Year (and shall endeavor to do so within one hundred eighty (180) days after the end of each Operating Year). Such statement shall set forth in reasonable detail the Operating Expenses for such Operating Year. If the Landlord's Statement shall show that the sums paid by Tenant, if any, under subsection 3.03(c) exceeded the Operating Payment to be paid by Tenant for the Operating Year for which such Landlord's Statement is furnished, Landlord shall refund to Tenant the amount of such excess; and if the Landlord's Statement for such Operating Year shall show that the sums so paid by Tenant were less than the Operating Payment to be paid by Tenant for such Operating Year, Tenant shall pay the amount of such deficiency within ten (10) days after demand therefor.

(e) (i) Tenant, upon reasonable notice given within one hundred twenty (120) days of the receipt of such Landlord's Statement, may elect to have Tenant's designated (in such notice) Certified Public Accountant (who may be an employee of Tenant), which Certified Public Accountant is not being compensated by Tenant, in whole or in part, on a contingency basis, examine such of Landlord's books and records (collectively, "Records") as are directly relevant to the Landlord's Statement in question (and in the first audit performed by Tenant, Tenant may examine the books and records relevant to the Base Operating Year and Base Tax Year), together with reasonable supporting data. In making such examination, Tenant agrees, and shall cause its designated Certified Public Accountant to agree, to keep confidential (i) any and all information contained in such Records and (ii) the circumstances and details pertaining to such examination and any dispute or settlement between Landlord and Tenant arising out of such examination, except as may be required (A) by applicable Legal Requirements or (B) by a court of competent jurisdiction or arbitrator or in connection with any action or proceeding before a court of competent jurisdiction or arbitrator, or (C) to Tenant's attorneys, accountants and other professionals in connection with any dispute between Landlord and Tenant; and Tenant will confirm and cause its Certified Public Accountant to confirm such agreement in a separate written agreement, if requested by Landlord. The confidentiality requirement set forth in this Section shall not apply to information otherwise available in the public domain. If Tenant shall not give such notice within such one hundred twenty (120) day period, then the Landlord's Statement as furnished by Landlord shall be conclusive and binding upon Tenant.

(ii) In the event that Tenant, after having reasonable opportunity to examine the Records (but in no event more than one hundred twenty (120) days from the date on

which the Records are made available to Tenant), shall disagree with the Landlord's Statement, then Tenant may send a written notice ("Tenant's Statement") to Landlord of such disagreement, specifying in reasonable detail the basis for Tenant's disagreement and the amount of the Operating Payment Tenant claims is due. If Tenant fails to send Tenant's Statement to Landlord within such one hundred twenty (120) day period, then Tenant shall be deemed to have withdrawn the notice referred to in subsection (e)(i) above and Landlord's Statement shall be conclusive and binding upon Tenant. Landlord and Tenant shall attempt to adjust such disagreement. If they are unable to do so within thirty (30) days, and *provided* that the amount of the Operating Payment Tenant claims is due is substantially different from the amount of the Operating Payment Landlord claims is due, Landlord and Tenant shall designate a Certified Public Accountant (the "Arbiter") whose determination made in accordance with this subsection 3.03(e)(ii) shall be binding upon the parties; it being understood that if the amount of the Operating Payment Tenant claims is due is not substantially different from the amount of the Operating Payment Landlord claims is due, then Tenant shall have no right to protest such amount and shall pay the amount that Landlord claims is due to the extent not theretofore paid. If the determination of Arbiter shall substantially confirm the determination of Landlord, then Tenant shall pay the cost of the Arbiter. If the Arbiter shall substantially confirm the determination of Tenant, then Landlord shall pay the cost of the Arbiter. In all other events, the cost of the Arbiter shall be borne equally by Landlord and Tenant. The Arbiter shall be a member of an independent certified public accounting firm having at least three (3) accounting professionals and having at least fifteen (15) years of experience in commercial real estate accounting. The Arbiter shall not have done business with Landlord or Tenant in the past. In the event that Landlord and Tenant shall be unable to agree upon the designation of the Arbiter within thirty (30) days after receipt of notice from the other party requesting agreement as to the designation of the Arbiter, which notice shall contain the names and addresses of two or more Certified Public Accountants who are acceptable to the party sending such notice (any one of whom, if acceptable to the party receiving such notice as shall be evidenced by notice given by the receiving party to the other party within such thirty (30) day period, shall be the agreed upon Arbiter), then either party shall have the right to request the American Arbitration Association (the "AAA") (or any organization which is the successor thereto) to designate as the Arbiter a Certified Public Accountant whose determination made in accordance with this subsection 3.03(e)(ii) shall be conclusive and binding upon the parties, and the cost charged by the AAA (or any organization which is the successor thereto), for designating such Arbiter, shall be shared equally by Landlord and Tenant. Landlord and Tenant hereby agree that any determination made by an Arbiter designated pursuant to this subsection 3.03(e)(ii) shall not exceed the amount(s) as determined to be due in the first instance by Landlord's Statement, nor shall such determination be less than the amount(s) claimed to be due by Tenant in Tenant's Statement, and that any determination which does not comply with the foregoing shall be null and void and not binding on the parties. In rendering such determination such Arbiter shall not add to, subtract from or otherwise modify the provisions of this Lease, including the immediately preceding sentence. Notwithstanding the foregoing provisions of this Section, Tenant, pending the resolution of any contest pursuant to the terms hereof, shall continue to pay all sums as determined to be due in the first instance by such Landlord's Statement and upon the resolution of such contest, suitable adjustment shall be made in accordance therewith with appropriate refund to be made by Landlord to Tenant (or credit allowed Tenant against Fixed Rent and Additional Charges becoming due) if required thereby. (The term "substantially" as used herein, shall mean a variance of four percent (4%) or more).



3.04 (a) In any case provided in this Article 3 in which Tenant is entitled to a refund, Landlord may, in lieu of allowing such refund, credit against the next due installments of Fixed Rent and Additional Charges any amounts to which Tenant shall be entitled. Nothing in this Article 3 shall be construed so as to result in a decrease in the Fixed Rent hereunder. If this Lease shall expire before any such credit shall have been fully applied, then (*provided* Tenant is not in default hereunder beyond any applicable notice and grace periods) Landlord shall refund to Tenant the unapplied balance of such credit.

(b) Subject to the last sentence of Section 3.05 hereof, the expiration or termination of this Lease during any Tax Year or Operating Year (for any part or all of which there is a Tax Payment or Operating Payment under this Article 3) shall not affect the rights or obligations of the parties hereto respecting such payment and any Landlord's Statement or tax bill, as the case may be, relating to such payment may be sent to Tenant subsequent to, and all such rights and obligations (including Tenant's audit rights under Section 3.03(e)) shall survive, any such expiration or termination. Any payments due under such Landlord's Statement or tax bill, as the case may be, shall be payable within twenty (20) days after such statement or bill is sent to Tenant.

(c) The parties agree that the computations under this Article 3 are intended to constitute a formula for agreed rental escalation and may or may not constitute an actual reimbursement to Landlord for Taxes and other costs and expenses paid by Landlord with respect to the Real Property.

3.05 Landlord's failure to render or delay in rendering a Landlord's Statement with respect to any Operating Year or any component of the Operating Payment shall not prejudice Landlord's right to thereafter render a Landlord's Statement with respect to any such Operating Year or any such component, nor shall the rendering of a Landlord's Statement for any Operating Year prejudice Landlord's right to thereafter render a corrected Landlord's Statement for such Operating Year. Landlord's failure to render or delay in rendering a bill with respect to any installment of Taxes shall not prejudice Landlord's right to thereafter render such a bill for such installment, nor shall the rendering of a bill for any installment prejudice Landlord's right to thereafter render a corrected bill for such installment. Notwithstanding anything to the contrary contained in this Lease, in the event Landlord fails to give a Landlord's Statement for Operating Expenses or a bill for Taxes to Tenant for any Tax Year or Operating Year, as the case may be, on or before the date which is two (2) years after the Expiration Date (or two (2) years after such later date as the information required to calculate such Landlord's Statement or bill is reasonably available to Landlord), then Landlord shall be deemed to have waived the payment of any then unpaid Additional Charges which would have been due pursuant to said Landlord's Statement or bill for Taxes, as the case may be.

#### ARTICLE 4

Intentionally Omitted

Subordination, Notice to Superior Lessors and Mortgagees

5.01 This Lease, and all rights of Tenant hereunder, are and shall be subject and subordinate to all ground leases, overriding leases and underlying leases of the Land and/or the Building and/or that portion of the Building of which the Premises are a part, now or hereafter existing and to all Mortgages which may now or hereafter affect the Land and/or the Building and/or that portion of the Building of which the Premises are a part and/or any of such leases, whether or not such Mortgages shall also cover other lands and/or buildings and/or leases, to each and every advance made or hereafter to be made under such Mortgages, and to all renewals, modifications, replacements and extensions of such leases and such Mortgages and spreaders and consolidations of such Mortgages. This Section 5.01 shall be self-operative and no further instrument of subordination shall be required. In confirmation of such subordination, Tenant shall promptly execute, acknowledge and deliver any instrument that Landlord, the lessor under any such lease or the Holder of any such Mortgage or any of their respective successors in interest may reasonably request to evidence such subordination. Any lease to which this Lease is, at the time referred to, subject and subordinate is a "Superior Lease" and the lessor of a Superior Lease or its successor in interest, at the time referred to, is a "Superior Lessor"; and any Mortgage to which this Lease is, at the time referred to, subject and subordinate is a "Superior Mortgage" and the holder of a Superior Mortgage is a "Superior Mortgagee."

5.02 If any act or omission of Landlord would give Tenant the right, immediately or after lapse of a period of time, to cancel or terminate this Lease, or to claim a partial or total eviction, Tenant shall not exercise such right (a) until it has given written notice of such act or omission to Landlord and each Superior Mortgagee and each Superior Lessor whose name and address shall previously have been furnished to Tenant, and (b) until a reasonable period for remedying such act or omission shall have elapsed following the giving of such notice and following the time when such Superior Mortgagee or Superior Lessor shall have become entitled under such Superior Mortgage or Superior Lease, as the case may be, to remedy the same (which reasonable period shall in no event be less than the period to which Landlord would be entitled under this Lease or otherwise, after similar notice, to effect such remedy), *provided* such Superior Mortgagee or Superior Lessor shall with due diligence give Tenant notice of intention to, and commence and continue to, remedy such act or omission.

5.03 If any Superior Lessor or Superior Mortgagee, or any designee of any Superior Lessor or Superior Mortgagee, shall succeed to the rights of Landlord under this Lease, whether through possession or foreclosure action or delivery of a new lease or deed, then at the request of such party so succeeding to Landlord's rights ("Successor Landlord") and upon such Successor Landlord's written agreement to accept Tenant's attornment, Tenant shall attorn to and recognize such Successor Landlord as Tenant's landlord under this Lease and shall promptly execute and deliver any instrument that such Successor Landlord may reasonably request to evidence such attornment. Upon such attornment this Lease shall continue in full force and effect as a direct lease between the Successor Landlord and Tenant upon all of the terms, conditions and covenants as are set forth in this Lease, except that the Successor Landlord shall not be:

- (a) liable for any previous act or omission of Landlord (or its predecessors in interest);

(b) except as set forth below, responsible for any monies owing by Landlord to the credit of Tenant;

(c) subject to any credits, offsets, claims, counterclaims, demands or defenses which Tenant may have against Landlord (or its predecessors in interest);

(d) bound by any payments of rent which Tenant might have made for more than one (1) month in advance of the date such payment is due under this Lease to Landlord (or its predecessors in interest);

(e) bound by any covenant to undertake or complete any construction of the Premises or any portion thereof;

(f) required to account for any security deposit other than any security deposit actually delivered to the Successor Landlord;

(g) bound by any obligation to make any payment to Tenant or grant or be subject to any credits, except for services, repairs, maintenance and restoration provided for under this Lease to be performed after the date of attornment and which landlords of like properties ordinarily perform at the landlord's expense, it being expressly understood, however, that, except as set forth below, the Successor Landlord shall not be bound by an obligation to make payment to Tenant with respect to construction performed by or on behalf of Tenant at the Premises;

(h) bound by any modification of this Lease, including without limitation, any modification which reduces the Fixed Rent or Additional Charges or other charges payable under this Lease, or shortens the term thereof, or otherwise materially adversely affects the rights of the lessor thereunder, made without the written consent of the Successor Landlord; or

(i) required to remove any person occupying the Premises or any part thereof.

(j) Notwithstanding anything to the contrary in Section 5.03(b) and 5.03(g) above, upon Tenant's attornment to a Successor Landlord, and provided that (i) an Event of Default does not then exist and (ii) such Successor Landlord fails to pay Landlord's Contribution if and when due, Tenant shall have the right to offset from Rent payable under this Lease any unpaid portion of Landlord's Contribution; provided that, if Successor Landlord disputes the amount of Landlord's Contribution then due, such offset shall be in an amount that an arbitrator determines is then due and owing Tenant.

5.04 Concurrent with the execution and delivery of this Lease, Tenant shall execute, acknowledge and deliver to Landlord an instrument (herein called a "Nondisturbance Agreement"), substantially in the form and content of Exhibit O annexed to this Lease and made a part hereof, with respect to the existing Superior Mortgage (the "Mortgage");

Nondisturbance Agreement”). Thereafter, Landlord **shall use reasonable** efforts to obtain and deliver to Tenant the Mortgage Nondisturbance Agreement executed by Landlord and the existing Superior Mortgagee. Provided that there is not then outstanding an Event of Default and provided further that Tenant shall have executed and delivered to Landlord a Nondisturbance Agreement in such form as is customarily used by the then Superior Mortgagee (or, at Landlord’s option, the form attached hereto as Exhibit O), Landlord shall cause any future Superior Mortgagee, as a condition precedent to the subordination of this Lease to the Superior Mortgage in question, to execute, acknowledge and deliver to Tenant such Nondisturbance Agreement and Landlord shall execute, acknowledge and deliver to Tenant the same.

5.05 Concurrent with the execution of this Lease, Tenant shall execute, acknowledge and deliver to Landlord an instrument (herein called the “Ground Lessor Nondisturbance Agreement”), substantially in the form of Exhibit I annexed to this Lease and made a part hereof with respect to the Ground Lease (as hereinafter defined). Concurrently with the execution of this Lease by Landlord, Landlord shall obtain the Ground Lessor Nondisturbance Agreement executed by the lessor under the Ground Lease. The term “Ground Lease” shall mean the Lease made by and between Benjamin H. Swig, Richard Lewis Swig, as trustee for Richard Lewis Swig, Jr., under Trust No. 5 executed by Benjamin H. Swig, dated June 25, 1952; Melvin M. Swig, as trustee for Steven Lewis Swig, under trust instrument dated September 23, 1964; Benjamin H. Swig, as trustee under Trust No. 2, created by Declaration of Trusts executed by Mae Swig, dated October 16, 1950, for the benefit of Judith Diamond Swig; Benjamin H. Swig and Richard S. Dinner, as Trustees under instrument dated November 7, 1966, for the benefit of Carolyn Swig Dinner, executed by Carolyn Swig Dinner; Patricia Swig Heldfond, Jack D. Weiler, Alan G. Weiler, Joan Arnow, Robert H. Arnow and Joan Arnow, and Jack B. Weiler, as trustees under Trust Agreement dated October 17, 1950, executed by Robert H. Arnow for the benefit of David Arnow, as Landlord, and Alan G. Weiler, as tenant, dated as of June 26, 1969, a memorandum of which is dated as of June 26, 1969, recorded in Reel 144, Page 110, as amended and restated by Amended and Restated Lease, a memorandum of which is recorded in Reel 189 page 466 as assigned by mesne assignments, as assigned pursuant to Assignment of Leases dated as of February 18, 1997 from Robert H. Arnow to 1114 Avenue of the Americas Associates, LLC (currently known as 1114 6th Avenue Co. LLC), recorded April 1, 1997 in Reel 2440, Page 244.

5.06 If any Superior Mortgagee shall require any modification(s) of this Lease, Tenant shall, at Landlord’s request, promptly execute and deliver to Landlord such instruments effecting such modification(s) as Landlord shall require, *provided* that such modification(s) do not decrease any of Tenant’s rights under this Lease, or increase any of Tenant’s obligations under this Lease, in either case beyond a de minimis extent.

## ARTICLE 6

### Quiet Enjoyment

6.01 So long as Tenant pays all of the Fixed Rent and Additional Charges and observes and performs all of Tenant’s other obligations hereunder, Tenant shall peaceably and quietly have, hold and enjoy the Premises without hindrance, ejection or molestation by

Landlord or any person lawfully claiming through or under Landlord, subject, nevertheless, to the provisions of this Lease and to Superior Leases and Superior Mortgages. This covenant shall be construed as a covenant running with the Land, and is not, nor shall it be construed as, a personal covenant of Landlord, except to the extent of Landlord's interest in the Real Property and only so long as such interest shall continue, and thereafter Landlord shall be relieved of all liability hereunder thereafter arising and this covenant shall be binding only upon subsequent successors in interest of Landlord's interest in this Lease, to the extent of their respective interests, as and when they shall acquire the same, and so long as they shall retain such interest.

## ARTICLE 7

### Assignment, Subletting and Mortgaging

7.01 Tenant shall not, whether voluntarily, involuntarily, or by operation of law or otherwise (a) assign in whole or in part or otherwise transfer in whole or in part this Lease or the term and estate hereby granted, or advertise to do so, (b) sublet the Premises or any part thereof, or offer or advertise to do so, or allow the same to be used, occupied or utilized by anyone other than Tenant and Tenant's Affiliates (as defined in Section 7.02 hereof), (c) mortgage, pledge, encumber or otherwise hypothecate this Lease or the Premises or any part thereof in any manner whatsoever or (d) permit the Premises or any part thereof to be occupied, or used for desk space, mailing privileges or otherwise, by any person other than Tenant or Tenant's Affiliates, without in each instance obtaining the prior written consent of Landlord.

7.02 If Tenant (or any subtenant) is a corporation, the provisions of subdivision (a) of Section 7.01 shall apply to a transfer (however accomplished, whether in a single transaction or in a series of related or unrelated transactions) of stock (or any other mechanism such as, by way of example, the issuance of additional stock, a stock voting agreement or change in class(es) of stock) which results in a change of control of Tenant (or such subtenant) as if such transfer of stock (or other mechanism) which results in a change of control of Tenant (or such subtenant) were an assignment of this Lease except that the transfer of the outstanding capital stock of Tenant or any subtenant by persons or parties through the "over the counter market" or through any recognized stock exchange, (other than those deemed "insiders" within the meaning of the Securities Exchange Act of 1934, as amended) shall not be deemed an assignment of this Lease, and if Tenant (or such subtenant) is a partnership or joint venture or limited liability company (a "LLC"), said provisions shall apply with respect to a transfer (by one or more transfers) of an interest in the distributions of profits and losses of such partnership, joint venture or LLC (or other mechanism, such as, by way of example, the creation of additional general partnership or limited partnership interests) which results in a change of control of such partnership, joint venture or LLC, as if such transfer of an interest in the distributions of profits and losses of such partnership, joint venture or LLC which results in a change of control of such partnership, joint venture or LLC were an assignment of this Lease; but said provisions shall not apply to transactions with a corporation into or with which Tenant (or any permitted subtenant of Tenant) is merged or consolidated or to transactions with a corporation or partnership to which substantially all of Tenant's assets are transferred or to any corporation (collectively, "Tenant's Affiliates") which controls or is controlled by Tenant or is under common control with Tenant, *provided* that in any of such events (i) the successor to Tenant or transferee is a reputable entity of good character and has a net worth computed in

accordance with generally accepted accounting principles at least equal to the net worth of Tenant immediately prior to such merger, consolidation or transfer, (ii) proof satisfactory to Landlord of such net worth shall have been delivered to Landlord at least ten (10) days prior to the effective date of any such transaction, (iii) a duplicate original instrument of assignment in form and substance satisfactory to Landlord, duly executed by Tenant, shall have been delivered to Landlord at least ten (10) days prior to the effective date of any such transaction, (iv) an instrument in form and substance reasonably satisfactory to Landlord, duly executed by the assignee, in which such assignee assumes (as of the Commencement Date) observance and performance of, and agrees to be personally bound by, all of the terms, covenants and conditions of this Lease on Tenant's part to be performed and observed shall have been delivered to Landlord at least ten (10) days prior to the effective date of any such transaction, and (v) such merger, consolidation or transfer shall be for a good business purpose and not principally for the purpose of transferring this Lease. For purposes of this Section 7.02, the term "control" shall mean, in the case of a corporation, ownership or voting control, directly or indirectly, of at least fifty percent (50%) of all the voting stock, and in case of a joint venture or partnership or similar entity, ownership, directly or indirectly, of at least fifty percent (50%) of all the general or other partnership (or similar) interests therein. Any agreement pursuant to which (x) Tenant is relieved from the obligation to pay, or a third party agrees to pay on Tenant's behalf, all or a part of Fixed Rent or Additional Charges under this Lease, and/or (y) such third party undertakes or is granted any right to assign or attempt to assign this Lease or sublet or attempt to sublet all or any portion of the Premises, shall be deemed an assignment of this Lease and subject to the provisions of Section 7.01. Furthermore, the provisions of Section 7.01 shall not be deemed to prohibit the simultaneous occupancy of the Premises by, or a subletting of all or a portion of the Premises to, a Tenant's Affiliate, provided, however that (i) Landlord shall be given not less than ten (10) days prior written notice of any such sublease or occupancy arrangement accompanied by reasonable evidence of such affiliate relationship, and (ii) the cessation of such affiliate relationship while such sublease or occupancy is continuing shall be deemed a transaction to which all of the terms of this Article 7 shall apply.

7.03 If this Lease be assigned, whether or not in violation of the provisions of this Lease, Landlord may collect rent from the assignee. If the Premises or any part thereof are sublet or used or occupied by anybody other than Tenant, whether or not in violation of this Lease, Landlord may, after default by Tenant, and expiration of Tenant's time to cure such default, collect rent from the subtenant or occupant. In either event, Landlord may apply the net amount collected to the Fixed Rent and Additional Charges herein reserved, but no such assignment, subletting, occupancy or collection shall be deemed a waiver of any of the provisions of Section 7.01, or the acceptance of the assignee, subtenant or occupant as tenant, or a release of Tenant from the performance by Tenant of Tenant's obligations under this Lease. The consent by Landlord to a particular assignment, mortgaging, subletting or use or occupancy by others shall not in any way be considered a consent by Landlord to any other or further assignment, mortgaging or subletting or use or occupancy by others not expressly permitted by this Article 7. References in this Lease to use or occupancy by others (that is, anyone other than Tenant) shall not be construed as limited to subtenants and those claiming under or through subtenants but shall also include licensees and others claiming under or through Tenant, immediately or remotely.

7.04 Any assignment or transfer, whether made with Landlord's consent pursuant to Sections 7.01 or 7.11 hereof or without Landlord's consent pursuant to Section 7.02 hereof, shall be made only if, and shall not be effective until, the assignee shall execute, acknowledge and deliver to Landlord an agreement in form and substance reasonably satisfactory to Landlord whereby the assignee shall assume the obligations of this Lease on the part of Tenant to be performed or observed and whereby the assignee shall agree that the provisions in Section 7.01 shall, notwithstanding such assignment or transfer, continue to be binding upon it in respect of all future assignments and transfers. The original named Tenant covenants that, notwithstanding any assignment or transfer, whether or not in violation of the provisions of this Lease, and notwithstanding the acceptance of Fixed Rent and/or Additional Charges by Landlord from an assignee, transferee, or any other party, the original named Tenant shall remain fully liable for the payment of the Fixed Rent and Additional Charges and for the performance and observance of other obligations of this Lease on the part of Tenant to be performed or observed.

7.05 The joint and several liability of Tenant and any immediate or remote successor in interest of Tenant and the due performance of the obligations of this Lease on Tenant's part to be performed or observed shall not be discharged, released or impaired in any respect by any agreement or stipulation made by Landlord extending the time of, or modifying any of the obligations of, this Lease, or by any waiver or failure of Landlord to enforce any of the obligations of this Lease.

7.06 The listing of any name other than that of Tenant, whether on the doors of the Premises or the Building directory, or otherwise, shall not operate to vest any right or interest in this Lease or in the Premises, nor shall it be deemed to be the consent of Landlord to any assignment or transfer of this Lease or to any sublease of the Premises or to the use or occupancy thereof by others.

7.07 Notwithstanding anything to the contrary contained in this Article 7, if Tenant shall at any time or times during the term of this Lease desire to assign this Lease or sublet all or part of the Premises, Tenant shall give notice (a "Recapture Notice") thereof to Landlord, which Recapture Notice shall set forth (i) in the case of a proposed subletting, the area proposed to be sublet, and, in the case of a proposed assignment such notice shall set forth Tenant's intention to assign this Lease, (ii) the term of the proposed subletting including the proposed dates of the commencement and the expiration of the term of the proposed sublease or the effective date of the proposed assignment, as the case may be, (iii) the rents, work contributions, and all other material provisions that are proposed to be included in the transaction, (iv) if a proposed assignee or subtenant has been identified, the identity of such proposed assignee or subtenant, the nature of its business and its proposed use of the Premises, (v) if a proposed assignee or subtenant has been identified, current financial information with respect to such proposed assignee or subtenant, including, without limitation, its most recent financial report and (vi) such other information as Landlord may reasonably request. Nothing in the foregoing sentence is intended to imply that Tenant must have identified a proposed subtenant or assignee prior to giving a Recapture Notice. Except for any assignment or sublease which does not require Landlord's consent pursuant to Section 7.02 hereof, such notice shall be deemed an irrevocable offer from Tenant to Landlord whereby Landlord (or Landlord's designee) may, at its option, (a) sublease such space from Tenant upon the terms

and conditions hereinafter set forth (if the proposed transaction is a sublease of all or part of the Premises), (b) have this Lease assigned to it or its designee or terminate this Lease (if the proposed transaction is an assignment or a sublease of all or substantially all of the Premises for all or substantially all of the remaining term of this Lease (as such phrase is defined below) or a sublease of a portion of the Premises which, when aggregated with other subleases then in effect, covers all or substantially all of the Premises for all or substantially all of the remaining term of this Lease), or (c) terminate this Lease with respect to the space covered by the proposed sublease (if the proposed transaction is a sublease of part of the Premises for all or substantially all of the remaining term of this Lease). The phrase "substantially all of the remaining term" shall mean a sublease that has a term ending (including any extension term whether or not the option to extend has been exercised) less than fifteen (15) months prior to the Expiration Date of this Lease. Said option may be exercised by Landlord by notice to Tenant at any time within thirty (30) days after such notice has been given by Tenant to Landlord and Landlord shall have received all other information required to be furnished to Landlord by Tenant pursuant to the provisions of this Article 7; and during such thirty (30) day period Tenant shall not assign this Lease or sublet such space to any person. Notwithstanding any provision to the contrary contained in this Section 7.07, with respect only to sublease agreements having a term that expires (including any extension thereof) no later than the fifth (5<sup>th</sup>) anniversary of the Commencement Date of this Lease, Landlord shall waive, with respect to the subletting of up to 15,000 rentable square feet to no more than two subtenants (the "No Recapture Space"), Landlord's option to recapture such space pursuant to clauses (a), (b) and (c) above in this Section 7.07. The foregoing sentence is not intended to waive any other rights Landlord may have with respect to the subletting of the No Recapture Space, including (i) Landlord's right to grant or withhold its consent to such sublease(s) in accordance with the terms of this Article 7 and (ii) Landlord's rights under Section 7.14.

7.08 (a) If Landlord exercises its option to terminate this Lease in the case where Tenant desires either to assign this Lease or sublet all or substantially all of the Premises for all or substantially all of the remaining term of this Lease, then this Lease shall end and expire on the date that such assignment or sublet was to be effective or commence, as the case may be, and the Fixed Rent and Additional Charges shall be paid and apportioned to such date.

(b) If Landlord exercises its option to have this Lease assigned to it (or its designee) in the case where Tenant desires either to assign this Lease or to sublet all or substantially all of the Premises, then Tenant shall assign this Lease to Landlord (or Landlord's designee) by an assignment in form and substance reasonably satisfactory to Landlord. Such assignment shall be effective on the date the proposed assignment was to be effective or the date the proposed sublease was to commence, as the case may be. Tenant shall not be entitled to consideration or payment from Landlord (or Landlord's designee) in connection with any such assignment (including, without limitation, payment of any portion of any profits realized by Landlord or Landlord's designee in connection with any further assignment of this Lease or any sublease of the Premises or any portion thereof). If the proposed assignee or sublessee was to receive any consideration or concessions from Tenant in connection with the proposed assignment or sublease, then Tenant shall pay such consideration and/or grant any such concessions to Landlord (or Landlord's designee) on the date Tenant assigns this Lease to Landlord (or Landlord's designee).



7.09 If Landlord exercises its option to terminate this Lease with respect to the space covered by Tenant's proposed sublease in any case where Tenant desires to sublet part of the Premises for all or substantially all of the remaining term of this Lease, then (a) this Lease shall end and expire with respect to such part of the Premises on the date that the proposed sublease was to commence; (b) from and after such date the Fixed Rent and Additional Charges shall be adjusted, based upon the proportion that the rentable area of the Premises remaining bears to the total rentable area of the Premises; and (c) Tenant shall pay to Landlord, upon demand, as Additional Charges hereunder the reasonable costs incurred by Landlord in physically separating such part of the Premises from the balance of the Premises and in complying with any Legal Requirements relating to such separation.

7.10 If Landlord exercises its option to sublet the Premises or the portion(s) of the Premises which Tenant desires to sublet, such sublease to Landlord or its designee (as subtenant) shall be at the rentals set forth in the proposed sublease, and shall be for the same term as that of the proposed subletting, and:

(a) The sublease shall be expressly subject to all of the covenants, agreements, terms, provisions and conditions of this Lease except such as are irrelevant or inapplicable, and except as otherwise expressly set forth to the contrary in this Section;

(b) Such sublease shall be upon the same terms and conditions as those contained in the proposed sublease, except such as are irrelevant or inapplicable and except as otherwise expressly set forth to the contrary in this Section;

(c) Such sublease shall give the sublessee the unqualified and unrestricted right to assign such sublease or any interest therein and/or to sublet the space covered by such sublease or any part or parts of such space, in each case without Tenant's permission and without Tenant having any rights to receive additional payments in connection therewith (including, without limitation, payments of any portion of the subtenant's profits in connection with any such assignment or sublease), and to make any and all changes, alterations, and improvements in the space covered by such sublease;

(d) Such sublease shall provide that any assignee or further subtenant of Landlord or its designee, may, at the election of Landlord, be permitted to make alterations, decorations and installations in such space or any part thereof and shall also provide in substance that any such alterations, decorations and installations in such space therein made by any assignee or subtenant of Landlord or its designee may be removed, in whole or in part, by such assignee or subtenant, at its option, prior to or upon the expiration or other termination of such sublease *provided* that such assignee or subtenant, at its expense, shall repair any damage and injury to such space so sublet caused by such removal and Tenant shall not, in any event, be obligated to remove any alterations, decorations and installations made by Landlord or its designee or any subtenant or assignee thereof; and

(e) Such sublease shall also provide that (i) the parties to such sublease expressly negate any intention that any estate created under such sublease be merged with any other estate held by either of said parties, (ii) any assignment or subletting by Landlord or its designee (as the subtenant) may be for any purpose or purposes that Landlord, in

Landlord's uncontrolled discretion, shall deem suitable or appropriate, (iii) Tenant, at Tenant's expense, shall and will at all times provide and permit reasonably appropriate means of ingress to and egress from such space so sublet by Tenant to Landlord or its designee, (iv) Landlord, at Tenant's expense, may make such alterations as may be required or reasonably deemed necessary by Landlord to physically separate the subleased space from the balance of the Premises and to comply with any Legal Requirements relating to such separation, and (v) that at the expiration of the term of such sublease, Tenant will accept the space covered by such sublease in its then existing condition, subject to the obligations of the sublessee to make such repairs thereto as may be necessary to preserve the premises demised by such sublease in good order and condition. Performance by Landlord or its designee under such sublease shall be deemed performance by Tenant of a similar obligation under this Lease related to such space, and any default under any such sublease shall not give rise to a default under a similar obligation in this Lease, nor shall Tenant be liable for any default under this Lease or be deemed to be in default hereunder if such default is occasioned by or arises from any act or omission of the subtenant under such sublease or is occasioned by or arises from any act or omission of any occupant under or pursuant to any such sublease.

7.11 In the event Landlord does not exercise its options pursuant to Section 7.07 to so sublet the Premises or terminate (in whole or in part) or have assigned to it or its designee this Lease and, provided that Tenant is not in default of any of Tenant's obligations under this Lease after the giving of notice and the expiration of any applicable cure period, Landlord's consent (which must be in writing and shall be substantially in the form annexed hereto as Exhibit J with such changes as may be reasonably necessary due to the nature of the subtenant or other matters relative to the sublease) to the proposed assignment or sublease shall not be unreasonably withheld, conditioned or delayed and shall be granted or denied within thirty (30) days after Tenant has delivered all of the following: (i) the name and business address of the proposed subtenant; (ii) the nature and character of the business and credit of the proposed subtenant; (iii) an original signed counterpart of the proposed sublease or assignment and all related agreements, the effective or commencement date of which shall be at least thirty (30) days after the date Tenant's notice to Landlord is given, along with Tenant's certification that such sublease or assignment instrument is the true and complete statement of the subletting or assignment and reflects all sums and other consideration passing between the parties to the sublease or assignment; (iv) current financial information with respect to the proposed subtenant or assignee, including, without limitation, its most recent financial statements, certified by an independent certified public accountant ("CPA") if such financial statements are certified by a CPA (or, if not, certified by the chief financial officer of the proposed subtenant or assignee as being true and correct in all material respects) and (v) any other information that Landlord may reasonably request, *provided* and upon condition that:

(a) Tenant shall have complied with the provisions of Section 7.07 and Landlord shall not have exercised any of its options under said Section 7.07 within the time permitted therefor and Tenant shall have delivered to Landlord a duplicate original of the sublease or assignment instrument and all other documents to be executed in connection therewith;

(b) In Landlord's reasonable judgment the proposed assignee or subtenant is engaged in a business and the Premises, or the relevant part thereof, will be used in a

manner which (i) is in keeping with the then standards of the Building, and (ii) will not violate any negative covenant as to use contained in any other Lease of space in the Building (and Landlord shall advise Tenant of any such negative covenants in writing promptly after written request therefor by Tenant made in connection with a proposed subletting or assignment);

(c) The proposed assignee or subtenant is a reputable person or entity of good character and with sufficient financial worth considering the responsibility involved, and Landlord has been furnished with reasonable proof thereof;

(d) Neither (i) the proposed assignee or sublessee nor (ii) any person which, directly or indirectly, controls, is controlled by, or is under common control with, the proposed assignee or sublessee or any person who controls the proposed assignee or sublessee, is then an occupant of any part of the Building or a party who dealt with Landlord or Landlord's agent (directly or through a broker) with respect to comparable space in the Building for a lease having a comparable term during the three (3) months immediately preceding Tenant's request for Landlord's consent. The phrase "dealt with Landlord" as used in this Subsection (d) shall mean that such party or its agent or broker shall have delivered a written proposal to Landlord or its agent for space in the Building, and the phrase "having a comparable term" as used in this Subsection (d) shall mean any lease with a proposed term of five years or longer;

(e) The form of the proposed sublease shall be reasonably satisfactory to Landlord and shall comply with the applicable provisions of this Article 7;

(f) The Premises shall not be subdivided into more than three (3) separate units per floor;

(g) Tenant shall reimburse Landlord within twenty (20) days after written demand for any reasonable costs that may be incurred by Landlord in connection with said assignment or sublease, including, without limitation, the costs of making investigations as to the acceptability of the proposed assignee or subtenant, and reasonable legal costs incurred in connection with the granting of any requested consent; and

(h) Tenant shall not have (i) advertised the availability of the Premises without prior notice to and approval by Landlord, nor shall any advertisement state the name (as distinguished from the address) of the Building or the proposed rental, or (ii) listed the Premises for subletting, whether through a broker, agent, representative, or otherwise at a rental rate less than the Fixed Rent and Additional Charges at which Landlord is then offering to lease other space in the Building, but nothing contained in this Article 7 shall be deemed to prohibit Tenant from listing with brokers the availability of the Premises for sublet or assignment.

7.12 (a) In the event that in connection with Tenant's request for Landlord's consent pursuant to Section 7.11 hereof, the proposed sublease or proposed assignment delivered to Landlord contains provisions which are "substantially different from" (as hereinafter defined) the terms set forth in the notice delivered to Landlord pursuant to Section 7.07 hereof, then in such event, Tenant's request for consent pursuant to Section 7.11 hereof shall be deemed to be an irrevocable offer from Tenant to Landlord as to which Landlord shall have all of the options set forth in Section 7.07 hereof except that the thirty (30) day

period provided for in Section 7.07 shall be reduced to a fifteen (15) day period. The terms of a proposed sublet or proposed assignment shall be deemed “substantially different from” the terms set forth in the notice delivered to Landlord pursuant to Section 7.07 hereof if the economic terms of such proposed sublet or assignment on an aggregate basis differ by more than five (5%) percent from the terms contained in the terms set forth in the notice delivered to Landlord pursuant to Section 7.07 hereof.

(b) If, prior to requesting Landlord’s consent to a proposed sublease under Section 7.11, Tenant and its proposed subtenant have signed a non-binding term sheet containing the financial terms of the proposed sublease (which term sheet shall include at minimum the information described in clauses (i), (ii), and (iii) of Section 7.07) and such term sheet contains provisions which are “substantially different from” the provisions set forth in the notice delivered to Landlord pursuant to Section 7.07, then in such event, Tenant may deliver such signed term sheet (along with the other information required under Section 7.07) to Landlord and such delivery shall be deemed to be an irrevocable offer from Tenant to Landlord as to which Landlord shall have all of the options set forth in Section 7.07 hereof, except that the thirty (30) day period provided for in Section 7.07 shall be reduced to a fifteen (15) day period. In the event Landlord does not exercise its options pursuant to Section 7.07 to so sublet the Premises or terminate (in whole or in part) or have assigned to it or its designee this Lease, and Tenant enters into a sublease with the proposed subtenant identified in the term sheet delivered to Landlord under this Section 7.12(b) upon the terms set forth in such term sheet, then Tenant shall not be required to comply with the terms of Section 7.12(a) at such time as Tenant requests consent from Landlord for such sublease under Section 7.11. However, nothing in this Section 7.12(b) is intended to waive Landlord’s rights under Section 7.12(a) if the sublease entered into by Tenant and the proposed subtenant contains materially different provisions than were contained in the term sheet delivered to Landlord.

(c) In the event that Landlord fails to exercise any of its options under Section 7.07 hereof, and Tenant fails to request Landlord’s consent to an assignment or sublease on the terms and conditions set forth in the notice delivered to Landlord pursuant to Section 7.07 hereof within six (6) months from the date of Landlord’s response to such notice, then Tenant shall again comply with all of the provisions and conditions of Section 7.07 hereof before assigning this Lease or subletting all or part of the Premises.

7.13 With respect to each and every sublease or subletting authorized by Landlord under the provisions of this Lease, it is further agreed:

(a) No subletting shall be for a term (including any renewal or extension options contained in the sublease) ending later than one day prior to the expiration date of this Lease.

(b) No sublease shall be valid, and no subtenant shall take possession of the Premises or any part thereof, until an executed counterpart of such sublease (and all ancillary documents executed in connection with, with respect to or modifying such sublease) has been delivered to Landlord.

(c) Each sublease shall provide that it is subject and subordinate to this Lease and to any matters to which this Lease is or shall be subordinate, and that in the event of termination, reentry or dispossession by Landlord under this Lease Landlord may, at its option, take over all of the right, title and interest of Tenant, as sublessor, under such sublease, and such subtenant shall, at Landlord's option, attorn to Landlord pursuant to the then executory provisions of such sublease, except that Landlord shall not be (i) liable for any previous act or omission of Tenant under such sublease, (ii) subject to any credit, offset, claim, counterclaim, demand or defense which such subtenant may have against Tenant, (iii) bound by any previous modification of such sublease or by any previous prepayment of more than one (1) month's rent, (iv) bound by any covenant of Tenant to undertake or complete any construction of the Premises or any portion thereof, (v) required to account for any security deposit of the subtenant other than any security deposit actually delivered to Landlord by Tenant, (vi) bound by any obligation to make any payment to such subtenant or grant any credits, except for services, repairs, maintenance and restoration provided for under the sublease to be performed after the date of such attornment, (vii) responsible for any monies owing by Landlord to the credit of Tenant or (viii) required to remove any person occupying the Premises or any part thereof.

(d) Each sublease shall provide that the subtenant may not assign its rights thereunder or further sublet the space demised under the sublease, in whole or in part, except in compliance with all of the terms of provisions of this Article 7.

7.14 (a) If Landlord shall give its consent to any assignment of this Lease or to any sublease, Tenant shall in consideration therefor, pay to Landlord, as Additional Charges an amount equal to fifty (50%) percent of any Assignment Profit (hereinafter defined) or fifty (50%) percent of any Sublease Profit (hereinafter defined), as the case may be. This Section 7.14 shall not apply to any assignment or sublease which does not require Landlord's consent pursuant to Section 7.02 above.

(b) For purposes of this Section 7.14, the term "Assignment Profit" shall mean an amount equal to all sums and other considerations paid to Tenant by the assignee for or by reason of such assignment (including, but not limited to, sums paid for the sale or rental of Tenant's fixtures, leasehold improvements, equipment, furniture, furnishings or other personal property, less, in the case of a sale thereof, the then net unamortized or undepreciated portion (determined on the basis of amortization schedules prepared per GAAP) of the amount, if any, by which the original cost thereof exceeded any amounts paid for or contributed by Landlord which were applied by Tenant against such original cost pursuant to the terms of this Lease) after deducting therefrom the amount of "Tenant's Costs", as hereinafter defined.

(c) For purposes of this Section 7.14, the term "Sublease Profit" shall mean in any year of the term of this Lease (i) any rents, additional charges or other consideration payable under the sublease to Tenant by the subtenant which is in excess of the Fixed Rent and Additional Charges accruing during such year of the term of this Lease in respect of the subleased space (at the rate per square foot payable by Tenant hereunder) pursuant to the terms hereof, and (ii) all sums paid for the sale or rental of Tenant's fixtures, leasehold improvements, equipment, furniture or other personal property, less, in the case of the sale thereof, the then net unamortized or undepreciated portion (determined on the basis of amortization schedules prepared per GAAP) of the amount, if any, by which the original cost thereof exceeded any

amounts paid for or contributed by Landlord which were applied by Tenant against such original cost pursuant to the terms of this Lease), which net unamortized amount shall be deducted from the sums paid in connection with such sale in equal monthly installments over the balance of the term of the sublease (each such monthly deduction to be in an amount equal to the quotient of the net unamortized amount, divided by the number of months remaining in the term of this Lease) after deducting therefrom the amount of Tenant's Costs.

(d) For purposes of this Section 7.14, the term "Tenant's Costs" shall mean the reasonable expenses actually incurred by Tenant in connection with the assignment and subletting in question for transfer taxes, brokerage commissions, advertising expenses, attorneys' fees, any commercially reasonable rent credit or concession or work allowance and any tenant work performed by Tenant at its expense in connection with such assignment or subletting, based on bills, receipts or other evidence of such costs reasonably satisfactory to Landlord.

(e) The sums payable under this Section 7.14 shall be paid to Landlord as and when paid by the assignee or subtenant to Tenant; provided however, Tenant shall have the right to recoup Tenant's Costs prior to Tenant having to pay Landlord 50% of the Assignment Profits as provided herein.

7.15 Except for any subletting by Tenant to Landlord or its designee pursuant to the provisions of this Article 7, each subletting shall be subject to all of the covenants, agreements, terms, provisions and conditions contained in this Lease. Notwithstanding any such subletting to Landlord or any such subletting to any other subtenant and/or acceptance of rent or additional rent by Landlord from any subtenant, but subject to the provisions of Section 7.10(d) and (e) hereof to the extent applicable, Tenant shall and will remain fully liable for the payment of the Fixed Rent and Additional Charges due and to become due hereunder and for the performance of all the covenants, agreements, terms, provisions and conditions contained in this Lease on the part of Tenant to be performed and all acts and omissions of any licensee or subtenant or anyone claiming under or through any subtenant which shall be in violation of any of the obligations of this Lease, and any such violation shall be deemed to be a violation by Tenant. Landlord and Tenant further agree that notwithstanding any such subletting, no other and further subletting of the Premises by Tenant or a subtenant of Tenant or any person claiming through or under Tenant (except as provided in Section 7.10 hereof) shall or will be made except upon compliance with and subject to the provisions of this Article 7. If Landlord shall decline to give its consent to any proposed assignment or sublease, or if Landlord shall exercise any of its options under Section 7.07 hereof, Tenant shall indemnify, defend and hold harmless Landlord against and from any and all loss, liability, damages, costs and expenses (including, but not limited to, reasonable counsel fees) resulting from any claims that may be made against Landlord by the proposed assignee or sublessee or by any brokers or other persons claiming a commission or similar compensation in connection with the proposed assignment or sublease.

7.16 If Tenant is a partnership (or is comprised of two (2) or more persons, individually and/or as co-partners of a partnership) or if Tenant's interest in this Lease shall be assigned to a partnership (or to two (2) or more persons, individually and/or as co-partners of a partnership) pursuant to this Article 7 (any such partnership and such persons are referred to in this Section as "Partnership Tenant"), the following provisions of this Section 7.16 shall apply

to such Partnership Tenant: (a) the liability of each of the parties comprising Partnership Tenant shall be joint and several, (b) each of the parties comprising Partnership Tenant hereby consents in advance to, and agrees to be bound by, any written instrument which may hereafter be executed, changing, modifying or discharging this Lease, in whole or in part, or surrendering all or any part of the Premises to Landlord or renewing or extending this Lease and by any notices, demands, requests or other communications which may hereafter be given, by Partnership Tenant or by any of the parties comprising Partnership Tenant, (c) any bills, statements, notices, demands, requests or other communications given or rendered to Partnership Tenant or to any of the parties comprising Partnership Tenant shall be deemed given or rendered to Partnership Tenant and to all such parties and shall be binding upon Partnership Tenant and all such parties, (d) if Partnership Tenant shall admit new partners, all of such new partners shall, by their admission to Partnership Tenant, be deemed to have assumed performance of all of the terms, covenants and conditions of this Lease on Tenant's part to be observed and performed, (e) Partnership Tenant shall give prompt notice to Landlord of the admission of any partner or partners, and upon demand of Landlord, shall cause each such partner to execute and deliver to Landlord an agreement in form satisfactory to Landlord, wherein each such new partner shall assume performance of all of the terms, covenants and conditions of this Lease on Tenant's part to be observed and performed (but neither Landlord's failure to request any such agreement nor the failure of any such new partner to execute or deliver any such agreement to Landlord shall vitiate the provisions of subdivision (d) of this Section 7) and (f) on each anniversary of the Commencement Date, Partnership Tenant shall, upon request by Landlord, deliver to Landlord a list of all partners together with their current residential addresses.

## ARTICLE 8

### Compliance with Laws

8.01 Tenant shall give prompt notice to Landlord of any notice it receives of the violation of any Legal Requirement with respect to the Premises or the use or occupation thereof. Tenant shall, at Tenant's expense, comply with all present and future laws and requirements of any public authorities in respect of the Premises or the use and occupation thereof, or the abatement of any nuisance in, on or about the Premises; *provided, however*, that Tenant shall not be obligated to make structural repairs or alterations in or to the Premises in order to comply with Legal Requirements unless the need for same arises out of Tenant's specific use of the Premises other than mere executive or general office use or any of the causes set forth in clauses (ii) through (iv) of the next succeeding sentence. Tenant shall also be responsible for the cost of compliance with all present and future Legal Requirements in respect of the Real Property arising from (i) Tenant's manner of use of the Premises (other than arising out of the mere use of the Premises as executive and general offices), (ii) the manner of conduct of Tenant's business or operation of its installations, equipment or other property therein, (iii) any cause or condition created by or at the instance of Tenant (other than the mere use of the Premises as executive and general offices), or (iv) the breach of any of Tenant's obligations hereunder, whether or not such compliance requires work which is structural or non-structural, ordinary or extraordinary, foreseen or unforeseen. Tenant shall pay all the costs, expenses, fines, penalties and damages which may be imposed upon Landlord or any Superior Lessor by reason of or arising out of Tenant's failure to fully and promptly comply with and observe the

provisions of this Section 8.01. Without limiting the generality of the foregoing, it is specifically agreed that Tenant shall comply with all laws that require the installation, modification or maintenance within the Premises of (a) any fire-rated partitions, gas, smoke, or fire detector or alarm, any emergency signage or lighting system, or any sprinkler or other system to extinguish fires or (b) any handicap facilities. However, Tenant need not comply with any such law or requirement of any public authority so long as Tenant shall be contesting the validity thereof, or the applicability thereof to the Premises, in accordance with Section 8.02 hereof. Landlord, at its expense, shall comply with all other such Legal Requirements as shall affect the Premises, but may similarly defer compliance so long as Landlord shall be contesting the validity or applicability thereof. If any Building violations, the compliance with which is the responsibility of any other tenant in the Building or of Landlord in accordance with this Lease ("Landlord's Violations"), shall delay (or prevent) Tenant from obtaining any governmental permits, consents, approvals required by Tenant for the performance of any Alterations, then, upon the giving of notice by Tenant to Landlord of such prevention or delay and of the applicable Landlord's Violations, Landlord shall promptly commence and thereafter diligently prosecute to completion the cure and removal of record of such Landlord's Violations.

8.02 Tenant, at its expense, after notice to Landlord, may contest, by appropriate proceedings prosecuted diligently and in good faith, the validity, or applicability to the Premises, of any law or requirement of any public authority, *provided* that (a) Landlord shall not be subject to criminal penalty or to prosecution for a crime, or any other fine or charge, nor shall the Premises or any part thereof or the Building or Land, or any part thereof, be subject to being condemned or vacated, nor shall the Building or Land, or any part thereof, be subjected to any lien (unless Tenant shall remove such lien by bonding or otherwise) or encumbrance, by reason of non-compliance or otherwise by reason of such contest; (b) before the commencement of such contest, Tenant shall furnish to Landlord a cash deposit or other security in amount, form and substance reasonably satisfactory to Landlord and shall indemnify Landlord against the cost thereof and against all liability for damages, interest, penalties and expenses (including reasonable attorneys' fees and expenses), resulting from or incurred in connection with such contest or non-compliance; (c) such non-compliance or contest shall not constitute or result in any violation of any Superior Lease or Superior Mortgage, or if any such Superior Lease and/or Superior Mortgage shall permit such non-compliance or contest on condition of the taking of action or furnishing of security by Landlord, such action shall be taken and such security shall be furnished at the expense of Tenant; (d) such noncompliance or contest shall not prevent Landlord from obtaining any and all permits and licenses in connection with the operation of the Building; and (e) Tenant shall keep Landlord advised as to the status of such proceedings. Without limiting the application of the above, Landlord shall be deemed subject to prosecution for a crime if Landlord, or its managing agent, or any officer, director, member, partner, shareholder or employee of Landlord or its managing agent, as an individual, is charged with a crime of any kind or degree whatever, whether by service of a summons or otherwise, unless such charge is withdrawn before Landlord or its managing agent, or such officer, director, member, partner, shareholder or employee of Landlord or its managing agent (as the case may be) is required to plead or answer thereto.



8.03 Tenant shall not place a load upon any floor of the Premises which violates applicable law or the certificate of occupancy of the Building or which exceeds the floor load per square foot which such floor was designed to carry. All heavy material and/or equipment must be placed by Tenant, at Tenant's expense, so as to distribute the weight. Business machines and mechanical equipment shall be placed and maintained by Tenant, at Tenant's expense, in settings sufficient in Landlord's reasonable judgment to absorb and prevent vibration, noise and annoyance.

8.04 Tenant shall not cause or permit "Hazardous Materials" (as defined below) to be used, transported, stored, released, handled, produced or installed in, on or from, the Premises or the Building. The term "Hazardous Materials" shall, for the purposes hereof, mean any flammable explosives, radioactive materials, hazardous wastes, hazardous and toxic substances, or related materials, asbestos or any material containing asbestos, or any other substance or material, as defined by any federal, state or local environmental law, ordinance, rule or regulation including, without limitation, the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended, the Hazardous Materials Transportation Act, as amended, the Resource Conservation and Recovery Act, as amended, and in the regulations adopted and publications promulgated pursuant to each of the foregoing. In the event of a breach of the provisions of this Section 8.04, Landlord shall, in addition to all of its rights and remedies under this Lease and pursuant to law, require Tenant to remove any such Hazardous Materials from the Premises in the manner prescribed for such removal by Legal Requirements. The provisions of this Section 8.04 shall survive the termination of this Lease.

8.05 Within a reasonable amount of time after Tenant delivers a complete set of plans and specifications for Tenant's initial Alterations, Landlord will deliver to Tenant a form ACP-5. In addition to the Landlord's obligations with respect to Hazardous Materials as set forth in Exhibit C, if any Hazardous Materials are found in the Premises after the completion of Landlord's Work that (i) are required to be removed under applicable Legal Requirements, and (ii) were not introduced by Tenant or any of its contractors, agents or employees, Landlord, at Landlord's expense, shall remove such Hazardous Materials within a reasonable time after notice is given by Tenant, and if the existence of such Hazardous Materials and/or remediation work by Landlord causes a delay in the completion of Tenant's initial Alterations, as such delay is verified by an independent contractor selected by Landlord, the Rent Commencement Date shall be extended on a per diem basis for each day of such delay.

## ARTICLE 9

### Insurance

9.01 Tenant shall not violate, or permit the violation of, any condition imposed by any insurance policy then issued in respect of the Real Property and shall not do, or permit anything to be done, or keep or permit anything to be kept in the Premises (other than reasonable quantities of normal office materials such as toner, cleaning fluids, etc. that comply with Legal Requirements) which would subject Landlord, any Superior Lessor or any Superior Mortgagee to any liability or responsibility for personal injury or death or property damage, or which would increase any insurance rate in respect of the Real Property over the rate which would otherwise then be in effect or which would result in insurance companies of good

standing refusing to insure the Real Property in amounts reasonably satisfactory to Landlord, or which would result in the cancellation of or the assertion of any defense by the insurer in whole or in part to claims under any policy of insurance in respect of the Real Property; provided, however, that in no event shall the mere use of the Premises for customary and ordinary office purposes, as opposed to the manner of such use, constitute a breach by Tenant of the provisions of this Section 9.01.

9.02 If, by reason of any failure of Tenant to comply with the provisions of this Lease, the premiums on Landlord's insurance on the Real Property shall be higher than they otherwise would be, and Landlord shall notify Tenant of such fact and, if Tenant shall not within fifteen (15) days thereafter, rectify such failure so as to prevent the imposition of such increase in premiums, then Tenant shall reimburse Landlord, on demand and as Additional Charges, for that part of such premiums attributable to such failure on the part of Tenant. A schedule or "make up" of rates for the Real Property or the Premises, as the case may be, issued by the New York Fire Insurance Rating Organization or other similar body making rates for insurance for the Real Property or the Premises, as the case may be, shall be conclusive evidence of the facts therein stated and of the several items and charges in the insurance rate then applicable to the Real Property or the Premises, as the case may be.

9.03 Tenant, at its expense, shall maintain at all times during the term of this Lease (a) "all risk" property insurance covering all present and future Tenant's Property, leasehold improvements and Tenant's improvements and betterments to a limit of not less than the full replacement value thereof, such insurance to include a replacement cost endorsement, and (b) commercial general liability insurance, including contractual liability, in respect of the Premises and the conduct or operation of business therein, with Landlord and its managing agent, if any, and each Superior Lessor and Superior Mortgagee whose name and address shall previously have been furnished to Tenant, as additional insureds, with limits of not less than Five Million (\$5,000,000) Dollars combined single limit for bodily injury and property damage liability in any one occurrence, (c) steam boiler, air-conditioning or machinery insurance, if there is a boiler or pressure object or similar equipment in the Premises, with Landlord and its managing agent, if any, and each Superior Lessor and Superior Mortgagee whose name and address shall previously have been furnished to Tenant, as additional insureds, with limits of not less than Five Million (\$5,000,000) Dollars and (d) when Alterations are in progress, the insurance specified in Section 11.05 hereof. The limits of such insurance shall not limit the liability of Tenant. Tenant shall deliver to Landlord and any additional insureds, at least ten (10) days prior to the Commencement Date, such certificates of insurance, in form reasonably satisfactory to Landlord issued by the insurance company or its authorized agent. Tenant shall procure and pay for renewals of such insurance from time to time before the expiration thereof, and Tenant shall deliver to Landlord and any additional insureds a certificate thereof at least fifteen (15) days before the expiration of any existing policy. All such policies shall be issued by companies of recognized responsibility licensed to do business in New York State and rated by Best's Insurance Reports or any successor publication of comparable standing and carrying a rating of A VIII or better or the then equivalent of such rating, and all such policies shall contain a provision whereby the same cannot be canceled or modified unless Landlord and any additional insureds are given at least thirty (30) days prior written notice of such cancellation or modification. The proceeds of policies providing "all risk" property insurance of leasehold improvements and Tenant's improvements and betterments shall be payable to Landlord,

Tenant and each Superior Lessor and Superior Mortgagee as their interests may appear. The parties shall cooperate with each other in connection with the collection of any insurance monies that may be due in the event of loss and Tenant shall execute and deliver to Landlord such proofs of loss and other instruments which may be reasonably required to recover any such insurance monies.

9.04 Each party agrees to have included in each of its insurance policies (insuring the Building and any other Landlord's property therein in case of Landlord, and insuring Tenant's Property (hereinafter defined) and leasehold improvements and Tenant's improvements and betterments in the case of Tenant, against loss, damage or destruction by fire or other casualty) a waiver of the insurer's right of subrogation against the other party during the term of this Lease or, if such waiver should be unobtainable or unenforceable, (i) an express agreement that such policy shall not be invalidated if the assured waives the right of recovery against any party responsible for a casualty covered by the policy before the casualty or (ii) any other form of permission for the release of the other party. If such waiver, agreement or permission shall not be, or shall cease to be, obtainable from either party's then current insurance company, the insured party shall so notify the other party promptly after learning thereof, and shall use its best efforts to obtain the same from another insurance company described in Section 9.03 hereof. Each party hereby releases the other party, with respect to any claim (including a claim for negligence) which it might otherwise have against the other party, for loss, damage or destruction with respect to its property occurring during the term of this Lease to the extent to which it is, or is required to be, insured under a policy or policies containing a waiver of subrogation or permission to release liability, as provided in the preceding subdivisions of this Section. Nothing contained in this Section shall be deemed to relieve either party of any duty imposed elsewhere in this Lease to repair, restore or rebuild or to nullify any abatement of rents provided for elsewhere in this Lease.

9.05 Landlord may from time to time require that the amount of the insurance to be maintained by Tenant under Section 9.03 hereof be reasonably increased, so that the amount thereof adequately protects Landlord's interest; provided, however, that the amount to which such insurance requirements may be increased shall not exceed an amount then being required by landlords of comparable first-class office buildings in midtown Manhattan.

9.06 Landlord shall maintain in respect of the Building at all times during the term of this Lease fire and casualty insurance covering the Building and Landlord's property in amounts of coverage required by any institutional mortgagee of the Building, or, if there is no institutional mortgagee of the Building, then in amounts comparable to the amounts carried by owners of first-class office buildings in the Borough of Manhattan comparable to the Building.

## ARTICLE 10

### Rules and Regulations

10.01 Tenant and its employees and agents shall faithfully observe and comply with the rules and regulations annexed hereto as *Exhibit D*, and such reasonable changes therein (whether by modification, elimination or addition) as Landlord at any time or times hereafter may make and communicate to Tenant, which, in Landlord's reasonable judgment, shall be

necessary for the reputation, safety, care and appearance of the Real Property, or the preservation of good order therein, or the operation or maintenance of the Real Property, and which do not unreasonably affect the conduct of Tenant's business in the Premises (such rules and regulations as changed from time to time being herein called "Rules and Regulations"); *provided, however*, that in case of any conflict or inconsistency between the provisions of this Lease and any of the Rules and Regulations, the provisions of this Lease shall control.

10.02 Nothing in this Lease contained shall be construed to impose upon Landlord any duty or obligation to enforce the Rules and Regulations against Tenant or any other tenant or any employees or agents of Tenant or any other tenant, and Landlord shall not be liable to Tenant for violation of the Rules and Regulations by another tenant or its employees, agents, invitees or licensees. Landlord shall not discriminate against Tenant in enforcing the Rules and Regulations.

## ARTICLE 11

### Alterations

11.01 Tenant shall make no improvements, changes or alterations in or to the Premises ("Alterations") of any nature, other than painting, wall covering, carpeting, moveable partitions, and other purely decorative work ("Decorative Work"), without Landlord's prior written approval. However, *provided* Tenant shall be in compliance with the applicable provisions of this Article 11, Tenant may, at its sole expense, upon obtaining Landlord's written approval, which approval shall not be unreasonably withheld, undertake Alterations which are not Material Alterations. A "Material Alteration" is an Alteration which (a) is not limited to the interior of the Premises or which affects the exterior (including the appearance) of the Building, (b) is structural or affects the strength of the Building, (c) affects the usage or the proper functioning of the mechanical, electrical, sanitary, heating, ventilating, air-conditioning or other service systems of the Building, or (d) requires the consent of any Superior Mortgagee or Superior Lessor.

11.02 (a) Before proceeding with any Alteration (other than Decorative Work), Tenant shall submit to Landlord, for Landlord's approval, plans and specifications for the work to be done containing complete information and dimensions necessary for the construction and finishing of the Premises and for the engineering in connection therewith, which shall be in detail sufficient to obtain all required building permits or notices and to show compliance with Laws and shall be signed and sealed by an architect and, if applicable, engineer(s) licensed in the State of New York. Tenant shall not proceed with such work until it obtains Landlord's written approval of such plans and specifications, which approval shall not be unreasonably withheld or delayed.

(b) With respect to any Alteration (other than Material Alteration), Landlord shall notify Tenant of Landlord's approval or disapproval of the same within fifteen (15) Business Days after submission by Tenant of complete plans and specifications therefor (or any required revisions thereto, except that the fifteen (15) Business Days shall be shortened to ten (10) Business Days for approval of revisions of plans), together with a statement specifying in reasonable detail the reasons for such disapproval and itemizing the portion(s) of the plans

which have not been approved; however, if with respect to Alterations (other than the initial Tenant's Work) Landlord fails to respond to Tenant's request for such approval within said fifteen (15) Business Day period (or ten (10) Business Days for revisions), then provided Tenant sends Landlord a second (2nd) notice stating, among other things, the following in bold capital letters: **IF LANDLORD FAILS TO RESPOND TO THIS REQUEST FOR APPROVAL OF ALTERATIONS WITHIN FIVE (5) BUSINESS DAYS, THEN LANDLORD'S APPROVAL THEREOF AND OF THE PLANS AND SPECIFICATIONS THEREFOR SHALL BE DEEMED GRANTED IN ACCORDANCE WITH SECTION 11.02(b) OF THE LEASE,**" and Landlord continues to fail to respond to the request after the expiration of such additional five (5) Business Day period, Landlord's consent to such Alteration shall be deemed to have been given. Notwithstanding anything to the contrary contained herein, the five (5) Business Day period referred to in the preceding sentence shall be extended to fifteen (15) Business Days if Landlord notifies Tenant that Landlord has sent Tenant's plans and specifications to a third party consultant to review. Any review or approval by Landlord of plans and specifications with respect to any Alteration is solely for Landlord's benefit, and without any representation or warranty to Tenant with respect to the adequacy, correctness or efficiency thereof, its compliance with Laws or otherwise.

(c) Tenant shall pay to Landlord upon demand, as Additional Charges, Landlord's reasonable third party out of pocket costs and expenses (including, without limitation, the fees of any architect or engineer employed by Landlord or any Superior Lessor or Superior Mortgagee for such purpose) for (i) reviewing said plans and specifications and (ii) inspecting the Alterations to determine whether the same are being performed in accordance with the approved plans and specifications, the provisions of any Superior Lease or Superior Mortgage and all Legal Requirements.

(d) Tenant agrees that any review or approval by Landlord of any plans and/or specifications with respect to any Alterations is solely for Landlord's benefit, and without any representation or warranty whatsoever to Tenant with respect to the adequacy, correctness or efficiency thereof or otherwise.

11.03 Subject to Landlord's review and approval of Tenant's plans and specifications in accordance with the terms of this Article 11, Tenant shall have the right to (i) construct an internal staircase to connect the two floors comprising the Premises, subject to Tenant's obligation to remove such staircase and restore the floor slab (and any other damaged portions of the Premises) to its condition prior to the installation of such staircase; (ii) core drilling for communication wiring where necessary; (iii) use floor cells for communication and electrical wiring (Tenant shall be responsible for ensuring reasonable access thereto for maintenance and repairs); and (iv) reasonable use of the vertical shaftways in the Premises and the Building for wiring in such locations and in such quantities as determined by Landlord. Any and all wiring that enters another tenant's space must be contained in EMT and clearly marked and identified.

11.04 Tenant, in connection with any Alterations, shall fully and promptly comply with and observe the Alterations Rules and Regulations set forth as *Exhibit E* hereto and made a part hereof.

11.05 Tenant, at its expense, shall obtain (and furnish true and complete copies to Landlord of) all necessary governmental permits and certificates for the commencement and prosecution of Alterations and for final approval thereof upon completion, and shall cause Alterations to be performed in compliance therewith, with all applicable Legal Requirements, with all Insurance Requirements and with the plans and specifications approved by Landlord. Landlord agrees to cooperate with Tenant, at no cost to Landlord, in connection with obtaining such governmental permits and certificates, including the signing of the building department applications, as owner, in advance of reviewing and approving Tenant's plans and specifications, but subject to Section 11.02(d). Alterations shall be diligently performed in a good and workmanlike manner, using new materials and equipment at least equal in quality and class to the better of (i) the original installations of the Building or (ii) the then standards for the Building established by Landlord. Alterations shall be performed by contractors first approved by Landlord, which approval shall not be unreasonably withheld or delayed; *provided, however*, that any Alterations in or to the mechanical, electrical, sanitary, heating, ventilating, air- conditioning, life safety or other systems of the Building shall be performed only by the contractor(s) designated by Landlord. Landlord hereby approves the contractors listed on Exhibit K for the performance of the initial Alterations to the Premises. Attached hereto as Exhibit L is a list of the contractors Landlord currently uses for work on the Building systems. Landlord reserves the right to revise such list at anytime, provided Landlord will not interrupt the work of an approved Building system contractor after it has commenced working on an alteration. Alterations shall be performed in such manner as not to unreasonably interfere with or delay and as not to impose any additional expense upon Landlord in the construction, maintenance, repair or operation of the Building; and if any such additional expense shall be incurred by Landlord as a result of Tenant's performance of any Alterations, Tenant shall pay such additional expense within twenty (20) days after demand as Additional Charges. Landlord shall endeavor to give Tenant notice (which may be oral) of any Alteration that is being performed in a manner that unreasonably interferes with, delays or impose any additional expense upon Landlord in the construction, maintenance, repair or operation of the Building; provided however, the failure of Landlord to give such notice shall not relieve Tenant of its obligation under the prior sentence. Throughout the performance of Alterations, Tenant, at its expense, shall carry, or cause to be carried, worker's compensation insurance in statutory limits, all risk "Builders Risk" insurance and general liability insurance, with completed operation endorsement, for any occurrence in or about the Real Property, under which Landlord and its agent and any Superior Lessor and Superior Mortgagee whose name and address shall previously have been furnished to Tenant shall be named as parties insured, in such limits as Landlord may reasonably require, with insurers reasonably satisfactory to Landlord. Tenant shall furnish Landlord with reasonably satisfactory evidence that such insurance is in effect at or before the commencement of Alterations and, on request, at reasonable intervals thereafter during the continuance of Alterations. No Alterations shall involve the removal of any fixtures, equipment or other property in the Premises which are not Tenant's Property without Landlord's prior written consent, unless such fixtures, equipment or other property shall be promptly replaced at Tenant's expense with new fixtures, equipment or other property of like utility and at least equal value.

11.06 Tenant agrees that the exercise of its rights pursuant to the provisions of this Article 11 or of any other provisions of this Lease or the Exhibits hereto shall not be done in a manner which would violate Landlord's union contracts affecting the Real Property, or

create any work stoppage, picketing, labor disruption or dispute or disharmony or any interference (beyond a de minimis extent) with the business of Landlord or any tenant or occupant of the Building. Tenant shall immediately stop work or other activity if Landlord notifies Tenant that continuing such work or activity would violate Landlord's union contracts affecting the Real Property, or create any work stoppage, picketing, labor disruption or dispute or disharmony or any interference (beyond a de minimis extent) with the business of Landlord or any tenant or occupant of the Building. Landlord agrees that it shall not discriminate as against Tenant in enforcing the foregoing prohibition against interfering with the business of Landlord or other tenants in the Building.

11.07 Tenant, at its expense, and with diligence and dispatch, shall procure the cancellation or discharge of all notices of violation arising from or otherwise connected with Alterations, or any other work, labor, services or materials done for or supplied to Tenant, or any person claiming through or under Tenant (other than by Landlord or its affiliates, agents, representatives or contractors), which shall be issued by the Department of Buildings of the City of New York or any other public authority having or asserting jurisdiction. Tenant shall defend, indemnify and save harmless Landlord from and against any and all mechanic's and other liens and encumbrances filed in connection with Alterations, or any other work, labor, services or materials done for or supplied to Tenant, or any person claiming through or under Tenant, including, without limitation, security interests in any materials, fixtures or articles so installed in and constituting part of the Premises and against all costs, expenses and liabilities incurred in connection with any such lien or encumbrance or any action or proceeding brought thereon. Tenant, at its expense, shall procure the satisfaction or discharge of record of all such liens and encumbrances within thirty (30) days after Tenant shall have received notice of the filing thereof. However, nothing herein contained shall prevent Tenant from contesting, in good faith and at its own expense, any notice of violation, *provided* that Tenant shall comply with the provisions of Section 8.02 hereof.

11.08 Tenant will promptly upon the completion of an Alteration deliver to Landlord "as-built" drawings and CAD files on diskette and by e-mail in AutoCAD.DWG format or compatible DXF format, as well as PDF files on diskette and by e-mail in JPG or TIFF format, showing the exact nature and location of any Alterations Tenant has performed or caused to be performed in the Premises, and (a) if any Alterations by Tenant are then proposed or in progress, Tenant's drawings and specifications, if any, for such Alterations and (b) if any Alterations by Landlord for Tenant were performed or are then proposed or in progress, the "as-built" drawings, if any, or the drawings and specifications, if any, as the case may be, for such Alterations, in Tenant's possession. Any files to be delivered to Landlord by e-mail as set forth in the preceding sentence shall be sent to: [Tenant.Plan@brookfieldproperties.com](mailto:Tenant.Plan@brookfieldproperties.com).

11.09 All fixtures and equipment installed or used by Tenant in the Premises shall be fully paid for by Tenant in cash and shall not be subject to conditional bills of sale, chattel mortgage or other title retention agreements.

11.10 Tenant shall keep records of Tenant's Alterations costing in excess of Ten Thousand and 00/100 Dollars (\$10,000.00) and of the cost thereof. Tenant shall, within forty-five (45) days after demand by Landlord, furnish to Landlord copies of such records and cost if Landlord shall require same in connection with any proceeding to reduce the assessed valuation of the Real Property, or in connection with any proceeding instituted pursuant to Article 8 hereof or for any other reasonable purpose.

Landlord's and Tenant's Property.

12.01 All fixtures, equipment, improvements and appurtenances attached to or built into the Premises at the commencement of or during the term of this Lease, whether or not by or at the expense of Tenant, shall be and remain a part of the Premises, shall, upon the expiration or sooner termination of this Lease, be deemed the property of Landlord and shall not be removed by Tenant, except as provided in Section 12.02. Further, any carpeting or other personal property in the Premises on the Commencement Date, unless installed and paid for by Tenant, shall be and shall remain Landlord's property and shall not be removed by Tenant. Notwithstanding the foregoing provisions, upon notice to Tenant no later than thirty (30) days prior to the Expiration Date or upon reasonable notice with respect to such earlier date upon which the term of this Lease shall expire, Landlord may require Tenant to remove all or part of the foregoing fixtures, equipment, improvements and appurtenances attached to or built into the Premises during the term of this Lease; provided, however, that (i) Tenant shall not be obligated to remove any such fixtures, equipment, improvements and appurtenances installed prior to the date of this Lease, and (ii) Tenant's obligation to remove fixtures, equipment, improvements and appurtenances installed after the date of this Lease shall be limited to non-standard items such as kitchens, vaults, private restrooms, raised or reinforced flooring, internal stairs, or other items which are unusually difficult or expensive to remove. Tenant shall remove any such items required by Landlord pursuant to the preceding sentence from the Premises prior to the expiration of this Lease at Tenant's expense. Upon such removal Tenant shall immediately and at its expense, repair and restore the Premises to the condition existing prior to installation and repair any damage to the Premises or the Building due to such removal. If Landlord has instructed Tenant to remove any of the items listed above in this Section 12.01, then Tenant shall have the right, in lieu of removing such items and restoring the Premises, to pay to Landlord an amount equal to 105% of the cost of removing such items and restoring the Premises, as such amount is reasonably determined by Landlord. If Tenant elects to have Landlord perform such removal and restoration work, Tenant shall pay to Landlord such cost thereof prior to Landlord performing such work and within twenty (20) days after demand therefor.

12.02 All movable partitions, furniture systems, special cabinet work, business and trade fixtures, machinery and equipment, communications equipment (including, without limitation, telephone system, security system and wiring) and office equipment, whether or not attached to or built into the Premises, which are installed in the Premises by or for the account of Tenant without expense to Landlord and can be removed without structural damage to the Building, and all furniture, furnishings and other articles of movable personal property owned by Tenant and located in the Premises (collectively, "Tenant's Property") shall be and shall remain the property of Tenant and may be removed by Tenant at any time during the term of this Lease; *provided* that if any of Tenant's Property is removed, Tenant shall repair or pay the cost of repairing any damage to the Premises or to the Building resulting from the installation and/or removal thereof. Any equipment or other property for which Landlord shall have



granted any allowance or credit to Tenant shall not be deemed to have been installed by or for the account of Tenant without expense to Landlord, shall not be considered Tenant's Property and shall be deemed the property of Landlord.

12.03 At or before the Expiration Date of this Lease (or within fifteen (15) days after any earlier termination of this Lease) Tenant, at its expense, shall remove from the Premises all of Tenant's furniture, equipment and other moveable personal property not affixed or attached to the Premises (except for such items thereof as Landlord shall have expressly permitted to remain, which property shall become the property of Landlord), and Tenant shall repair any damage to the Premises or the Building resulting from any installation and/or removal of Tenant's Property.

12.04 Any other items of Tenant's Property which shall remain in the Premises after the Expiration Date of this Lease, or within fifteen (15) days following an earlier termination date, may at the option of Landlord, be deemed to have been abandoned, and in such case such items may be retained by Landlord as its property or disposed of by Landlord, without accountability, in such manner as Landlord shall determine, at Tenant's expense.

## ARTICLE 13

### Repairs and Maintenance

13.01 Tenant shall, at its expense, throughout the term of this Lease, take good care of and maintain in good order and condition the Premises and the fixtures and improvements therein including, without limitation, the property which is deemed Landlord's pursuant to Section 12.01 hereof and Tenant's Property, except as otherwise expressly provided in the last sentence of this Section 13.01. Tenant shall be responsible for all repairs, interior and exterior, structural and non-structural, ordinary and extraordinary, foreseen or unforeseen, in and to the Premises, and shall be responsible for the cost of all repairs, interior and exterior, structural and non-structural, ordinary and extraordinary, foreseen or unforeseen, in and to the Building and the facilities and systems thereof, the need for which arises out of (a) the performance or existence of Alterations, (b) the installation, use or operation of the property which is deemed Landlord's, pursuant to Sections 12.01 and 12.02 hereof and Tenant's Property, (c) the moving of the property which is deemed Landlord's pursuant to Sections 12.01 and 12.02 hereof and Tenant's Property in or out of the Building, (d) the act, omission, misuse or neglect of Tenant or any of its subtenants or its or their employees, agents, contractors or invitees or (e) design flaws in any of Tenant's plans and specifications regardless of the fact that such Tenant's plans may have been approved by Landlord. Tenant, at its expense, shall promptly replace all scratched, damaged or broken doors and glass (and the solar film, if any, attached to the window glass) in and about the Premises, including, without limitation, entrance doors, and shall be responsible for all repairs, maintenance and replacement of wall and floor coverings in the Premises and for all the repair, maintenance and replacement of all horizontal portions of the systems and facilities of the Building within or exclusively serving the Premises, including without limitation the sanitary and electrical fixtures and equipment therein. The foregoing sentence is not intended to require Tenant to replace improvements that are otherwise in good working condition, but merely have normal wear and tear. All repairs in or to the Premises for which Tenant is responsible shall be promptly performed by Tenant in a manner

which will not interfere with the use of the Building by other occupants; *provided, however*, any repairs in and to the Building and the facilities and systems thereof for which Tenant is responsible shall be performed by Landlord at Tenant's expense, which expense shall be commercially reasonable; but Landlord may, at its option, before commencing any such work or at any time thereafter, require Tenant to furnish to Landlord such security, in form and amount as Landlord shall reasonably deem necessary to assure the payment for such work by Tenant. The exterior walls of the Building, the portions of any window sills outside the windows, and the windows are not part of the Premises and Landlord reserves all rights to such parts of the Building. Notwithstanding the foregoing provisions of this Section 13.01, Tenant shall not be responsible for repairs to or replacements of any structural elements of the Building (including the Premises), except to the extent the need for such repairs or replacements arises from the matters set forth in clauses (a), (b), (c), (d) or (e) of the second sentence of this Section 13.01 or from the negligence or willful misconduct of Tenant, its employees, agents or contractors.

13.02 Tenant shall give Landlord prompt notice of any defective condition in any plumbing, heating, air-conditioning or ventilation system or electrical lines located in, servicing or passing through the Premises of which it has actual knowledge. Following such notice, Landlord shall remedy the conditions, but at the expense of Tenant if Tenant is responsible for same under the provisions of this Article 13.

13.03 Except as otherwise expressly provided in this Lease, Landlord shall have no liability to Tenant, nor shall Tenant's covenants and obligations under this Lease be reduced or abated in any manner whatsoever, by reason of any inconvenience, annoyance, interruption or injury arising from Landlord's making any repairs or changes which Landlord is required or permitted by this Lease, or required by law, to make in or to the fixtures, equipment or appurtenances of the Building or the Premises; provided, however, that Landlord shall use reasonable efforts to the extent practicable to make such repairs and changes at such times and in such manner as to minimize interference with the conduct of Tenant's business in the Premises, provided that Landlord shall not be required to perform any such work on an overtime or premium-pay basis.

13.04 Landlord shall, at its expense, but subject to the provisions of this Lease, keep and maintain (and replace if necessary as determined by Landlord in its sole discretion) the public portions of the Building (including the structural elements of the Building) and Building systems and facilities, to the extent that such systems and facilities affect the Premises, in good working order and shall operate the Building as a first-class office building.

#### ARTICLE 14

##### Electricity

14.01 Subject to the provisions of this Article 14, Landlord shall furnish the electricity that Tenant shall reasonably require in the Premises for Tenant's normal business purposes up to 200 KVA in the Premises. The amount to be paid by Tenant for electricity consumed shall be determined by meter or meters and related equipment installed (or, if existing, retrofitted) by Landlord at Tenant's expense and billed separately according to each

meter. Bills for electricity consumed by Tenant, which Tenant hereby agrees to pay, shall be rendered by Landlord or the meter company to Tenant at such time as Landlord may elect, and shall be payable as an Additional Charge, within fifteen (15) days after rendition of any such bill. Tenant shall make no material changes or additions to the electrical equipment, wiring and/or appliances in the Premises (beyond that on Tenant's approved plans for initial occupancy) without submission of plans for the prior written consent of Landlord which consent shall not be unreasonably withheld or delayed.

14.02 The amount to be charged to Tenant by Landlord per "KW" and "KWHR" pursuant to this Article for electricity consumed within the Premises, whether shown on the meters measuring Tenant's consumption of electricity or determined by survey as herein elsewhere provided, shall be 105% of the actual amount at which Landlord from time to time purchases each KW and KWHR of electricity for the same period from the utility company, which amount (as adjusted from time to time, "Landlord's Rate") shall be determined by dividing the cost established by said utility company (averaged separately for KWs and KWHRs) during each respective billing period by the number of KWs and KWHRs consumed by the Building appearing on the utility company invoice for such period. In no event shall the Additional Charge made to Tenant pursuant to this Article 14 for submetered electricity supplied to the Premises (or the charge pursuant to Section 14.04 hereof in the event electricity is supplied on a rent inclusion basis) be less than Landlord's actual cost therefor. If Tenant shall occupy the Premises for business purposes (including, without limitation, the testing or operation of its computers or other office equipment) and consume electricity prior to the installation of meters in the Premises, then Tenant agrees to pay Landlord the sum of \$3.25 per rentable square foot per annum for electricity pursuant to Section 14.04 hereof until such time as said meters are installed. Commencing on the Commencement Date and continuing during the period of Tenant's construction occurring prior to the installation of said meters, Tenant will pay to Landlord a flat charge of \$ 1.50 per rentable square foot per annum.

14.03 In the event that the "submetering" of electricity in the Building is hereafter prohibited by any law hereafter enacted, or by any order or ruling of the Public Service Commission of the State of New York, or by any judicial decision of any appropriate court, at the request of Landlord, Tenant shall, unless Tenant elects to require Landlord to provide electricity pursuant to Section 14.04 hereof, apply within ten (10) days to the appropriate public utility company servicing the Building for direct electric service and bear all costs and expenses necessary to comply with all rules and regulations of such public utility company pertinent thereto, and Landlord and/or the meter company theretofore designated by Landlord shall be relieved of any further obligation to furnish electricity to Tenant pursuant to this Article 14, except Landlord shall permit its wires, conduits and electrical equipment, to the extent available and safely capable, to be used for such purpose. Any additional riser or risers or feeders or service to the extent available and reasonably feasible, to supply Tenant's electrical requirements in excess of 200 KVA, will be installed by Landlord, at the sole reasonable cost and expense of Tenant, if in Landlord's reasonable judgment the same are necessary and will not cause permanent damage or injury to the Building or the Premises or cause or create a dangerous or hazardous condition or unreasonably interfere with or disturb other tenants or occupants. In addition to the installation of such riser or risers, Landlord will also, at the sole cost and expense of Tenant, install at reasonably competitive rates all other equipment proper and necessary in connection therewith, subject to the aforesaid terms and conditions, and subject to Landlord's prior approval of Tenant's plans therefor which shall not be unreasonably withheld or delayed.

14.04 (a) If (i) submetering of electricity is prohibited as described in Section 14.03 hereof and Tenant does not elect to obtain electricity from the public utility company, or (ii) if and to the extent that the Premises or any portion of Tenant's electric consumption (KW and KWHR) is measured on a meter that also measures the electric consumption of another tenant occupying space in the Building, then in any such case Landlord shall furnish electricity to Tenant on the basis that Tenant's consumption (KW and KWHR) of electricity shall be measured by electric survey made from time to time by Landlord's consultant at Landlord's cost and expense. Pending an initial survey made by Landlord's consultant, effective as of the date when Landlord has commenced furnishing electricity to Tenant pursuant to this Section 14.04 (with suitable proration for any period of less than a full calendar month), the Fixed Rent specified in Section 1.04 hereof shall be increased by an amount (the "Initial Charge") which shall be at the rate of \$3.25 per rentable square foot per annum, or in the event the reason is (i) above, then, if there has been twelve (12) months charges of submetered electric, an amount equal to the average of the prior twelve (12) months' charges for submetered electric. After completion of the electrical survey made by Landlord's consultant of Tenant's consumption (KW and KWHR) of electricity, said consultant shall apply 105% of Landlord's Rate as provided in Section 14.02 hereof to arrive at an amount (the "Actual Charge") and the Fixed Rent shall be appropriately adjusted retroactively to reflect any amount by which the Actual Charge exceeds the Initial Charge. Tenant shall pay that portion of such amount which would have been paid to the date of the determination of the Actual Charge within twenty (20) days after being billed therefor. Thereafter and from time to time during the term of the Lease, Landlord may cause additional surveys of Tenant's electrical usage to be made by Landlord's consultant. Tenant from time to time may request Landlord to have a survey made of Tenant's electrical usage, and the fees of Landlord's consultant making such survey(s) at Tenant's request shall be paid by Tenant. In the event any of the foregoing surveys shall determine that there has been an increase or decrease in Tenant's usage of electricity, then effective as of the date of such change in usage the then current Actual Charge to Tenant by reason of the furnishing of electricity to Tenant, as same may have been previously increased pursuant to the terms hereof, shall be increased or decreased (subject to the last sentence of subsection 14.04(b) hereof) in accordance with such survey determination with appropriate credit allowed to Tenant in the event of a decrease in usage and in the event of an increase in such usage Tenant shall pay the increased amount therefor from the date of such change in usage to the date of such survey determination within ten (10) days after being billed therefor and thereafter as part of the increased monthly charge for electricity by reason of such survey determination.

(b) In the event from time to time after the initial survey or a subsequent survey any additional electrically operated equipment is installed in the Premises by Tenant, or if Tenant shall increase its hours of operation, or if the charges by the utility company supplying electric current to Landlord are increased or decreased after the date thereof, then and in any of such events the monthly charge shall be increased or decreased accordingly on account of such additional electricity consumed by such newly installed electrically operated equipment and/or increase in Tenant's hours of operation and/or on account of such increased or decreased Landlord's Rate, The amount of such increase or decrease in the monthly charge shall be

determined in the first instance by Landlord's consultant. In addition, the monthly rate will be increased or decreased quarterly in accordance with calculations by Landlord's consultant to reflect changes in the fuel adjustment component of the utility company charge. Tenant shall pay the amount of any increase in the monthly charge retroactively (subject to Tenant's right to contest in the same manner as in Section 14.06 hereof provided) from the date of the installation of all newly installed electrically operated equipment and/or from the date when the increased charges to Landlord from the utility company become effective and/or from the date of any increase in Tenant's hours of operation, as the case may be, such amount to be paid promptly upon billing therefor by Landlord. Notwithstanding anything to the contrary contained in Section 14.04, in no event shall the Actual Charge be decreased to an amount which is less than the Initial Charge per rentable square foot per annum.

14.05 All survey determinations (including the first survey made by Landlord's consultant) shall be subject to contest by Tenant as provided in Section 14.06 hereof. Surveys made of Tenant's electrical consumption shall be based upon the use of electricity between the hours of 8:00 a.m. to 6:00 p.m., Mondays through Fridays, on Saturdays and such other days and hours when Tenant (or Tenant's agents, employees and/or contractors) uses electricity for lighting and for the operation of the machinery, appliances and equipment used by Tenant in the Premises; and if cleaning services are provided by Landlord, such survey shall include Landlord's normal cleaning hours of five (5) hours per day (which shall not be subject to reduction) for lighting within the Premises and for electrical equipment normally used for such cleaning.

14.06 In the event electricity shall be furnished to Tenant as contemplated in Section 14.04 hereof, then Tenant, within sixty (60) days after notification from Landlord of the determination of Landlord's utility consultant (in accordance with the provisions of Section 14.04 hereof), shall have the right to contest, at Tenant's cost and expense, such determination by submitting to Landlord a like survey determination prepared by a utility consultant of Tenant's selection, which will highlight the differences between Landlord's survey and Tenant's survey. If the determination of Tenant's consultant does not vary from the determination of Landlord's consultant by more than ten percent (10%), then Landlord's determination shall be deemed binding and conclusive. If the determination of Tenant's consultant varies by more than ten percent (10%) and if Landlord's consultant and Tenant's consultant shall be unable to reach agreement within thirty (30) days, then such two consultants shall designate a third consultant to make the determination, and the determination of such third consultant shall be binding and conclusive on both Landlord and Tenant. If the determination of such third consultant shall substantially confirm the findings of Landlord's consultant (i.e., within ten percent (10%)), then Tenant shall pay the cost of such third consultant. If such third consultant shall substantially confirm the determination of Tenant's consultant (i.e., within ten percent (10%)), then Landlord shall pay the cost of such third consultant. If such third consultant shall make a determination substantially different from that of both Landlord's and Tenant's consultants (or is within ten percent (10%) of both such determinations), then the cost of such third consultant shall be borne equally by Landlord and Tenant. In the event that Landlord's consultant and Tenant's consultant shall be unable to agree upon the designation of a third consultant within thirty (30) days after Tenant's consultant shall have made its determination (different from that of Landlord's consultant), then either party shall have the right to request The Real Estate Board of New York, Inc. (or, upon their failure or refusal to act,

the American Arbitration Association in the City of New York) to designate a third consultant whose decision shall be conclusive and binding upon the parties, and the costs of such third consultant shall be borne as hereinbefore provided in the case of a third consultant designated by the Landlord's and Tenant's consultants. Pending the resolution of any contest pursuant to the terms hereof, Tenant shall pay the Additional Charge on account of electricity determined by Landlord's consultant, and upon the resolution of such contest, appropriate adjustment in accordance with such resolution of such Additional Charge payable by Tenant on account of electricity shall be made retroactive to the date of the determination of Landlord's consultant.

14.07 If pursuant to any law, ruling, order or regulation the amount which Landlord is permitted to charge to Tenant for the purchase of electricity pursuant to this Article 14 shall be reduced below that which Landlord would otherwise be entitled to charge Tenant hereunder, then Tenant shall pay the difference between such amounts to Landlord as an Additional Charge within ten (10) days after being billed therefor by Landlord, as compensation for the use of the Building's electric distribution system.

14.08 Tenant covenants and agrees that at all times its installations and use of electricity shall never exceed 200 KVA. If (i) in Landlord's reasonable opinion Tenant's installation overloads the electrical vaults/feeders or any riser(s) and/or switch(es) in or servicing the Building or (ii) Tenant requests additional power in addition to that which is being supplied by Landlord on the date Tenant occupies the Premises for its business use, then if and to the extent allocated power is available in the Building for use by Tenant without resulting in allocation to Tenant of a disproportionate amount of allocated power, Landlord shall, at Tenant's cost and expense, provide and install in conformity with law any additional riser or risers and/or any and all switch or switches to connect additional power to the Premises, and Tenant agrees to pay Landlord its then-established connection charge for each additional amp of power or portion hereof so supplied to the Premises, together with the cost of installing such additional risers, switches and related equipment. Upon Landlord's review of Tenant's plans and specifications for Tenant's initial Alterations, Landlord shall notify Tenant if in Landlord's opinion Tenant's plans and specifications show that Tenant's proposed Alterations will overload the electrical vaults/feeders or any riser(s) and/or switch(es) in or servicing the Building; provided, however Landlord's failure to give such notice shall not waive Tenant's obligation to comply with the terms of this Section 14.08.

14.09 Landlord shall not in any way be liable or responsible to Tenant for any loss, damage or expense which Tenant may sustain or incur if (i) the supply of electric energy to the Premises is temporarily interrupted or (ii) the quantity or character of electric service is changed or is no longer available or suitable for Tenant's requirements, except to the extent resulting from Landlord's willful misconduct or gross negligence.

14.10 At Landlord's option, Landlord shall furnish and install all replacement lighting, tubes, lamps, bulbs and ballasts required in the Premises; and in such event, Tenant shall pay to Landlord or its designated contractor upon demand the then established commercially reasonable charges therefor of Landlord or its designated contractor, as the case may be.

Landlord's Services

15.01(a) Landlord will provide after the term of this Lease shall have commenced, the following services to the Premises in the manner hereinafter more particularly set forth: (i) heat, ventilation and air conditioning; (ii) elevator service; (iii) domestic cold water; and (iv) cleaning (provided cleaning shall not be provided during the construction of Tenant's initial Alterations).

(b) As used herein, the terms "Business Hours" shall mean the hours between 8:00 a.m. and 6:00 p.m., and "Business Days" shall mean all days except Saturdays, Sundays, New Year's Day, President's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving, the day following Thanksgiving, and Christmas, and any other days which shall be either (i) observed by both the federal and the state governments as legal holidays or (ii) designated as a holiday by the applicable Building Service Union Employee Service contract or by the applicable Operating Engineers contract.

15.02 (a) Landlord, during Business Hours on Business Days, shall furnish heat, ventilation and air-conditioning to the Premises (except as otherwise provided in this Lease and except for any special requirements of Tenant arising from its particular use of the Premises) in accordance with the specifications set forth in *Exhibit G* attached hereto (subject to the design criteria, including occupancy and connected electric load design criteria, set forth therein). Landlord shall not be liable for the failure of the air conditioning system if such failure results from the occupancy of the Premises by more than an average of one person for each 100 useable square feet in any separate room or area or if Tenant installs and operates machines, incandescent lighting and appliances, the total connected electrical load of which exceeds 5 watts per square foot of usable area in the separate room or area;

(b) (i) Landlord shall provide passenger elevator service to each floor of the Premises at all times during Business Hours of Business Days and at least one of such passenger elevators shall be subject to call at all other times. Landlord shall provide freight elevator service to the Premises on a first come-first served basis (*i.e.*, no advance scheduling) during Business Hours of Business Days. Freight elevator service shall also be provided to the Premises on a reserved basis at all other times, upon the payment of Landlord's then established charges therefor which shall be Additional Charges hereunder. The current charge for overtime freight elevator and loading dock use is \$110 per hour (*i.e.*, \$55 per hour for each) with a four (4) hour minimum. Such rate is subject to change from time to time. The use of all elevators shall be on a non-exclusive basis and shall be subject to the Rules and Regulations.

(ii) At any time or times all or any of the elevators in the Building may, at the option of Landlord, be manual and/or automatic elevators, and Landlord shall be under no obligation to furnish an elevator operator for any automatic elevator. If Landlord shall at any time or times furnish any elevator operator for any automatic elevator, Landlord may discontinue furnishing such elevator operator without any diminution, reduction or abatement of rent.

(c) Landlord shall furnish reasonable quantities of hot and cold water to the base Building lavatories on the floor(s) on which the Premises are located and, through the wet columns and wet pipes in the Premises, cold water for lavatory and drinking and office cleaning purposes in the Premises. If Tenant shall require water for any other purpose, Landlord need only furnish cold water at the Building core riser through a capped outlet located on the floor of the Premises, and the cost of heating such water as well as piping and supplying such water to the Premises shall be paid by Tenant. Landlord may install and maintain, at Tenant's expense, meters to measure Tenant's consumption of such cold water and/or hot water for such other purposes. Tenant shall pay to Landlord at Landlord's standard charges for the quantities of cold water and hot water shown on such meters (including Landlord's charge for the production of such hot water, if Landlord shall have produced such hot water) on demand.

(d) (i) Except as otherwise provided below, Landlord shall cause, the Premises, including the exterior and the interior of the Building exterior windows thereof, to be cleaned in accordance with the provisions of *Exhibit F* attached hereto and made a part hereof. Tenant shall pay to Landlord on demand the costs incurred by Landlord for (x) extra cleaning work in the Premises required because of (i) misuse or neglect on the part of Tenant or its subtenants or its or their employees or visitors, (ii) interior glass partitions or unusual quantity of interior glass surfaces (if cleaning thereof is requested by Tenant), and (iii) non-building standard materials or finishes installed by Tenant or at its request (if cleaning thereof is requested by Tenant), (y) removal from the Premises and the Building of any refuse and rubbish of Tenant in excess of that ordinarily accumulated in business office occupancy, including, without limitation, kitchen refuse, or at times other than Landlord's standard cleaning times, and (z) the use of the Premises by Tenant other than during Business Hours on Business Days, to the extent that Landlord incurs actual increases in costs as a result of such use. Notwithstanding the foregoing, Landlord shall not be required to clean any portions of the Premises used for preparation, serving or consumption of food or beverages, training rooms, data processing or reproducing operations, private lavatories or toilets or other special purposes requiring greater or more difficult cleaning work than office areas and, if Tenant requires the cleaning of such areas, Tenant agrees, at Tenant's expense, to retain Landlord's cleaning contractor to perform such cleaning at commercially reasonable rates. If the Premises be or become infested with vermin as a result of the use or any misuse or neglect of the Premises by Tenant, its agents, employees, visitors or licensees, Tenant shall at Tenant's expense cause the same to be exterminated from time to time to the reasonable satisfaction of Landlord and shall employ such exterminators and such exterminating company or companies as shall be reasonably approved by Landlord. Provided that Tenant has complied with its obligation in the prior sentence, if the Premises become infested with vermin due to no fault of Tenant, its agents, employees, visitors or licensees, Landlord shall cause the tenant(s) occupying space adjacent to the Premises to exterminate such adjacent space or (at Landlord's option) Landlord shall exterminate such adjacent premises.

(ii) Landlord, its cleaning contractor and their respective employees shall have access to the Premises after 6:00 p.m. and before 8:00 a.m. and shall have the right to use, without charge therefor, all light, power and water in the Premises reasonably required to clean the Premises as required under this subsection 15.02(d).



(iii) Tenant shall not clean, nor require, permit, suffer or allow any windows in the Premises to be cleaned, from the outside in violation of Section 202 of the Labor Law, or any other applicable law.

15.03 If Tenant shall require heat or air-conditioning services at any time other than as set forth in subsection 15.02(a), Landlord shall furnish such service for such times upon no less than one (1) Business Day's advance notice from Tenant for periods after 6:00 p.m. and for all other periods, and Tenant shall pay to Landlord upon demand as Additional Charges hereunder Landlord's then established charges therefor. Landlord's current charges for overtime air-conditioning are \$900 per hour (covering both floors of the Premises), and Landlord's current charges for overtime heating are \$800 per hour (covering both floors of the Premises). Such overtime charges are subject to increase from time to time. In the event that any other occupant of the Building whose premises are in the same heating ventilation and air conditioning zone as the Premises shall request overtime heat or air conditioning service during all or any portion of the time Tenant has requested such service, the charges for such services shall be proportionately prorated among all such occupants requesting such service.

15.04 Except as otherwise expressly provided above, Landlord shall not be required to provide any services to the Premises.

15.05 Subject to the provisions of Section 35.04(c) and Article 19 and 20 hereof, Landlord reserves the right, without liability to Tenant and without it being deemed a constructive eviction, to stop or interrupt any heating, elevator, escalator, lighting, ventilating, air-conditioning, steam, power, electricity, water, cleaning or other service and to stop or interrupt the use of any Building facilities and systems at such times as may be necessary and for as long as may reasonably be required by reason of accidents, strikes, or the making of repairs, alterations or improvements, or inability to secure a proper supply of fuel, gas, steam, water, electricity, labor or supplies, or by reason of any other similar or dissimilar cause beyond the reasonable control of Landlord. Subject to the provisions of Section 35.04(c) and Article 19 and 20 hereof, no such stoppage or interruption shall result in any liability from Landlord to Tenant or entitle Tenant to any diminution or abatement of rent or other compensation nor shall this Lease or any of the obligations of Tenant be affected or reduced by reason of any such stoppage or interruption. Except in emergency circumstances, Landlord shall give Tenant reasonable prior notice (which notice need not be in writing) of its intention to make any repairs, alterations or improvements referred to in this Section 15.05 or any other stoppages of services of which Landlord has prior notice and shall use reasonable efforts in making such repairs, alterations or improvements and in dealing with such other stoppages of service so as to minimize interference with Tenant's business operations, provided that Landlord shall not be required to perform any such work on an overtime or premium-pay basis unless Tenant has agreed in writing to pay the additional cost of performing such work on an overtime or premium-pay basis, in which case such amount shall be payable by Tenant within twenty (20) days after demand therefor.

15.06 Only persons approved by Landlord shall be permitted to furnish or sell laundry, linen, towels, drinking water, ice, food, beverages, bootblacking, barbering and other similar supplies and services to tenants. Landlord may fix the circumstances under which such supplies and services are to be furnished or sold. Landlord expressly reserves the right at any

time to designate an exclusive supplier of all or any one or more of said supplies and services, *provided* that the quality thereof and the charges therefor shall be reasonably comparable to that of other suppliers in the midtown area of Manhattan in the City of New York. Landlord expressly reserves the right to exclude from the Building any person not so designated by Landlord. However, Tenant, its regular office employees or invitees may personally bring food or beverages into the Building for consumption within the Premises solely by Tenant, its regular office employees or invitees.

15.07 In addition to any remedies which Landlord may have under this Lease, and without reducing or adversely affecting any of Landlord's rights and remedies contained elsewhere in this Lease, if there shall be a default hereunder by Tenant which shall not have been remedied within the applicable grace period, Landlord shall not be obligated to furnish to Tenant or the Premises any services outside of Business Hours on Business Days; and the discontinuance of any one or more such services shall be without liability by Landlord to Tenant and shall not reduce, diminish or otherwise affect any of Tenant's covenants and obligations under this Lease.

15.08 If and for so long as Landlord maintains a Building directory, Landlord, at Tenant's request, shall maintain listings on such directory of the names of Tenant, or its permitted subtenants, assignees or affiliates and the names of any of their officers, partners and employees, provided that the names so listed shall not use more than Tenant's Operating Share of the space on the Building directory. The actual cost to Landlord for making any changes in such listings requested by Tenant shall be paid by Tenant to Landlord, as Additional Charges hereunder, within twenty (20) days after delivery of an invoice therefor. In addition, subject to Landlord's review and approval of the design, size and location (such approval not to be unreasonably withheld or delayed), Tenant shall have the right to install signage in the elevator lobby on each floor of the Premises and on the entrance doors to the Premises.

15.09 If Tenant shall install any supplementary air conditioning units in the Premises and connect the same to the condenser water loop of the Building (or if any of the same shall have been previously installed in the Premises), then (i) all of such work shall be Alterations under Article 11 of this Lease and, accordingly, Tenant shall comply with all of its obligations under Article 11 with respect to such installation and (ii) Tenant shall pay to Landlord, as Rent, commencing on the date on which Tenant shall connect said supplementary unit(s) to the Building condenser water loop, an amount equal to 14 Cents (\$.14) per ton of condenser water used per hour (the "Condenser Water Rate") as measured on a meter or meters installed and maintained by Tenant at Tenant's sole cost and expense (but subject to Landlord's approval as to the specifications and installation of such meter). Tenant shall pay Landlord for the use of such condenser water within fifteen (15) days after the delivery of an invoice therefor. The Condenser Water Rate may be increased annually by an amount equal to Landlord's increased cost to furnish condenser water in the Building. In addition, Tenant shall pay to Landlord, within thirty (30) days after demand, Landlord's "hook up" charges in the amount of \$1,500 per tap; provided however, such "hook up" charge is subject to change if "hook up" does not occur within the first twenty-four (24) months of the term of this Lease. Within sixty (60) days after the date of this Lease, Tenant shall deliver to Landlord a written notice specifying the amount of condenser water Tenant will require, provided that such amount cannot exceed 40 tons . If Tenant fails to deliver such notice, Landlord cannot guaranty the

quantity of condenser water that will be made available to Tenant. If, in the twelve (12) month period following Tenant's connection to the condenser water system, Tenant fails to utilize the quantity of condenser water requested by Tenant and allocated by Landlord, then Landlord shall have the right to reduce the amount of condenser water allotted for Tenant's use to the amount necessary to supply Tenant's requirements as evidenced by Tenant's condenser water use for the prior twelve (12) month period; provided however, Landlord shall not reduce the amount of condenser water allotted for Tenant's use to less than twenty (20) tons per floor. In addition, if Tenant fails to connect to the condenser water system within twelve (12) months after the Commencement Date, Landlord shall not be required to make available to Tenant any condenser water.

## ARTICLE 16

### Access and Name of Building

16.01 Except for the space within the inside surfaces of all walls, hung ceilings, floors, windows and doors bounding the Premises, all of the Building, including, without limitation, exterior and atrium Building walls, core corridor walls and doors and any core corridor entrance, any terraces or roofs adjacent to the Premises, and any space in or adjacent to the Premises used for shafts, stacks, pipes, conduits, fan rooms, ducts, electric or other utilities, sinks or other Building facilities, and the use thereof, as well as access thereto through the Premises for the purposes of operation, maintenance, decoration and repair, are reserved to Landlord and persons authorized by Landlord. Tenant acknowledges that Landlord has installed or is planning to install in the Building on the inside of the windows thereof a film to reduce the usage of energy in the Building. Tenant agrees that the foregoing provisions of this Section 16.01 shall apply to the installation, maintenance or replacement of such film.

16.02 Landlord reserves the right, and Tenant shall permit Landlord and persons authorized by Landlord, to install, erect, use and maintain pipes, ducts and conduits in and through the Premises; provided that (a) if installed adjacent to the Premises then such installations shall be, at Landlord's cost and expense, located in boxed enclosures and appropriately furred, and (b) in performing such installation work, Landlord shall use reasonable efforts not to interfere with Tenant's use of the Premises without any obligation to employ overtime services; provided however, upon Tenant's written request, Landlord shall perform such work on an overtime basis if Tenant agrees to pay to Landlord an amount equal to the difference between the overtime or other premium pay rate and the regular pay rates for such labor and any other overtime costs or expenses incurred by Landlord. Any damage to the Premises resulting from Landlord's exercise of the foregoing right shall be repaired promptly by Landlord, at Landlord's expense. Landlord shall use reasonable efforts to locate any new pipes, ducts or conduit that may run through the Premises in core areas of the Premises. However, if in Landlord's sole judgment, it is impractical to locate such new pipes, ducts or conduit in the core areas of the Premises, Landlord shall use reasonable efforts to locate any new pipes, ducts or conduit in a location that will not unreasonably interfere with Tenant's use or occupancy of the Premises. The installation of any new pipes, ducts or conduit that may run through the non-core areas of the Premises shall not take up more than a de minimis amount of square footage in the Premises.

16.03 Landlord and persons authorized by Landlord shall have the right, upon reasonable advance notice, except in cases of emergency, to enter and/or pass through the Premises at reasonable times provided Landlord shall use reasonable efforts to minimize any interference with Tenant's business operations (without obligation to make such visits during non-business hours) and shall be accompanied by a designated representative of Tenant if Tenant shall have made such representative available to Landlord, (a) to examine the Premises and to show them to actual and prospective Superior Lessors, Superior Mortgagees, or prospective purchasers, mortgagees or lessees of the Building, (b) to make such repairs, alterations, additions and improvements in or to the Premises and/or in or to the Building or its facilities and equipment as Landlord or persons authorized by Landlord is or are required or desires to make, and (c) to read any utility meters located therein. Landlord and such authorized persons shall be allowed to take all materials into and upon the Premises that may be required in connection therewith, without any liability to Tenant and without any reduction of Tenant's covenants and obligations hereunder. Such materials shall be stored in a neat and orderly manner and Tenant shall not be responsible for any theft or damage to same.

16.04 If at any time any windows of the Premises are either temporarily darkened or obstructed by reason of any repairs, improvements, maintenance and/or cleaning in or about the Building (or permanently darkened or obstructed if required by law) or covered by any translucent material for the purpose of energy conservation, or if any part of the Building, other than the Premises, is temporarily or permanently closed or inoperable, the same shall be without liability to Landlord and without any reduction or diminution of Tenant's obligations under this Lease. Nothing in the prior sentence is intended to permit Landlord to cover any of the windows in the Premises with a sign or billboard, which Landlord agrees it will not do during the Term of this Lease.

16.05 During the time period referred to in subsection 7.07(a) and during the period of eighteen (18) months prior to the expiration date of this Lease, Landlord and persons authorized by Landlord may exhibit the Premises to prospective tenants.

16.06 If, during the last month of the term of this Lease, Tenant has removed all or substantially all of Tenant's property from the Premises, Landlord or persons authorized by Landlord may, without notice to Tenant, immediately enter the Premises and alter, renovate and decorate the same, without liability to Tenant and without reducing or otherwise affecting Tenant's covenants and obligations hereunder.

16.07 Landlord reserves the right, at any time, without it being deemed a constructive eviction and without incurring any liability to Tenant therefor, or affecting or reducing any of Tenant's covenants and obligations hereunder, to make or permit to be made such changes, alterations, additions and improvements in or to the Building and the fixtures and equipment thereof, as well as in or to the street entrances, atrium, doors, halls, passages, elevators, escalators and stairways thereof, and other public parts of the Building, as Landlord shall deem necessary or desirable. Landlord agrees that any changes, alterations, additions or improvements performed pursuant to this Section shall not, when completed, unreasonably interfere with the access to or use of the Premises by Tenant or materially diminish any services to be provided by Landlord hereunder.

16.08 Landlord reserves the right to name the Building and to change the name or address of the Building at any time and from time to time. Landlord shall endeavor to give Tenant reasonable prior notice of any change in the address of the Building. Provided such change of name or address was not imposed by any governmental or quasi-governmental body or agency, Landlord shall reimburse Tenant for the cost of stationery, business cards, brochures and other similar items that contained either the name of the Building, if changed, or the designated address of the Building, if changed, up to a maximum of Five Hundred Dollars (\$500). Neither this Lease nor any use by Tenant shall give Tenant any easement or other right in or to the use of any door or any passage or any concourse or any plaza connecting the Building with any subway or any other building or to any public conveniences, and the use of such doors, passages, concourses, plazas and conveniences may without notice to Tenant, be regulated or discontinued at any time by Landlord.

16.09 If Tenant shall not be personally present to open and permit an entry into the Premises at any time when for any reason an entry therein shall be urgently necessary by reason of fire or other emergency, Landlord or Landlord's agents may forcibly enter the same without rendering Landlord or such agents liable therefor (if during such entry Landlord or Landlord's agents shall accord reasonable care to Tenant's property) and without in any manner affecting the obligations and covenants of this Lease.

16.10 Any damage to the Premises resulting from the exercise by Landlord of its rights granted under this Article 16 shall be promptly repaired by Landlord at Landlord's expense.

16.11 Subject to the terms of this Lease, including but not limited to this Article 16, Tenant shall have access to the Premises 24 hours per day, seven days per week.

## ARTICLE 17

### Notice of Occurrences

17.01 Tenant shall give prompt notice to Landlord of (a) any occurrence in or about the Premises for which Landlord might be liable, (b) any fire or other casualty in the Premises, (c) any damage to or defect in the Premises, including the fixtures, equipment and appurtenances thereof, for the repair of which Landlord might be responsible, and (d) any damage to or defect in any part or appurtenance of the Building's sanitary, electrical, heating, ventilating, air-conditioning, elevator or other systems located in or passing through the Premises or any part thereof, if and to the extent that Tenant shall have knowledge of any of the foregoing matters.

## ARTICLE 18

### Non-Liability and Indemnification

18.01 Neither Landlord, any Superior Lessor or any Superior Mortgagee, nor any member, partner, director, officer, shareholder, principal, agent, servant or employee of Landlord, any Superior Lessor or any Superior Mortgagee (in any case whether disclosed or

undisclosed), shall be liable to Tenant for any loss, injury or damage to Tenant or to any other person, or to its or their property, irrespective of the cause of such injury, damage or loss, nor shall the aforesaid parties be liable for any damage to property of Tenant or of others entrusted to employees of Landlord nor for loss of or damage to any such property by theft or otherwise; *provided, however*, that subject to the provisions of Section 35.03 hereof, nothing contained in this Section 18.01 shall be construed to exculpate Landlord for loss, injury or damage to the extent caused by or resulting from the negligence of Landlord, its agents, servants, employees in the operation or maintenance of the Premises or the Real Property. Further, neither Landlord, any Superior Lessor or any Superior Mortgagee, nor any member, partner, director, officer, principal, shareholder, agent, servant or employee of Landlord, any Superior Lessor or any Superior Mortgagee, shall be liable (a) for any such damage caused by other tenants or persons in, upon or about the Building or the Real Property, or caused by operations in construction of any private, public or quasi-public work; or (b) even if negligent, for consequential damages arising out of any loss of use of the Premises or any equipment, facilities or other Tenant's Property therein by Tenant or any person claiming through or under Tenant.

18.02 Tenant shall indemnify and hold harmless Landlord and all Superior Lessors and Superior Mortgagees and its and their respective members, partners, directors, officers, principals, shareholders, agents and employees from and against any and all claims arising from or in connection with (a) the conduct or management of the Premises or of any business therein, or any work or thing whatsoever done, or any condition created (other than by Landlord, its agents, or employees) in or about the Premises during the term of this Lease or during the period of time, if any, prior to the Commencement Date that Tenant may have been given access to the Premises; (b) any act, omission or negligence of Tenant or any of its subtenants or licensees or its or their members, partners, directors, principals, shareholders, officers, agents, employees or contractors; (c) any accident, injury or damage whatever (except to the extent caused by Landlord's negligence or the negligence of Landlord's agents, employees, or contractors) occurring in, at or upon the Premises; and (d) any breach or default by Tenant in the full and prompt payment and performance of Tenant's obligations under this Lease; together with all reasonable costs, expenses and liabilities incurred in or in connection with each such claim or action or proceeding brought thereon, including, without limitation, all reasonable attorneys' fees and expenses. In case any action or proceeding be brought against Landlord and/or any Superior Lessor or Superior Mortgagee and/or its or their members, partners, directors, officers, principals, shareholders, agents and/or employees by reason of any such claim, Tenant, upon notice from Landlord or such Superior Lessor or Superior Mortgagee, shall resist and defend such action or proceeding (by counsel reasonably satisfactory to Landlord or such Superior Lessor or Superior Mortgagee).

## ARTICLE 19

### Damage or Destruction

19.01 (a) If the Building or the Premises shall be partially or totally damaged or destroyed by fire or other casualty (and if this Lease shall not be terminated as in this Article 19 hereinafter provided), (a) Landlord shall repair the damage to and restore and rebuild the Building and the core and shell of the Premises (excluding Tenant's improvements and

betterments and the property which is deemed Tenant's Property pursuant to Section 12.02 hereof) with reasonable dispatch after notice to it of such damage or destruction and the collection of the insurance proceeds attributable to such damage ("Landlord's Restoration Work"), and (b) Tenant shall repair the damage to and restore and repair Tenant's improvements and betterments and the property which is deemed Tenant's Property pursuant to Section 12.02 hereof with reasonable dispatch after the substantial completion of Landlord's repairs and restoration of the core and shell of the Premises provided for in clause (a) above ("Tenant's Restoration Work"). Such work by Tenant shall be deemed Alterations for the purposes of Article 11 hereof. Provided that this Lease shall not be terminated by Landlord or Tenant, the proceeds of policies providing coverage for Tenant's improvements and betterments shall, subject to the rights of any Superior Lessor or Superior Mortgagee, be paid to Landlord and segregated by Landlord for the purpose of the casualty in question and shall be disbursed therefrom in payment of the cost of Tenant's Restoration Work as the performance of such work progresses, against certificates, in form and substance and certified by a person satisfactory to Landlord, showing that the disbursement to be made represents not more than ninety percent (90%) of the cost of the work and materials described in the certificate and that the estimated cost of completion of Tenant's Restoration Work does not exceed the undisguised balance of such proceeds (exclusive of the ten percent (10%) retention). The balance of such proceeds shall be paid to Tenant upon the presentation of a like certificate, evidencing that Tenant's Restoration Work has been completed and that there are no mechanics' or other liens outstanding relating thereto. If Tenant shall fail to proceed with Tenant's Restoration Work, Tenant shall have no right or claim to said insurance proceeds which shall then be disposed of as Landlord, in its sole discretion, shall determine. Notwithstanding anything to the contrary contained herein, if this Lease shall be terminated by Landlord or Tenant pursuant to this Article 19, the proceeds of policies providing coverage for Tenant's improvements and betterments shall be paid to Landlord. Tenant shall be solely responsible for (i) the amount of any deductible under the policy insuring Tenant's improvements and betterments and (ii) the amount, if any, by which the cost of repairing and restoring Tenant's improvements and betterments exceeds the available insurance proceeds therefor. The amount due in accordance with subparagraph (i) above shall be Additional Charges under this Lease and payable by Tenant to Landlord upon demand. The proceeds of Tenant's insurance policies with respect to Tenant's Property shall be payable to Tenant.

(b) Notwithstanding anything to the contrary contained in this Article, if in Landlord's reasonable discretion, it would be appropriate for safety reasons, health reasons or the efficient operation or restoration of the Building for Landlord to perform all or a portion of Tenant's Restoration Work on behalf of Tenant, then (i) Landlord shall give Tenant a notice specifying the portion of Tenant's Restoration Work to be performed by Landlord ("Specified Restoration Work"), (ii) Landlord shall perform such Specified Restoration Work and (iii) Tenant shall pay to Landlord (or Landlord shall retain from the insurance proceeds paid to Landlord in accordance with Section 19.01(a) hereof) the commercially reasonable cost of such Specified Restoration Work within fifteen (15) days following the giving of Landlord's written demand therefor. Tenant shall promptly permit Landlord access to the Premises for the purpose of performing the Specified Restoration Work and any restoration work to the Building which is not the responsibility of Tenant hereunder. If required by Landlord in connection with the performance of the Specified Restoration Work or Landlord's Restoration Work, Tenant shall promptly remove from the Premises all or such items of Tenant's Property as Landlord may

require by written notice (“Tenant’s Property Removal Obligation”). In the event that Tenant fails to comply with Tenant’s Property Removal Obligation within ten (10) Business Days after the giving of such written notice by Landlord, Landlord shall have the right to remove and store such Tenant’s Property at Tenant’s sole cost and expense and with no liability to Landlord. Tenant shall be solely responsible for arranging for any visits to the Premises by Tenant’s insurance adjuster that may be desired by Tenant prior to the performance by Landlord or Tenant of Tenant’s Property Removal Obligation or the performance by Landlord of Landlord’s Restoration Work or the Specified Restoration Work and Landlord shall be under no obligation to delay the performance of same, nor shall Landlord have any liability to Tenant, in the event that Tenant fails to do so.

19.02 Subject to the provisions of Section 19.05 hereof, if all or part of the Premises shall be damaged or destroyed or rendered completely or partially untenantable on account of fire or other casualty, the Fixed Rent and the Additional Charges under Article 3 hereof shall be abated in the proportion that the untenantable area of the Premises bears to the total area of the Premises, for the period from the date of the damage or destruction to the earliest to occur of (i) ninety (90) days after the date the damage to the core and shell of the Premises (exclusive of Tenant’s improvements and betterments and Tenant’s Property) shall be substantially repaired by Landlord (provided, however, that if in Landlord’s reasonable judgment based upon the estimate of Landlord’s independent contractors such repairs would have been substantially completed at an earlier date but for Tenant’s having failed to reasonably cooperate with Landlord in effecting such repair, then the core and shell of the Premises shall be deemed to have been repaired substantially on such earlier date and any reduction or abatement shall cease), (ii) the date Tenant substantially completes Tenant’s Restoration Work or (iii) if the Building and not the Premises is so damaged or destroyed, the date on which the Premises shall be made tenantable; provided, however, should Tenant or any of its subtenants reoccupy a portion of the Premises during the period the repair work is taking place and prior to the date that the Premises are substantially repaired or made tenantable for the conduct of its or their business (which shall not include entry upon and occupancy of the Premises with the prior written consent of Landlord for the purpose of performing restoration and/or repair to Tenant’s Property, improvements and finish work), the Fixed Rent and the Additional Charges allocable to such reoccupied portion, based upon the proportion which the area of the reoccupied portion of the Premises bears to the total area of the Premises, shall be payable by Tenant from the date of such occupancy.

19.03 (a) If the Building shall be totally damaged or destroyed by fire or other casualty, or if the Building shall be so damaged or destroyed by fire or other casualty (whether or not the Premises are damaged or destroyed) that its repair or restoration requires more than two hundred seventy (270) days or the expenditure of more than thirty (30%) percent of the full insurable value of the Building immediately prior to the casualty (as estimated in any such case by a reputable contractor, registered architect or licensed professional engineer designated by Landlord), and provided Landlord shall terminate Leases covering no less than fifty (50%) percent of the office space in the Building then leased to tenants (including Tenant) in the Building, then in such case Landlord may terminate this Lease by giving Tenant notice to such effect within one hundred fifty (150) days after the date of the casualty. For the purpose of this Section only, “full insurable value” shall mean replacement cost less the cost of footings, foundations and other structures below the street and first floors of the Building. If Landlord



terminates this Lease as provided above in this Section, Landlord shall promptly refund to Tenant any prepayments of Rent made under this Lease applicable to the period after the date of such casualty.

(b) If the Premises or any part thereof or the means of access thereto or Building systems servicing same shall be damaged by fire or other casualty, and Landlord is required to or elects to repair and restore the Premises, Landlord shall, within one-hundred fifty (150) days after such damage or destruction, provide Tenant with a written notice of the estimated date on which the restoration of the Premises shall be substantially completed. If such estimated date is more than eighteen (18) months after the date of such damage or destruction, Tenant may terminate this Lease by notice to Landlord, which notice shall be given within thirty (30) days after the date Landlord provides the notice required by the preceding sentence, and such termination shall be effective upon the giving of Tenant's notice. Failure by Tenant to provide such notice within such thirty (30) day period shall be deemed an election by Tenant not to terminate this Lease. If Tenant elects not to terminate this Lease or is deemed to have so elected, and if Landlord has not substantially completed the required repairs and restored the Premises within the period originally estimated by Landlord or within such period thereafter (not to exceed three (3) months) as shall equal the aggregate period Landlord may have been delayed in commencing or completing such repairs by Force Majeure Causes (as defined in Section 35.04(a) hereof), then Tenant shall have the further right to elect to terminate this Lease upon written notice to Landlord and such election shall be effective upon the expiration of thirty (30) days after the date of such notice, unless Landlord substantially completes such restoration within such thirty (30) day period.

(c) Notwithstanding the foregoing, if more than thirty-five (35%) percent of the Premises shall be damaged by fire or other casualty during the last twenty-four (24) months of the term of this Lease (as the same may be extended pursuant to Article 36 hereof) such that the repair and restoration of the Premises would take longer than one hundred twenty (120) days, then in such case Landlord may terminate this Lease by giving Tenant notice to such effect within ninety (90) days after the date of the casualty, or Tenant may terminate this Lease by giving Landlord notice to such effect within thirty (30) days after the date of the casualty, and such election shall be effective upon the expiration of fifteen (15) Business Days after the date of such notice. Failure by either party to provide such notice within the aforementioned period shall be deemed an election by such party not to terminate this Lease pursuant to this Section 19.03(c).

19.04 Except as expressly provided in Section 19.03(b) hereof, Tenant shall not be entitled to terminate this Lease and Landlord shall have no liability to Tenant for inconvenience, loss of business or annoyance arising from any repair or restoration of any portion of the Premises or of the Building pursuant to this Article 19. Landlord shall use reasonable efforts to make such repair or restoration promptly and in such manner as not unreasonably to interfere with Tenant's use and occupancy of the Premises, but Landlord shall not be required to do such repair or restoration work except during Business Hours of Business Days,

19.05 Notwithstanding any of the foregoing provisions of this Article 19, if by reason of some act or omission on the part of Tenant or any of its subtenants or its or their

partners, directors, officers, servants, employees, agents or contractors of which Landlord shall have given Tenant notice and a reasonable opportunity to cure either, Landlord or any Superior Lessor or any Superior Mortgagee shall be unable to collect all of the insurance proceeds (including, without limitation, rent insurance proceeds) applicable to damage or destruction of the Premises or the Building by fire or other casualty, then, without prejudice to any other remedies which may be available against Tenant, there shall be no abatement or reduction of the Fixed Rent or Additional Charges.

19.06 Landlord will not carry insurance of any kind on Tenant's Property and improvements and betterments, and shall not be obligated to repair any damage to or replace Tenant's Property, improvements or betterments. Tenant agrees to look to its own insurance for recovery of any damage to or loss of Tenant's Property, improvements or betterments. If Tenant shall fail to maintain such insurance, Landlord shall have the right to obtain insurance on Tenant's Property, improvements or betterments and the cost thereof shall be Additional Charges under this Lease and payable by Tenant to Landlord on demand.

19.07 The provisions of this Article 19 shall be deemed an express agreement governing any case of damage or destruction of the Premises by fire or other casualty, and Section 227 of the Real Property Law of the State of New York, providing for such a contingency in the absence of an express agreement, and any other law of like import, now or hereafter in force, shall have no application in such case.

## ARTICLE 20

### Eminent Domain

20.01 If the whole of the Building or the Premises shall be taken by condemnation or in any other manner for any public or quasi-public use or purpose, this Lease and the term and estate hereby granted shall terminate as of the date of vesting of title on such taking (the "Date of the Taking"), and the Fixed Rent and Additional Charges shall be prorated and adjusted as of such date.

20.02 If more than forty (40%) percent of the Building shall be so taken, this Lease shall be unaffected by such taking, except that (a) Landlord may, at its option, provided that Landlord shall terminate leases of no less than fifty (50%) percent of the office space then leased to tenants in the Building upon which the effect of such taking shall have been substantially similar to the effect of same upon the Premises, terminate this Lease by giving Tenant notice to that effect within ninety (90) days after the Date of the Taking, and (b) if twenty (20%) percent or more of the Premises shall be so taken and the remaining area of the Premises shall not be sufficient, in Tenant's reasonable judgment, for Tenant to continue the operation of its business, Tenant may terminate this Lease by giving Landlord notice to that effect within ninety (90) days after the Date of the Taking. This Lease shall terminate on the date that such notice from Landlord or Tenant to the other shall be given, and the Fixed Rent and Additional Charges shall be prorated and adjusted as of such termination date, except that with respect to any portion of the Premises which is the subject of the taking, if earlier, as of the Date of the Taking. Upon such partial taking and this Lease continuing in force as to any part of the Premises, the Fixed Rent and Additional Charges shall be adjusted according to the rentable area remaining.

20.03 Landlord shall be entitled to receive the entire award or payment in connection with any taking without deduction therefrom for any estate vested in Tenant by this Lease and Tenant shall receive no part of such award except as hereinafter expressly provided in this Article 20. Tenant hereby expressly assigns to Landlord all of its right, title and interest in and to every such award or payment; provided, however, that Tenant shall have the right to make a separate claim for its moving expenses and to the extent the award otherwise payable to Landlord shall not be diminished thereby, for any of Tenant's Property taken.

20.04 If the temporary use or occupancy of all or any part of the Premises shall be taken by condemnation or in any other manner for any public or quasi-public use or purpose during the term of this Lease, Tenant shall be entitled, except as hereinafter set forth, to receive that portion of the award or payment for such taking which represents compensation for the use and occupancy of the Premises, for the taking of Tenant's Property and for moving expenses, and Landlord shall be entitled to receive that portion which represents reimbursement for the cost of restoration of the Premises. This Lease shall be and remain unaffected by such taking and Tenant shall continue to be responsible for all of its obligations hereunder insofar as such obligations are not affected by such taking and shall continue to pay in full the Fixed Rent and Additional Charges when due. If the period of temporary use or occupancy shall extend beyond the Expiration Date of this Lease, that part of the award which represents compensation for the use and occupancy of the Premises (or a part thereof) shall be divided between Landlord and Tenant so that Tenant shall receive so much thereof as represents the period up to and including such Expiration Date and Landlord shall receive so much thereof as represents the period after such Expiration Date. All monies paid as, or as part of, an award for temporary use and occupancy for a period beyond the date to which the Fixed Rent and Additional Charges have been paid shall be received, held and applied by Landlord as a trust fund for payment of the Fixed Rent and Additional Charges becoming due hereunder.

20.05 In the event of a taking of less than the whole of the Building and/or the Land which does not result in termination of this Lease, or in the event of a taking for a temporary use or occupancy of all or any part of the Premises which does not result in a termination of this Lease, (a) Landlord, at its expense, and whether or not any award or awards shall be sufficient for the purpose, shall proceed with reasonable diligence to repair the remaining parts of the Building and the Premises (other than those parts of the Premises which are deemed Landlord's property pursuant to Section 12.01 hereof and Tenant's Property) to substantially their former condition to the extent that the same may be feasible (subject to reasonable changes which Landlord shall deem desirable) and so as to constitute a complete and rentable Building and Premises and (b) Tenant, at its expense, and whether or not any award or awards shall be sufficient for the purpose, shall proceed with reasonable diligence to repair the remaining parts of the Premises which are deemed Landlord's property pursuant to Section 12.01 hereof and Tenant's Property, to substantially their former condition to the extent that the same may be feasible, subject to reasonable changes which shall be deemed Alterations.

ARTICLE 21

Surrender

21.01 On the Expiration Date or upon any earlier termination of this Lease, or upon any reentry by Landlord upon the Premises, Tenant shall quit and surrender the Premises to Landlord "broom-clean" and in good order, condition and repair, except for ordinary wear and tear and such damage or destruction as Landlord is required to repair or restore under this Lease, and Tenant shall remove (i) all of Tenant's Property therefrom except as otherwise expressly provided in this Lease and (ii) any fixtures, equipment, improvements and appurtenances required by Landlord to be removed pursuant to Section 12.01 of this Lease, and, in such event, repair and restore the Premises in accordance with the provisions of Section 12.01.

21.02 No act or thing done by Landlord or its agents shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept such surrender shall be valid unless in writing and signed by Landlord and each Superior Lessor and Superior Mortgagee whose lease or mortgage, as the case may be, provides that no such surrender may be accepted without its consent.

ARTICLE 22

Conditions of Limitation

22.01 This Lease and the term and estate hereby granted are subject to the limitation that whenever Tenant, or any guarantor of Tenant's obligations under this Lease, shall make an assignment for the benefit of creditors, or shall file a voluntary petition under any bankruptcy or insolvency law, or an involuntary petition alleging an act of bankruptcy or insolvency shall be filed against Tenant or such guarantor under any bankruptcy or insolvency law, or whenever a petition shall be filed by or against Tenant or such guarantor under the reorganization provisions of the United States Bankruptcy Code or under the provisions of any law of like import, or whenever a petition shall be filed by Tenant, or such guarantor, under the arrangement provisions of the United States Bankruptcy Code or under the provisions of any law of like import, or whenever a permanent receiver of Tenant, or such guarantor, or of or for the property of Tenant, or such guarantor, shall be appointed, then Landlord (a) if such event occurs without the acquiescence of Tenant, or such guarantor, as the case may be, at any time after the event continues for ninety (90) days, or (b) in any other case at any time after the occurrence of any such event, may give Tenant a notice of intention to end the term of this Lease at the expiration of five (5) business days from the date of service of such notice of intention, and upon the expiration of said five (5) business day period this Lease and the term and estate hereby granted, whether or not the term shall theretofore have commenced, shall terminate with the same effect as if that day were the expiration date of this Lease, but Tenant shall remain liable for damages as provided in Article 24 hereof.

22.02 This Lease and the term and estate hereby granted are subject to the further limitations that:

(a) if Tenant shall default in the payment of any Fixed Rent or Additional Charges, and such default shall continue for ten (10) days after written notice thereof has been given to Tenant, or

(b) if Tenant shall, whether by action or inaction, be in default of any of its obligations under this Lease (other than a default in the payment of Fixed Rent or Additional Charges) and such default shall continue and not be remedied as soon as practicable and in any event within twenty (20) days after Landlord shall have given to Tenant a notice specifying the same, or, in the case of a default which cannot with due diligence be cured within a period of twenty (20) days and the continuance of which for the period required for cure will not (i) subject Landlord or any Superior Lessor or any Superior Mortgagee to prosecution for a crime or any other fine or charge, (ii) subject the Premises or any part thereof or the Building or Land, or any part thereof, to being condemned or vacated, (iii) subject the Building or Land, or any part thereof, to any lien or encumbrance which is not removed or bonded within the time period required under this Lease, or (iv) result in the termination of any Superior Lease or foreclosure of any Superior Mortgage, if Tenant shall not (x) within said twenty (20) day period advise Landlord of Tenant's intention to take all steps reasonably necessary to remedy such default, (y) duly commence within said 20-day period, and thereafter diligently prosecute to completion all steps reasonably necessary to remedy the default and (z) complete such remedy within a reasonable time after the date of said notice of Landlord, or

(c) if any event shall occur or any contingency shall arise whereby this Lease or the estate hereby granted or the unexpired balance of the term hereof would, by operation of law or otherwise, devolve upon or pass to any person, firm or corporation other than Tenant, except as expressly permitted by Article 7 hereof, or

(d) if Tenant shall abandon the Premises and fails to keep the same secure, or

(e) if there shall be any default by Tenant under any other lease with Landlord (or any person which, directly or indirectly, controls, is controlled by, or is under common control with, Landlord) covering space in the Building which shall not be remedied within the applicable grace period, if any, provided therefor under such other lease, or if Tenant holds over in the premises demised under such other lease, then in any of said cases Landlord may give to Tenant a notice of intention to end the term of this Lease at the expiration of five (5) days from the date of the service of such notice of intention, and upon the expiration of said five (5) days this Lease and the term and estate hereby granted, whether or not the term shall theretofore have commenced, shall terminate with the same effect as if that day was the day herein definitely fixed for the end and expiration of this Lease, but Tenant shall remain liable for damages as provided in Article 24 hereof.

22.03 (a) If Tenant shall have assigned its interest in this Lease, and this Lease shall thereafter be disaffirmed or rejected in any proceeding under the United States Bankruptcy Code or under the provisions of any Federal, state or foreign law of like import, or in the event of termination of this Lease by reason of any such proceeding, the assignor or any of its predecessors in interest under this Lease, upon request of Landlord given within ninety (90) days after such disaffirmance or rejection shall (a) pay to Landlord all Fixed Rent and

Additional Charges then due and payable to Landlord under this Lease to and including the date of such disaffirmance or rejection and (b) enter into a new lease as lessee with Landlord of the Premises for a term commencing on the effective date of such disaffirmance or rejection and ending on the Expiration Date, unless sooner terminated as in such Lease provided, at the same Fixed Rent and Additional Charges and upon the then executory terms, covenants and conditions as are contained in this Lease, except that (i) the rights of the lessee under the new lease, shall be subject to any possessory rights of the assignee in question under this Lease and any rights of persons claiming through or under such assignee, (ii) such new lease shall require all defaults existing under this Lease to be cured by the lessee with reasonable diligence, and (iii) such new lease shall require the lessee to pay all Additional Charges which, had this Lease not been disaffirmed or rejected, would have become due after the effective date of such disaffirmance or rejection with respect to any prior period. If the lessee shall fail or refuse to enter into the new lease within ten (10) days after Landlord's request to do so, then in addition to all other rights and remedies by reason of such default, under this Lease, at law or in equity, Landlord shall have the same rights and remedies against the lessee as if the lessee had entered into such new lease and such new lease had thereafter been terminated at the beginning of its term by reason of the default of the lessee thereunder.

(b) If pursuant to the United States Bankruptcy Code Tenant is permitted to assign this Lease in disregard of the restrictions contained in Article 7 hereof (or if this Lease shall be assumed by a trustee), the trustee or assignee shall cure any default under this Lease and shall provide adequate assurance of future performance by the trustee or assignee including (a) of the source of payment of rent and performance of other obligations under this Lease (for which adequate assurance shall mean the deposit of cash security with Landlord in an amount equal to the sum of one year's Fixed Rent then reserved hereunder plus an amount equal to all Additional Charges payable under Article 3 for the calendar year preceding the year in which such assignment is intended to become effective, which deposit shall be held by Landlord, without interest, for the balance of the term as security for the full and faithful performance of all of the obligations under this Lease on the part of Tenant yet to be performed) and that any such assignee of this Lease shall have a net worth exclusive of good will, computed in accordance with generally accepted accounting principles, equal to at least ten (10) times the aggregate of the annual Fixed Rent reserved hereunder plus all Additional Charges for the preceding calendar year as aforesaid and (b) that the use of the Premises shall in no way diminish the reputation of the Building as a first-class office building or impose any additional burden upon the Building or increase the services to be provided by Landlord. If all defaults are not cured and such adequate assurance is not provided within sixty (60) days after there has been an order for relief under the United States Bankruptcy Code, then this Lease shall be deemed rejected, Tenant or any other person in possession shall vacate the Premises, and Landlord shall be entitled to retain any rent or security deposit previously received from Tenant and shall have no further liability to Tenant or any person claiming through Tenant or any trustee. If Tenant receives or is to receive any valuable consideration for such an assignment of this Lease, such consideration, after deducting therefrom (a) the brokerage commissions, if any, and other expenses reasonably incurred by Tenant for such assignment and (b) any portion of such consideration reasonably designed by the assignee as paid for the purchase of Tenant's Property in the Premises, shall be and become the sole exclusive property of Landlord and shall be paid over to Landlord directly by such assignee. If Tenant's trustee, Tenant or Tenant as debtor-in-possession assumes this Lease and proposes to assign the same (pursuant to Title 11 U.S.C. Section 365, as the same may be amended) to any

person, including, without limitation, any individual, partnership or corporate entity, who shall have made a bona fide offer to accept an assignment of this Lease on terms acceptable to the trustee, Tenant or Tenant as debtor-in-possession, then notice of such proposed assignment, setting forth (x) the name and address of such person, (y) all of the terms and conditions of such offer, and (z) the adequate assurance to be provided Landlord to assure such person's future performance under this Lease, including, without limitation, the assurances referred to in Title 11 U.S.C. Section 365(b)(3) (as the same may be amended), shall be given to Landlord by the trustee, Tenant or Tenant as debtor-in-possession no later than twenty (20) days after receipt by the trustee, Tenant or Tenant as debtor-in-possession of such offer, but in any event no later than ten (10) days prior to the date that the trustee, Tenant or Tenant as debtor-in-possession shall make application to a court of competent jurisdiction for authority and approval to enter into such assignment and assumption, and Landlord shall thereupon have the prior right and option, to be exercised by notice to the trustee, Tenant or Tenant as debtor-in-possession, given at any time prior to the effective date of such proposed assignment, to accept an assignment of this Lease upon the same terms and conditions and for the same consideration, if any, as the bona fide offer made by such person, less any brokerage commissions which may be payable out of the consideration to be paid by such person for the assignment of this Lease.

## ARTICLE 23

### Reentry by Landlord

23.01 If Tenant shall default in the payment of any Fixed Rent or Additional Charges, and such default shall continue for ten (10) days after written notice thereof has been given to Tenant, or if this Lease shall terminate as provided in Article 22 hereof, Landlord or Landlord's agents and employees may immediately or at any time thereafter reenter the Premises, or any part thereof, either by summary dispossess proceedings or by any suitable action or proceeding at law, or by force or otherwise, without being liable to indictment, prosecution or damages therefor, and may repossess the same, and may remove any person therefrom, to the end that Landlord may have, hold and enjoy the Premises. The word "reenter," as used herein, is not restricted to its technical legal meaning. If this Lease is terminated under the provisions of Article 22, or if Landlord shall reenter the Premises under the provisions of this article, or in the event of the termination of this Lease, or of reentry, by or under any summary dispossess or other proceeding or action or any provision of law by reason of default hereunder on the part of Tenant, Tenant shall thereupon pay to Landlord the Fixed Rent and Additional Charges payable up to the time of such termination of this Lease, or of such recovery of possession of the Premises by Landlord, as the case may be, and shall also pay to Landlord damages as provided in Article 24 hereof.

23.02 In the event of a breach or threatened breach by Tenant of any of its obligations under this Lease, Landlord shall also have the right of injunction. The special remedies to which Landlord may resort hereunder are cumulative and are not intended to be exclusive of any other remedies to which Landlord may lawfully be entitled at any time and Landlord may invoke any remedy allowed at law or in equity as if specific remedies were not provided for herein.

23.03 If this Lease shall terminate under the provisions of Article 22 hereof, or if Landlord shall reenter the Premises under the provisions of this Article 23, or in the event of the termination of this Lease, or of reentry, by or under any summary dispossession or other proceeding or action or any provision of law by reason of default hereunder on the part of Tenant, Landlord shall be entitled to retain all monies, if any, paid by Tenant to Landlord, whether as advance rent, security or otherwise, but such monies shall be credited by Landlord against any Fixed Rent or Additional Charges due from Tenant at the time of such termination or reentry or, at Landlord's option, against any damages payable by Tenant under Article 24 hereof or pursuant to law.

#### ARTICLE 24

##### Damages

24.01 If this Lease is terminated under the provisions of Article 22 hereof, or if Landlord shall reenter the Premises under the provisions of Article 23 hereof, or in the event of the termination of this Lease, or of reentry, by or under any summary dispossession or other proceeding or action or any provision of law by reason of default hereunder on the part of Tenant, Tenant shall pay to Landlord as damages, at the election of Landlord, either:

(a) a sum which at the time of such termination of this Lease or at the time of any such reentry by Landlord, as the case may be, represents the then value of the excess, if any (assuming a discount at a rate per annum equal to the interest rate then applicable to 7-year Federal Treasury Bonds), of (i) the aggregate amount of the Fixed Rent and the Additional Charges under Article 3 hereof which would have been payable by Tenant (conclusively presuming the average monthly Additional Charges under Article 3 hereof to be the same as were payable for the last twelve (12) calendar months, or if less than twelve (12) calendar months have then elapsed since the Commencement Date, all of the calendar months immediately preceding such termination or reentry) for the period commencing with such earlier termination of this Lease or the date of any such reentry, as the case may be, and ending with the date contemplated as the expiration date hereof if this Lease had not so terminated or if Landlord had not so reentered the Premises, over (ii) the aggregate fair market rental value of the Premises for the same period, or

(b) sums equal to the Fixed Rent and the Additional Charges under Article 3 hereof which would have been payable by Tenant had this Lease not so terminated, or had Landlord not so reentered the Premises, payable upon the due dates therefor specified herein following such termination or such reentry and until the date contemplated as the expiration date hereof if this Lease had not so terminated or if Landlord had not so reentered the Premises, *provided, however*, that if Landlord shall relet the Premises during said period, Landlord shall credit Tenant with the net rents received by Landlord from such reletting, such net rents to be determined by first deducting from the gross rents as and when received by Landlord from such reletting the expenses incurred or paid by Landlord in terminating this Lease or in reentering the Premises and in securing possession thereof, as well as the expenses of reletting, including, without limitation, altering and preparing the Premises for new tenants, brokers' commissions, reasonable legal fees, and all other expenses properly chargeable against the Premises and the rental therefrom, it being understood that any such reletting may be for a period shorter or longer



than the remaining term of this Lease; but in no event shall Tenant be entitled to receive any excess of such net rents over the sums payable by Tenant to Landlord hereunder, nor shall Tenant be entitled in any suit for the collection of damages pursuant to this subdivision to a credit in respect of any net rents from a reletting, except to the extent that such net rents are actually received by Landlord. If the Premises or any part thereof should be relet in combination with other space, then proper apportionment on a square foot basis shall be made of the rent received from such reletting and of the expenses of reletting. If the Premises or any part thereof be relet by Landlord for the unexpired portion of the term of this Lease, or any part thereof, before presentation of proof of such damages to any court, commission or tribunal, the amount of rent reserved upon such reletting shall, prima facie, be the fair and reasonable rental value for the Premises, or part thereof, so relet during the term of the reletting. Landlord shall not be liable in any way whatsoever for its failure or refusal to relet the Premises or any part thereof, or if the Premises or any part thereof are relet, for its failure to collect the rent under such reletting, and no such refusal or failure to relet or failure to collect rent shall release or affect Tenant's liability for damages or otherwise under this Lease.

24.02 Suit or suits for the recovery of such damages, or any installments thereof, may be brought by Landlord from time to time at its election, and nothing contained herein shall be deemed to require Landlord to postpone suit until the date when the term of this Lease would have expired if it had not been so terminated under the provisions of Article 22 hereof, or had Landlord not reentered the Premises. Nothing herein contained shall be construed to limit or preclude recovery by Landlord against Tenant of any sums or damages to which, in addition to the damages particularly provided above, Landlord may lawfully be entitled by reason of any default hereunder on the part of Tenant. Nothing herein contained shall be construed to limit or prejudice the right of Landlord to prove for and obtain as damages by reason of the termination of this Lease or reentry on the Premises for the default of Tenant under this Lease an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, such damages are to be proved whether or not such amount be greater than any of the sums referred to in Section 24.01 hereof.

24.03 In addition, if this Lease is terminated under the provisions of Article 22 hereof, or if Landlord shall reenter the Premises under the provisions of Article 23 hereof, Tenant agrees that:

(a) the Premises then shall be in the condition in which Tenant has agreed to surrender the same to Landlord at the expiration of the term hereof;

(b) Tenant shall have performed prior to any such termination any covenant of Tenant contained in this Lease for the making of any Alterations or for restoring or rebuilding the Premises or the Building, or any part thereof; and

(c) for the breach of any covenant of Tenant set forth above in this Section 24.03, Landlord shall be entitled immediately, without notice or other action by Landlord, to recover, and Tenant shall pay, as and for liquidated damages therefor, the cost of performing such covenant (as estimated by an independent contractor selected by Landlord).

24.04 In addition to any other remedies Landlord may have under this Lease, and without reducing or adversely affecting any of Landlord's rights and remedies under Article 22, if any Fixed Rent, Additional Charges or damages payable hereunder by Tenant to Landlord are not paid within ten (10) days after the due date thereof, the same shall bear interest at the rate of one and one-half (1 1/2%) percent per month or the maximum rate permitted by law, whichever is less, from the due date thereof until paid, and the amount of such interest shall be an Additional Charge hereunder. For the purposes of this Section 24.04, a rent bill sent by first class mail, to the address to which notices are to be given under this Lease, shall be deemed a proper demand for the payment of the amounts set forth therein (but nothing contained herein shall be deemed to require Landlord to send any rent bill or otherwise make any demand for the payment of rent except in those cases, if any, explicitly provided for in this Lease).

## ARTICLE 25

### Affirmative Waivers

25.01 Tenant, on behalf of itself and any and all persons claiming through or under Tenant, does hereby waive and surrender all right and privilege which it, they or any of them might have under or by reason of any present or future law, to redeem the Premises or to have a continuance of this Lease after being dispossessed or ejected therefrom by process of law or under the terms of this Lease or after the termination of this Lease as provided in this Lease.

25.02 If Tenant is in arrears in payment of Fixed Rent or Additional Charges, Tenant waives Tenant's right, if any, to designate the items to which any payments made by Tenant are to be credited, and Tenant agrees that Landlord may apply any payments made by Tenant to such items as Landlord sees fit, irrespective of and notwithstanding any designation or request by Tenant as to the items which any such payments shall be credited.

25.03 Landlord and Tenant hereby waive trial by jury in any action, proceeding or counterclaim brought by either against the other on any matter whatsoever arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant, Tenant's use or occupancy of the Premises, including, without limitation, any claim of injury or damage, and any emergency and other statutory remedy with respect thereto.

25.04 Tenant shall not interpose any counterclaim of any kind in any action or proceeding commenced by Landlord to recover possession of the Premises (other than compulsory counterclaims).

## ARTICLE 26

### No Waivers

26.01 The failure of either party to insist in any one or more instances upon the strict performance of any one or more of the obligations of this Lease, or to exercise any election herein contained, shall not be construed as a waiver or relinquishment for the future of

the performance of such one or more obligations of this Lease or of the right to exercise such election, and such right to insist upon strict performance shall continue and remain in full force and effect with respect to any subsequent breach, act or omission. The receipt by Landlord of Fixed Rent or partial payments thereof or Additional Charges or partial payments thereof with knowledge of breach by Tenant of any obligation of this Lease shall not be deemed a waiver of such breach.

26.02 If there be any agreement between Landlord and Tenant providing for the cancellation of this Lease upon certain provisions or contingencies and/or an agreement for the renewal hereof at the expiration of the term, the right to such renewal or the execution of a renewal agreement between Landlord and Tenant prior to the expiration of the term shall not be considered an extension thereof or a vested right in Tenant to such further term so as to prevent Landlord from canceling this Lease and any such extension thereof during the remainder of the original term; such privilege, if and when so exercised by Landlord, shall cancel and terminate this Lease and any such renewal or extension; any right herein contained on the part of Landlord to cancel this Lease shall continue during any extension or renewal hereof; any option on the part of Tenant herein contained for an extension or renewal hereof shall not be deemed to give Tenant any option for a further extension beyond the first renewal or extended term.

## ARTICLE 27

### Curing Tenant's Defaults

27.01 If Tenant shall default in the performance of any of Tenant's obligations under this Lease, Landlord, any Superior Lessor or any Superior Mortgagee without thereby waiving such default, may (but shall not be obligated to) perform the same for the account and at the expense of Tenant, without notice in a case of emergency, and in any other case only if such default continues after the expiration of the applicable grace period, if any. If Landlord effects such cure by bonding any lien which Tenant is required to bond, Tenant shall obtain and substitute a bond for Landlord's bond at its sole cost and expense and reimburse Landlord for the cost of Landlord's bond.

27.02 Bills for any expenses incurred by Landlord or any Superior Lessor or any Superior Mortgagee in connection with any such performance by it for the account of Tenant, and bills for all costs, expenses and disbursements of every kind and nature whatsoever, including reasonable counsel fees, involved in collecting or endeavoring to collect the Fixed Rent or Additional Charges or any part thereof or enforcing or endeavoring to enforce any rights against Tenant or Tenant's obligations hereunder, under or in connection with this Lease or pursuant to law, including any such cost, expense and disbursement involved in instituting and prosecuting summary proceedings or in recovering possession of the Premises after default by Tenant or upon the expiration or sooner termination of this Lease, and interest on all sums advanced by Landlord or such Superior Lessor or Superior Mortgagee under this Section 27.02 and/or Section 27.01 (at the Interest Rate or the maximum rate permitted by law, whichever is less) may be sent by Landlord or such Superior Lessor or Superior Mortgagee to Tenant monthly, or immediately, at its option, and such amounts shall be due and payable as Additional Charges in accordance with the terms of such bills. Notwithstanding anything to the contrary contained in this Section, Tenant shall have no obligation to pay Landlord's costs, expenses, or disbursements in any proceeding in which there shall have been rendered a final judgment against Landlord, and the time for appealing such final judgment shall have expired.

ARTICLE 28

Broker

28.01 Tenant covenants, warrants and represents that no broker except CB Richard Ellis Inc. (the “Broker”) was instrumental in bringing about or consummating this Lease and that Tenant had no conversations or negotiations with any broker except the Broker concerning the leasing of the Premises. Tenant agrees to indemnify and hold harmless Landlord against and from any claims for any brokerage commissions and all costs, expenses and liabilities in connection therewith, including, without limitation, reasonable attorneys’ fees and expenses, arising out of any conversations or negotiations had by Tenant with any broker other than the Broker. Landlord shall pay the Broker such commission as may be due pursuant to a separate agreement between Landlord and the Broker (the “Brokerage Agreement”). Landlord agrees to indemnify and hold harmless Tenant against and from any claims for any brokerage commissions and all costs, expenses and liabilities in connection therewith, including, without limitation, reasonable attorneys’ fees and expenses, arising out of (i) claims made by Broker in connection with this Lease if Landlord fails to pay the Broker amounts due the Broker under the Brokerage Agreement and (ii) conversations or negotiations had by Landlord with any broker purporting to represent Tenant and with whom Tenant shall have had no dealings.

ARTICLE 29

Notices

29.01 Any notice, statement, demand, consent, approval or other communication required or permitted to be given, rendered or made by either party to this Lease or pursuant to any applicable law or requirement of public authority (collectively, “notices”) shall be in writing (whether or not so stated elsewhere in this Lease) and shall be deemed to have been properly given, rendered or made only if sent by (i) registered or certified mail, return receipt requested, posted in a United States post office station or letter box in the continental United States, (ii) nationally recognized overnight courier (e.g., Federal Express) with verification of delivery requested or (iii) personal delivery with verification of delivery requested, in any of such cases addressed as follows:

If to Landlord:

1114 6<sup>TH</sup> AVENUE CO. LLC  
c/o Brookfield Properties Management LLC  
Three World Financial Center  
200 Vesey Street  
New York, New York 10281-1021  
Attention: Senior Vice President – Director of Leasing

with a copy to:

1114 6TH AVENUE CO. LLC  
c/o Brookfield Properties Management LLC  
Three World Financial Center  
200 Vesey Street  
New York, New York 10281-1021  
Attention: General Counsel

and if to Tenant as follows:

Heidrick & Struggles International, Inc.  
233 South Wacker Drive-Suite 4200  
Chicago, Illinois 60606-6303  
Attention: Director of Real Estate

and shall be deemed to have been given, rendered or made (x) if mailed, on the second Business Day following the day so mailed, unless mailed to a location outside of the State of New York, in which case it shall be deemed to have been given, rendered or made on the third Business Day after the day so mailed, (y) if sent by nationally recognized overnight courier, on the first Business Day following the day sent or (z) if sent by personal delivery, when delivered and receipted by the party to whom addressed (or on the date that such receipt is refused, if applicable). Either party may, by notice as aforesaid, designate a different address or addresses for notices intended for it. Notwithstanding the foregoing, with respect to an occurrence presenting imminent danger to the health or safety of persons or damage to property in, on or about the Building, notices may be given orally or as may otherwise may be practicable under the circumstances.

29.02 Notices hereunder from Landlord may be given by Landlord's managing agent, if one exists, or by Landlord's attorney. Notices hereunder from Tenant may be given by Tenant's attorney. Notwithstanding the provisions of this Article 29, bills and Landlord's Statements may be rendered by delivering them to Tenant at the address set forth above without the necessity of a receipt, and without providing a copy of such bills or Landlord's Statements to any other party.

29.03 In addition to the foregoing, either Landlord or Tenant may, from time to time, request in writing that the other party serve a copy of any notice on one other person or entity designated in such request, such service to be effected as provided in Section 29.01 or 29.02 hereof.

## ARTICLE 30

### Estoppel Certificates

30.01 Each party agrees, at any time and from time to time, as requested by the other party with not less than ten (10) Business Days' prior notice, to execute and deliver to the other a statement certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the

modifications), certifying the dates to which the Fixed Rent and Additional Charges have been paid, stating whether or not, to the best knowledge of the signer, the other party is in default in performance of any of its obligations under this Lease, and if so, specifying each such default of which the signer shall have knowledge, and stating whether or not, to the best knowledge of the signer, any event has occurred which with the giving of notice or passage of time, or both, would constitute such a default, and, if so, specifying each such event, it being intended that any such statement delivered pursuant hereto shall be deemed a representation and warranty to be relied upon by the party requesting the certificate and by others with whom such party may be dealing, regardless of independent investigation. Each party also shall include in any such statement such other information concerning this Lease as the other party may reasonably request.

ARTICLE 31

Memorandum of Lease

31.01 Tenant shall not record this Lease or any memorandum thereof.

ARTICLE 32

No Representations by Landlord

32.01 Tenant expressly acknowledges and agrees that Landlord has not made and is not making, and Tenant, in executing and delivering this Lease, is not relying upon, any warranties, representations, promises or statements, except to the extent that the same are expressly set forth in this Lease or in any other written agreement which may be made between the parties concurrently with the execution and delivery of this Lease and shall expressly refer to this Lease. All understandings and agreements heretofore had between the parties are merged in this Lease and any other written agreement(s) made concurrently herewith, which alone fully and completely express the agreement of the parties and which are entered into after full investigation, neither party relying upon any statement or representation not embodied in this Lease or any other written agreement(s) made concurrently herewith.

ARTICLE 33

Intentionally Omitted

ARTICLE 34

Holdover

34.01 (a) In the event this Lease is not renewed or extended or a new lease is not entered into between the parties, and if Tenant shall then hold over after the expiration of the term of this Lease, and if Landlord shall then not proceed to remove Tenant from the Premises in the manner permitted by law (or shall not have given written notice to Tenant that Tenant must vacate the Premises) irrespective of whether or not Landlord accepts rent from Tenant for a period beyond the Expiration Date, the parties hereby agree that Tenant's

## HEIDRICK &amp; STRUGGLES

June 7, 2005

Mr. Steven Blake  
3051 North Paulina  
Chicago, Illinois 60657

Dear Steve:

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

1. **Start Date.** You will commence employment no later than July 18, 2005 (the "Effective Date").
2. **Title.** You will serve as Chief Legal Officer of Heidrick & Struggles International, Inc. (the "Company"), reporting to the Chief Executive Officer of the Company. You will be located in the Chicago Corporate office.
3. **Base Salary.** You will receive a monthly base salary of \$22,916.67, which is \$275,000.00 annually, subject to review in January 2007.
4. **Target Bonus.** You will also participate in the Company's Management Incentive Plan (Tier I). Your target bonus for 2005 is \$206,250.00 (guaranteed at 100% for 2005, pro rated for the portion of 2005 during which you are employed). Bonuses are discretionary and are not earned until approved by the Compensation Committee and/or Board of Directors of the Company. The annual bonus (including the guaranteed 2005 bonus amount) will be payable only if you are in the Company's employ on the regular bonus payment date.
5. **Signing Bonus.** You will receive a one-time signing bonus of \$66,750.00 payable within thirty (30) business days of the Effective Date or the next applicable payroll period. If you should resign from the Company within two years of your first day of employment, you will repay the entire \$66,750.00 signing bonus, adjusted ratably, based on the schedule below within five (5) business days following your notice of resignation. Further, you authorize us to deduct and/or offset that amount from any compensation or other sums that may be due to you at that time, and you will repay the balance after such deduction of the \$66,750.00 remaining due to us.

Sears Tower - Suite 4200 233 South Wacker Drive Chicago, IL 60606-6303 Phone: 312/496-1200 Fax: 312/496-1290

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<u>LENGTH OF TIME EMPLOYED</u>	<u>REIMBURSABLE AMOUNT</u>
0-12 months	100%
13-24 months	50%

5. Incentive Compensation and Other Plans. You will be entitled to participate in other management compensation plans, including the Management Stock Option Plan, the Change in Control Severance Plan at Tier I and the Severance Pay Plan as a Top Employee, as such plans may be amended from time to time.
6. Sign-On Equity. As of the Effective Date, you will receive a stock option grant to purchase 10,000 shares of Heidrick & Struggles International, Inc. common stock. The options will be granted at the closing price of the common stock as reported on NASDAQ on the date of grant, will vest 33.3% per year over a three year period, and will have a five year term. In addition, you will receive 3,500 Restricted Stock Units (RSUs). The RSUs will be granted to you within 30 days of the Effective Date. The grant is subject to Compensation Committee approval and your executing a grant agreement. The RSUs will vest at the rate of one-third on each of the first, second and third anniversaries of the date of grant and upon vest will convert into shares of Heidrick & Struggles International, Inc. common stock on a one for one basis.
7. Benefits. You will be eligible to participate in the Company's benefit programs at the same level as other senior executives of the Company on the Effective Date. Our benefits program includes group health, dental, vision, life/AD&D, long-term disability, short-term disability salary continuation, paid holidays, Flexible Spending Account, and the Heidrick & Struggles, Inc. 401(k) Profit-Sharing and Retirement Plan. You will also be eligible to participate in the Company's Physical Examination and Financial Planning Program. Our benefits program, compensation programs, and policies are reviewed from time to time by Company management and may be modified, amended, or terminated at any time.
8. Expenses. The Company will reimburse you for all of your business expenses in accordance with its policies, including the Corporate Governance seminar we discussed.



9. Confidentiality. Your employment with the Company under this Agreement necessarily involves your access to and understanding of certain trade secrets and confidential information pertaining to the business of the Company and its affiliates. During the term of your employment with the Company and thereafter, you will not, directly or indirectly, without the prior written consent of the Company, disclose or use for the benefit of any person, corporation or other entity, or for yourself any and all files, trade secrets or other confidential information concerning the internal affairs of the Company and its affiliates, including, but not limited to, information pertaining to its clients, services, products, earnings, finances, operations, methods or other activities; provided, however, that the foregoing shall not apply to information which is of public record or is generally known, disclosed or available to the general public or the industry generally (other than as a result of your breach of this covenant). Notwithstanding the foregoing, you may disclose such information as is required by law during any legal proceeding or to your personal representatives and professional advisers and, with respect to such personal representatives and professional advisers, you shall inform them of your obligations hereunder and take all reasonable steps to ensure that such professional advisers do not disclose the existence or substance thereof. Further, you shall not, directly or indirectly, remove or retain, and upon termination of employment for any reason you shall return to the Company, any records, computer disks, computer printouts, business plans or any copies or reproductions thereof, or any information or instruments derived there from, arising out of or relating to the business of the Company and its affiliates or obtained as a result of your employment by the Company.
10. Non-Solicitation/Non-Competition. During the term of your employment with the Company and for a period of six-months after the termination of your employment with the Company, you shall not (i) become an employee of or consultant to any principal competitor of the Company in substantially the same function as your employment with the Company or its affiliates in the twelve-months prior to termination of your employment or (ii) directly or indirectly solicit or hire, or assist any other person in soliciting or hiring, any employee of the Company or its affiliates (as of your termination of employment with the Company) or any person who, as of such date, was in the process of being recruited by the Company or its affiliates, or induce any such employee to terminate his or her employment with the Company or its affiliates.
11. Other Legal Matters.  
You will be an "employee at will" of the Company, meaning that either party may terminate the employment relationship at any time for any reason (with or without Cause or Good Reason), except for such period of notice as may be expressly provided in writing under written Company employment policies in effect at the time of such termination. Your initial and continuing employment will be subject to your having the ability to work legally in the United States.

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

This letter agreement contains our entire understanding and can be amended only in writing and signed by you and the Chief Executive Officer or Chief Talent and Human Resources Officer. You specifically acknowledge that no promises or commitments have been made to you that are not set forth in this letter.

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

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

Mr. Steven Blake  
June 7, 2005  
Page 5

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

Steve, in closing, I am excited about you joining our firm. I think this will be a great fit.

Sincerely,

/s/ Thomas J. Friel

\_\_\_\_\_  
Thomas J. Friel  
Chairman and CEO

cc: Scott W. Sherwood

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

/s/ K. Steven Blake

\_\_\_\_\_  
K. Steven Blake

June 8, 2005

\_\_\_\_\_  
Date

MEMORANDUM

**TO:** K. Steven Blake  
**FROM:** L. Kevin Kelly  
**DATE:** April 13, 2007  
**SUBJECT:** Acknowledgement of Employment Change

This memo serves to confirm that effective January 1, 2007, your monthly salary is \$26,666.67 (which is \$320,000.00 annually). Your position as EVP, General Counsel & Secretary located in the Chicago Corporate office remains the same.

This memo, which contains our entire understanding, can be amended only in writing, which is signed by you, a member of the Human Resources Department, together with a member of the H&S management team. You specifically acknowledge that no promises or commitments have been made to you that are not set forth above.

Except as outlined above, your employment agreement dated June 7, 2005, remains in full force and effect without change.

To acknowledge your acceptance of this employment change, please sign, date, and return this memo to the Human Resources Department in Chicago.

ACCEPTED:

/s/ K. Steven Blake  
\_\_\_\_\_

04/13/07  
\_\_\_\_\_

K. Steven Blake

Date

cc: Human Resources

**HEIDRICK & STRUGGLES**  
Consultants in Executive Search

**Peter Lever**  
Managing Partner  
UK

**Strictly Private and Confidential**  
**Addressee Only**

2<sup>nd</sup> May, 2002

David Peters, Esq  
45 Winchester Road  
St Margarets  
Twickenham  
Middlesex  
TW1 1LE

Dear David

On behalf of Heidrick & Struggles International Inc (“the Company”), we are delighted to confirm your promotion to Partner.

All offers of employment are subject to your being legally free to join us as well as to satisfactory references, medical examination and your ability to legally work in the United Kingdom.

Detailed below are the principal terms and conditions of your employment. These, together with the terms contained in Sections 1 and 2 of the Company’s Handbook, will form your Contract of Employment with the Company.

**1. Date of Commencement**

Your revised principal terms and conditions of employment with the Company will be effective from 1<sup>st</sup> April, 2002 and your service will be continuous from 1<sup>st</sup> June, 2000. None of your previous employment with other companies counts towards your service with the Company.

**2. Title and Reporting**

Your title will be that of Partner and you will report to the Managing Partner of Heidrick & Struggles’ London Office and as a member of Protem, to Richard Ball, Managing Director — Protem.

**3. Remuneration**

Your gross salary will be at the rate of £90,000 per annum, payable in twelve equal monthly instalments at the end of each month. This gross salary will be reviewed in

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Licence No. SE(A)2818 Offices in Principal Cities of the World

March, 2003. Your TCF (Total Cost to the Firm) encompasses all employment costs, i.e. salary, car allowance, pension contributions, NI, private healthcare, life cover, etc. The following paragraphs set out the details and together they equate to a TCF of approximately £122,800 (excluding bonuses) for 2002.

In addition, professional staff and Management will be awarded an annual bonus that reflects their own performance as well as the performance of the Company as a whole. Bonuses are at the discretion of the International Compensation Committee and are usually paid in March or April following year-end. No bonus is payable to someone who has left the Company or is under notice for whatever reason at the time of the payment of the yearly bonuses by the Company.

#### **4. Equity Participation**

As a Partner you will participate in the Heidrick & Struggles International, Inc.'s GlobalShare Program. Your total cash compensation is subject to the terms of the Program and, as such, your discretionary bonus may be paid partly in equity,

As a Partner you will also be entitled to participate in the Heidrick & Struggles International Inc.'s Leadership and Top Performers equity programmes based upon your performance and attainment of your goals and objectives. In attachment as Exhibit 1 you will find a description of the GlobalShare programmes for all Partners. Grants under these programmes are subject to approval by the Board of Directors of Heidrick & Struggles International, Inc.

#### **5. Exclusivity of Services**

In entering the present agreement you warrant that you are legally free to do so and that you have no obligation resulting from any other employment or business agreement or from any former employer which could preclude or limit your ability to perform this agreement in the best interest of the Company.

You are required to devote your whole time, attention and abilities to the business and interests of the Company. You may not engage or be interested whether directly or indirectly in any trade or business other than that of the Company during the continuance of your employment with us, except with the Company's written consent.

During the course of your employment should you be made an offer of employment with any firm or Company competing with, or intending to compete with, the business of the Company you should immediately notify the Company and on request from the Company furnish any information that may reasonably be of assistance to the Company in acting promptly to protect its relationships.

#### **6. Heidrick & Struggles Methodology**

The quality dimension of Heidrick & Struggles is the key to our success. Heidrick & Struggles have invested significantly into the strategic use of Information Technology to bring greater value to our clients. It is the responsibility of each and every person in Heidrick & Struggles to contribute to our Corporate Knowledge Base through the active use of our information systems.

**HEIDRICK & STRUGGLES**  
Consultants in Executive Search

We expect you to become totally familiar with our way of undertaking executive search, including our significant use of Research Staff at most stages of the search process and to adhere to the Heidrick & Struggles methodology and operating style as regards proposals, candidate assessments, reference taking, etc,

**7. Expenses**

Business expenses should in all cases, be supported by the appropriate invoices and documentation. Expenses claims are to be submitted for approval monthly.

**8. Holiday**

You will be entitled to 30 days' holiday in each calendar year in addition to the Bank and Public holidays. Such holiday entitlement will accrue on a monthly basis in equal proportions and on cessation of your employment hereunder for whatsoever reason, you will be entitled to receive only such number of days holiday as has accrued to the effective date of termination, less any period of holiday already taken during the year.

**9. Car**

N.B: For the benefits listed under points 9, 10 and 11 which the Company offers, the selection is your choice and, if taken up (including any others which may arise), the cash equivalent of them will be counted in your TCF.

The Company will pay you a cash car allowance of £8,000 per annum as an addition to your gross salary.

**10. Pension**

The Company will contribute 10% of your base salary to your personal pension plan, subject to the Inland Revenue maximum. The Company may from time to time contribute more into your pension arrangement at their discretion.

**11. Life Assurance, Permanent Health Insurance and Medical Insurance**

You will be eligible to join our Company scheme which currently provides life assurance cover of four times basic salary together with permanent health insurance including earnings related sick pay in case of long term sickness and disability and this may involve you in having a medical. These schemes are subject to the Inland Revenue maximum.

You will be eligible to become a member of the Company scheme providing private medical insurance cover for yourself and your immediate family. The subscriptions are currently paid by the Company and this represents a taxable benefit to you.

**HEIDRICK & STRUGGLES**  
Consultants in Executive Search

**12. Confidentiality**

Whilst employed by Heidrick & Struggles you should not:

- (i) Take advantage of your position to discuss with any of the Company's employees the present operation, formation of or future operations of any business likely to compete with the Company with the intention of persuading such employees as to opportunities for their possible future employment by any such business.
- (ii) Discuss with any existing or potential clients of the Company present or future availability or provision of services from a business competing with or intended to compete with the Company save with the Company's express consent.

**13. Disclosure**

During the course of your employment and after the termination, you will keep strictly confidential any information you acquire in the course of your employment about the business of the Company or the business of its clients and prospective clients.

In the event of improper use or disclosure of information the Company reserves the right to take disciplinary or other appropriate action.

**14. Copyright, Inventions, Designs and other Intellectual Property**

- (i) In this Clause, the term "Intellectual Property" means works in which copyright may subsist (including articles, publications, databases, computer software and preparatory and design materials therefore), all other database rights, inventions (whether patentable or not, and whether or not patent protection has been applied for or granted), improvements, developments, discoveries, proprietary information, trade marks, trade names, logos, art work, slogans, know-how, processes, designs (whether or not registrable and whether or not design rights subsist in them), utility models, and all works protected by rights or forms of protection of a similar nature or having equivalent effect anywhere in the world.
- (ii) Subject to the provisions of the Patents Act 1977, if at any time in the course of or in connection with your employment under this agreement you make or discover or participate in the making or discovery of any Intellectual Property directly or indirectly relating to, or capable of being used in, the business carried on by the company, full details of the Intellectual Property shall immediately be disclosed in writing by you to the company and the Intellectual Property shall be the absolute property of the Company.
- (iii) At the request and expense of the Company, you shall give and supply all such information, data, drawings and assistance as may be necessary, or in the opinion of the Company desirable, to enable the Company to exploit the Intellectual Property to the best advantage, and shall execute all documents and do all things which may be necessary, or in the opinion of the Company desirable, for obtaining patent or other protection for the Intellectual Property in such parts of the world as may be specified by the Company and for vesting the same in the Company or as it may direct.

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Consultants in Executive Search



**15. Termination of employment**

Subject to summary dismissal principles, your employment will be continuous until it is terminated by either party giving to the other not less than six months' notice in writing.

Once notice of termination has been given by either party then the Company will be under no obligation to provide work for you and may exclude you from the premises of the Company (payment in lieu/"garden leave"), provided that your salary and all other contractual benefits shall continue to be payable through the notice period subject to any other condition of your employment. Further details are in Sections 1.12 and 1.13 of the Company Handbook.

**16. Jurisdiction**

This agreement shall be governed by English Law and the English courts shall have exclusive jurisdiction in dealing with any disputes arising out of the employment.

**17. Hours of Work**

Your hours of work are detailed in the Company Handbook.

It is contemplated that your working hours may from time to time exceed an average of 48 hours per week. You agree to opt out for the average weekly working time limit provided by the Working Time Regulations which shall not therefore apply to this employment.

The Company agrees that you may decide to opt back into the application of the average 48-hour week limit. If you do so, you must give 3 months' written notice of your intention to do so.

**18. Post Termination Restrictions**

You undertake that (except with the prior written consent of the Company) you will not:

- for a period of twelve months following termination of employment (less any period for which you are placed on "garden leave"), directly or indirectly induce or seek to induce or persuade any person employed by the Company or any associated Company and with whom, you have had significant personal dealings during the course of your employment to leave the employ of the Company or any associated Company to join or provide services to any other firm, company or other organisation, whether as a director, principal, employee, consultant, agent or in any other capacity whatsoever;

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Consultants in Executive Search

- for a period of twelve months following termination of employment (less any period for which you are placed on "garden leave") directly or indirectly solicit or induce away in competition with the Company the custom of any person, firm, company or other organisation whatsoever who in the year immediately preceding the date of termination was a client or candidate of the Company or Associated Company and with whom you had significant personal dealings on behalf of the Company;
- for a period of six months after the termination of employment (less any period for which you are placed on "garden leave"), act or be engaged in the provision of executive recruitment services, directly or indirectly for a business which shall be in competition with the business of Protem.

**19. Final Provisions**

The present contract comprises all agreements between David Peters and Heidrick & Struggles in relation to the employment relationship. Any modification to this contract shall require a written form.

If any provisions of this contract shall be or become invalid or are unenforceable the validity and enforceability of the other provisions of the contract shall remain unaffected. The parties shall agree on a valid provision which as closely as possible achieves the economic effect of the invalid or unenforceable provision. The same shall apply in case of incompleteness of the contract.

We are delighted to confirm your promotion. I should be glad if you would sign both copies of this letter, retain one copy in safekeeping for yourself and return the other copy, along with the handbook confirmation form, to Rosanne Soffe in the Personnel Department.

With every good wish.

Yours sincerely



**FOR AND ON BEHALF OF  
HEIDRICK & STRUGGLES INTERNATIONAL INC.**

I hereby accept the terms and conditions of employment as outlined above and in Sections 1 and 2 of the Company's Handbook.

Signed: /s/ David Peters  
David Peters

Date: 13/5/02

**HEIDRICK & STRUGGLES**  
Consultants in Executive Search

3 Burlington Gardens

London W1S 3EP

**telephone +44 (0)20 7075 4000**

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**www.heidrick.com**

November 22, 2006

David Peters  
45 Winchester Road  
St Margarets  
Twickenham  
Middlesex TW1 1LE

Dear David,

Congratulations on your new role of Regional Managing Partner for EMEA. This is a summary of your participation in the compensation programme for the rest of 2006 and for 2007 and some important program highlights.

You are eligible to participate in the following compensation programs effective October 1, 2006.

**Fee/SOB Payment & Bonus** - Your monthly Fee/SOB salary is £14,166.67 (which is £170,000 gross annually). The Fee/SOB salary, together with the other items that comprise your Total Cost to the Firm (TCF), is offset against your total Fee/SOB performance and any amount over your TCF is paid as an annual Fee/SOB bonus in accordance with our bonus program.

**Management Salary** - Your management monthly base salary is £13,166.67 gross (which is £158,000 gross annually). The management salary is distinct from your Fee/SOB payment and is not applied against the relevant Fee/SOB tiers.

**Management Bonus (MIP)** - Your target management bonus for the remaining months of 2006 and for 2007 is £158,000 gross per annum, pro-rated for 2006. You may earn from 0% to 150% of your target bonus based on Company and Regional performance against certain revenue and operating income targets as well as your own individual performance.

The 2006 portion of the above bonus, i.e. 3/12ths, will be paid when bonuses are payable in 2007, together with 9/12ths of the bonus arrangements previously

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applicable in 2006 in relation to your prior role as Office Managing Partner in London. The bonus payment for 2007 will be made when bonuses are payable in 2008. A proportion of the payment for both years will be paid in Restricted Stock Units ("RSUs"). Under Company policy, discretionary bonuses are not earned until declared by the Board of Directors or an appropriate committee of the Board of Directors, and are payable only if you are employed and not under notice on the bonus payment dates.

#### **Management Equity Awards**

For 2007, subject to approval by the HSII Board's Compensation Committee, the Company will recommend that you receive 6,500 shares of Restricted Stock Units (RSUs). If granted, the RSUs will vest ratably over three years from the date of grant anticipated to be in March 2007. You will also remain eligible for further RSUs, should they be awarded to you, as a result of the discretionary bonus program.

Your new role is a Tier 1 role, according to the Firm's management policies. As such you will be eligible for the Firm's Change In Control plan, subject to review by the HSII board in February of 2007, that pays two full years of base salary and target bonus.

Should you at any point relinquish the Regional Managing Partner role – based upon good performance to that point – the Firm will give active consideration to supporting you as you "bridge" back into a line Search role.

All components will be reviewed annually, commencing in respect of the 2008 financial year.

I look forward to you making a great success of your new role.

Sincerely,

/s/ **Patricia R. Willard**

---

**Patricia R. Willard**  
**Chief Human Resources Officer**

**HEIDRICK & STRUGGLES**

3 Burlington Gardens, London W1S 3EP **telephone +44 (0)20 7075 4000** facsimile +44 (0)20 7075 4001

**HEIDRICK & STRUGGLES**  
Consultants in Executive Search

**Tony Newton**  
Partner

**PERSONAL AND CONFIDENTIAL**

25 March 1998

Mr G C Davis  
57 Bream Street  
COOGEE NSW 2034

Dear Gerry

Further to our recent discussions I am writing to confirm our offer of employment with Heidrick & Struggles on the following terms and conditions.

1. You will join our Sydney office recruiting staff on a full-time basis with the title of Partner at a monthly base salary of A\$20,416.67 (A\$245,000.00 annually), commencing on your first day of employment with effect from 1 April 1998, unless we otherwise agree. While in the Sydney office you will report administratively to myself, or my successor, as Sydney Office Managing Partner. Currently salaries are reviewed annually in November/December, and accordingly your first review will be in November/December 1998. Your total cash compensation (salary and bonus) is on a Total Cost to the Firm ("TCF") basis, so that all taxes, fringe benefits and allowances will be deducted from your compensation except as otherwise provided in this letter.
2. You will first be eligible to be considered for a discretionary bonus for the year ending on 30 September 1998. Currently all bonuses are paid in December. You understand that, except for the minimum bonus referred to below, that all bonuses are discretionary and not earned until declared by the Board of Directors or the Executive Committee of the Board of Directors, and that all discretionary, incentive, and/or minimum bonuses are payable only if you are in our employ on the bonus payment date.

As we discussed, and to assist you through the transition move to Heidrick & Struggles, we have agreed that for the bonus year ending 30 September 1998 you will receive a guaranteed minimum bonus of A\$50,000.

Level 38, Governor Phillip Tower, 1 Farrer Place, Sydney N.S.W 2000 Australia Tel (02) 9247 9599 Fax (02) 9247 9117  
Heidrick & Struggles Australia Ltd. A.R.B.N. 062 665 598  
Offices in Principal Cities of the World.

By 31 May 1998 we will establish fees and SOB expectations for you for the current year and the next year. You understand that you are expected to become "self sufficient" and that you will be developing business from your own contacts.

3. As mentioned in the course of our discussions, the compensation formula that has been used to calculate bonus payments in Australia is currently under review, and will be changed to the bracket structure currently in use in the US offices. While this new structure is currently being finalised, we anticipate it will be completed within the next four to six weeks, and by way of offering you some indication of its impact, anticipate that the benefit structure currently provided to our Partners in the US will be made available to the Australian Partners in addition to the cash compensation, and that the calculation under this current formula will be reduced from its present level by approximately 3 to 8%, dependent on the level of billings and SOB generated by the individual consultants.
4. As part of your employment with the firm we agree to pay the corporate initiation fee and regular dues for one business club, subject to the approval of the Office Managing Partner. These club costs will not be deducted from your base compensation. The company's approval for a club can be withdrawn (or the membership transferred) at the company's option.
5. You will be reimbursed for all legitimate and documented proper business/travel expenses incurred in the ordinary course of our business upon presentation of the relevant receipts. Please note that all receipts must reflect the information required for tax and client rebilling purposes, such as the client name, names/titles/employer of persons involved, business purpose, nature of business discussions, etc. All expenses are subject to approval by the Office Managing Partner.
6. If you accept our offer, you become an "employee at will", unless or until we may otherwise agree in writing. This gives both of us maximum flexibility and permits either of us to terminate employment and compensation at any time for any reason. If your employment is terminated by the company, "notice or wages in lieu thereof" will be in accordance with the then existing company policy, which is currently three months.
7. Two copies of an agreement relating to trade secrets, confidential information, clients, etc. are enclosed. We ask that all employees sign this agreement. Please review and sign both copies and return one to me for processing. Of course, please call me if you have any questions about this agreement.
8. You hereby confirm that you have advised us that you have not signed any agreement that will, in any way, affect your joining our firm or the performance of your work for us.
9. This letter of agreement, which contains our understanding, can be amended only in a writing which is signed by you and the Office Managing Partner and the CEO or CAO of the company.

**HEIDRICK & STRUGGLES**  
Consultants in Executive Search

Gerry, we are very much looking forward to having you join us and to working with you in further building our operations in the Australian market. To acknowledge your acceptance of this offer of employment, please sign and return to me the enclosed copy of this letter together with the confidentiality agreement referred to in item 7 above.

Yours sincerely

/s/ J A B NEWTON

---

**J A B NEWTON**  
**Managing Partner**

Enc:

Accepted this 27th day of March 1998.

/s/ Gerry Davis

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Mr Gerry Davis

**HEIDRICK & STRUGGLES**  
Consultants in Executive Search

Page 3

January 23, 2007

Gerry Davis  
Heidrick & Struggles  
London

Dear Gerry,

Congratulations on your new role as Regional Managing Partner for the Company's Asia Pacific region. This letter constitutes an amendment to your current employment letter. Below is a summary of the compensation programs that will apply to you for the remainder of 2006 (effective October 1, 2006) and for 2007.

**Fee/SOB Salary** – Your monthly Fee/SOB Salary will be Aus\$25,000 (which is Aus\$300,000 gross annually).

**Management Salary** – Your monthly Management Salary will be equal to the sum of:

- 1) Aus\$30,583 gross (which is Aus\$367,000 gross annually) in respect of your role as Regional Managing Partner; and,
- 2) Aus\$5,266 gross (which is Aus\$63,192 gross annually) in respect of your role as Office Managing Partner for Australia and New Zealand.

**Fee/SOB Bonus** – Your Fee/SOB Bonus will continue to consist of your Total Fee/SOB Performance minus the Fee/SOB Salary together with the other items that comprise your Total Cost to the Firm ("TCF").

**Management Bonus** – You will continue to participate in the Management Incentive Plan ("MIP") with a Target Management Bonus of Aus\$367,000 gross per annum, pro-rated for that portion of 2006 during which you served in this new role. The Management Bonus is based on company performance as well as your individual performance. The 2006 portion of the Management Bonus, i.e. 3/12ths, will be paid together with 9/12ths of the management bonus previously applicable for 2006 in relation to your prior role as Office Managing Partner in Australia.

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Employment Agencies Act 1973 Licence number SE(A)2818.



All bonuses, if any, are payable in a mix of cash and Restricted Stock Units (“RSUs”) in accordance with our policy at that time. Your 2006 bonuses will be paid 20% in RSUs and 80% in cash. Please also note that under Company policy, all bonuses are not earned until approved by the Human Resources and Compensation Committee of the Company’s Board of Directors (“HRCC”), and are payable only if you are employed and not under notice on the bonus payment dates.

**Management Equity Awards** – You will continue to be eligible to participate in the Company’s Management Stock Program. For 2007, you will receive a grant of 5,000 Restricted Stock units (RSUs) on the company’s next published equity grant date – March 9, 2007. This grant is subject to management’s recommendation to the HRCC, approval by the HRCC and your execution of a grant agreement in a form presented to you by the Company. If granted, the RSUs will vest at the rate of one-third on each of the first, second and third anniversaries of the date of grant and upon vest will convert into shares of Heidrick & Struggles International, Inc. common stock on a one-for-one basis.

**Severance Policy**– You will be eligible for severance as a Tier II participant in the MIP; as the policy may be amended from time to time.

**Change in Control (“CIC”) Plan** – You will be eligible for participation in the Company’s CIC plan; subject to HRCC approval in February 2007. The CIC plan may be amended from time to time and all participants need to be approved annually by the HRCC.

All components of your compensation package will be reviewed no more regularly than annually, beginning with the 2008 fiscal year.

I look forward to you making a great success of your new role.

Sincerely,

/s/ Patricia R. Willard

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Patricia R. Willard

Chief Human Resources Officer

**HEIDRICK & STRUGGLES**

## HEIDRICK &amp; STRUGGLES

August 29, 2003

Ms. Valerie Germain  
39 East 20th Street, Apt #2  
New York, NY 10003

Dear Valerie:

Congratulations! On behalf of Heidrick & Struggles, Inc., I am pleased to confirm our offer of employment to you as a Partner with our Financial Services Practice in our Wall Street office. We are enthusiastic about your commitment to a spirit of partnership and collegiality, which is such an important part of our culture.

I look forward to seeing you on September 12, 2003, your first day of employment. Your monthly base salary is \$14,583.33, which equals \$175,000.00 annually. Your salary will be reviewed on a 24-month basis.

As we discussed, you will receive a signing bonus of \$400,000.00 of which \$200,000.00 will be payable within 30 days of your employment start date or the next applicable payroll period, and \$200,000.00 will be payable in March 2004, when bonuses are paid, if you are still in our employ. Details regarding your signing bonus, as well as information about discretionary bonuses, are included in the Bonus Information enclosure. In addition, you will receive \$100,000.00 worth of Heidrick & Struggles International, Inc. Restricted Stock Units (RSUs) rounded up to the nearest whole RSU. The RSUs will be granted to you in March 2004, if you remain in our employ, and will be issued at Fair Market Value on the date of grant. They will vest at the rate of one-third on each of the first, second and third anniversaries of the date of grant and upon vest will convert into shares of Heidrick & Struggles International, Inc. common stock on a one for one basis.

Of course, discretionary bonuses depend both on the overall performance of the Company and your ability to generate and execute search assignments. Being a "self starter" and developing business from your own contacts are requisite ingredients for success at Heidrick & Struggles. Our actual fee and source of business (SOB) expectations of you for the next three years are as follows:

<u>Bonus Year</u>	<u>Fee</u>	<u>SOB</u>
September 8, 2003 to December 31, 2003	\$ 500,000	\$ 500,000
January 1, 2004 to December 31, 2004	\$ 1,500,000	\$ 1,500,000
January 1, 2005 to December 31, 2005	\$ 2,000,000	\$ 2,000,000

You will be eligible to participate in our benefits program and will receive a detailed guide on your starting date. Our benefits program includes group health and life/AD&D insurance, long-term disability, short-term disability salary continuation, time-off benefits (paid holidays, paid sick time), the Flexible Spending Account, and the Heidrick & Struggles, Inc. 401(k) Profit-Sharing and Retirement Plan. Our benefits program, bonus programs, and policies are reviewed from time to time by Company management and may be modified, amended, or terminated at any time.

40 Wall Street New York, NY 10005 Phone: 212/699-3000 Fax: 212/699-3100

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Before I conclude, let me highlight a few legal matters:

- You will be an "employee at will" unless or until we otherwise agree in writing. The purpose of this arrangement is to give both of us maximum flexibility and permits either of us to terminate employment and compensation at any time with or without cause or notice, except for such period of notice as may be expressly provided in writing under written company employment policies in effect at the time of such termination.
- Your initial and continuing employment will be subject to your having the ability to work legally in the United States.
- You have advised us that you have not signed any agreements that will, in any way, prohibit your joining our firm or performing your work with us.
- This letter agreement and enclosures contain our entire understanding and can be amended only in writing and signed by you, a member of the Human Resources Department, together with a member of the H&S management team. You specifically acknowledge that no promises or commitments have been made to you concerning the terms and conditions of your employment (including, but not limited to, your work responsibilities, practice area, compensation and advancement potential) that are not set forth in this letter.

To help clarify the programs and policies discussed above, I have included several enclosures. There are also some documents for you to sign. Please contact me directly if you have any questions. To acknowledge your acceptance of our offer of employment, please sign and return to me the enclosed copy of this letter, the Confidentiality Agreement (relating to trade secrets, confidential information, clients, etc.), which we ask all partners and principals to sign, and the Bonus Information page.

Again, I am delighted that you have chosen to join the Heidrick & Struggles' global family. Please accept my best wishes for a most successful and prosperous career with us.

Sincerely,

/s/ Michael Franzino

\_\_\_\_\_  
Michael Franzino  
Senior Managing Partner,  
Global Financial Services Practice  
Wall Street Office Managing Partner

Enclosures

cc: Fritz E. Freidinger, Joie A. Gregor, Bonnie W. Gwin, Todd T. Welu, Grover N. Wray

ACCEPTED:

/s/ Valerie Germain  
\_\_\_\_\_  
Valerie Germain

9/4/03  
\_\_\_\_\_  
Date

**Bonus Information**

Signing Bonus

You will receive a signing bonus of \$400,000.00, of which \$200,000.00 will be payable within 30 days of your employment start date or the next applicable payroll period, and \$200,000.00 will be payable in March 2004, when bonuses are paid, if you are still in our employ. If you should resign from the Company, you will repay \$300,000.00 of the signing bonus, adjusted ratably, based on the schedule below, within five (5) business days following your notice of resignation. Further, you authorize us to deduct and/or offset that amount from any compensation or other sums that may be due to you at that time, and you will repay the balance after such deduction of the \$300,000.00 remaining due to us.

<u>Length of Time Employed</u>	<u>Reimbursable Amount</u>
0 – 12 months	100%
13 – 24	50%
25 – 36	25%

Discretionary (Performance-Related) Bonus

You will be considered for a discretionary bonus for the bonus year ending in 2003. Under Company policy, the discretionary bonus is paid partially in December, with the balance paid the following March. Discretionary bonuses are not earned until declared by the Board of Directors or an appropriate committee of the Board of Directors, and are payable only if you are employed on the bonus payment dates. We have attached a copy of the U.S. Partner Fee/SOB Compensation Policy (which explains the discretionary bonus determination procedure) to this packet.

ACCEPTED:

/s/ Valerie Germain  
\_\_\_\_\_  
Valerie Germain

9/4/03  
\_\_\_\_\_  
Date

MEMORANDUM

**TO:** Valerie E. Germain  
**FROM:** Daniel Edwards  
**DATE:** April 25, 2006  
**SUBJECT:** Acknowledgement of Employment Change

This memo serves to confirm that effective April 1, 2006, your monthly salary is \$18,750.00 (which is \$225,000 annually). Your position as a Senior Partner located in the Wall Street office remains the same.

This memo, which contains our entire understanding, can be amended only in writing, which is signed by you, a member of the Human Resources Department, together with a member of the H&S management team. You specifically acknowledge that no promises or commitments have been made to you that are not set forth above.

Except as outlined above, your employment agreement dated September 12, 2003, remains in full force and effect without change.

To acknowledge your acceptance of this employment change, please sign, date, and return this memo to the Human Resources Department in Chicago.

ACCEPTED:

/s/ Valerie E. Germain \_\_\_\_\_  
Valerie E. Germain

5/1/06 \_\_\_\_\_  
Date

cc: Human Resources

# HEIDRICK & STRUGGLES

October 24, 2007

Ms. Valerie E. Germain  
145 W. 17<sup>th</sup> Street, #6  
New York, NY 10011

Dear Valerie

On behalf of Heidrick & Struggles, Inc. (the "Company"), I am pleased to confirm the new terms of your employment arrangement in this letter agreement (the "Agreement").

1. **Effective Date:** The new terms of employment are effective as of October 1, 2007.
2. **Title:** You will serve as Managing Partner, Strategic Partnerships ("MP, Strategic Partnerships") reporting directly to the Chief Executive Officer. You will also continue to serve as a Partner of the Company, with such duties and responsibilities not inconsistent therewith as may from time to time be assigned to you. You agree that you will devote your full time, energy, and skill to the business of the Company and to the promotion of the Company's best interests, and shall not work or perform services for any other employer as an employee, consultant or otherwise.
3. **Base Salary:**
  - a. **Fee/SOB:** You will receive a monthly Fee/SOB salary of \$22,916.67 (which is equivalent to \$275,000 annually) payable at the end of each month, minus deductions required by law.
  - b. **Management:** While serving as MP, Strategic Partnerships, you will receive a monthly management salary of \$16,666.67 (which is equivalent to \$200,000 annually) payable at the end of each month, minus deductions required by law.
4. **Bonus\*:**
  - a. **Fee/SOB:** You will be eligible to participate in the Company's Fee/SOB bonus program and in the Company's discretionary bonus program consistent with other consultants worldwide.
  - b. **Management:** While serving as MP, Strategic Partnerships, you will participate in the Company's management incentive plan. As a participant, you will be eligible to receive a management target bonus in an amount equal to 100% of your management base salary, subject to adjustment up or down based on corporate performance. For 2007, you will be eligible to receive a management target bonus of \$100,000 (pro-rated for the six months of 2007 during which you will have served in the MP, Strategic Partnerships role), which may be adjusted up or down based on corporate performance.

Sears Tower 233 South Wacker Drive Suite 4200 Chicago, IL 60606-6303 Phone: 312/496-1290

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\* All bonuses are discretionary and are not earned until approved by the HSII Human Resources and Compensation Committee of the Board of Directors (“HRCC”). Bonuses are only payable if you are employed by the Company on the date such bonus is paid. Bonuses earned in 2007 (with the exception of the 2007 PMP target cash bonus, which is payable all in cash) will be payable 80% in cash and 20% in restricted stock units (with an additional 10% premium) on or about March 2008. Bonuses earned in 2008 and beyond will be payable in a mix of cash and restricted stock units (“RSUs”) per the Company’s policy at that time.

5. Long Term Incentive (“LTI”) Award:

- a. Management: In your MP, Strategic Partnerships role, you will be eligible to receive an annual LTI award equal to 100% of your Management base salary. The LTI mix (e.g., cash versus equity, RSUs versus stock options, etc.) will be determined annually at the discretion of the HRCC. For 2007, you will receive:
  - i. Stock options to purchase 3,000 Heidrick & Struggles International, Inc. (“HSII”) commons shares granted on September 28, 2007. The options will vest at a rate of one-third on each of the first, second and third anniversaries of the date of grant and will have a five year term with an exercise price equal to the closing price of a Company common share on September 28, 2007 (or \$36,45).
  - ii. An award of 1,500 restricted stock units granted on September 28, 2007. The RSUs will vest at a rate of one-third on each of the first, second and third anniversaries of the date of grant and upon vest will convert into shares of HSII common shares on a one-for-one basis.
- b. Special Recognition: You will receive a special award of \$250,000 on October 1, 2007 in recognition of your contributions to the Company’s future success. This award will vest in equal installments over three years payable in cash starting on the first anniversary of the award date per the schedule below. The vested portion of your award will be paid only if you are employed by the Company on the date the payment is scheduled to be made. Upon your termination from the Company for any reason, the unvested portions of your award will be forfeited.

<u>Vesting &amp; Payment Date</u>	<u>Cash Payment at Vesting</u>
September 30, 2008	\$ 83,333
September 30, 2009	\$ 83,333
September 30, 2010	\$ 83,334

- c. Retention: You will be eligible to receive a one-time retention award on January 1, 2008 of \$750,000 payable in cash on December 31, 2010 subject to review and approval by the HRCC in December 2007. This award is only payable if you are employed by the Company on December 31, 2010 and if you accrue/earn cumulative SOB credits of \$6M over the performance period.

## HEIDRICK & STRUGGLES

6. **Benefits:** You will be eligible to participate in the Company's benefit programs at the same level as other employees at your level. Our benefits program includes group health, dental, vision, life/AD&D, long-term disability, short-term disability salary continuation, paid holidays, flexible spending accounts, the Heidrick & Struggles, Inc. 401(k) Profit-Sharing and Retirement Plan, and the Deferred Compensation Plan. You will also be eligible to participate in the Company's Physical Examination and Financial Planning Program. Your eligibility for all such programs and plans is determined under the terms of those programs/plans. Any discrepancy between this summary and the company's plan documents will be resolved in favor of the plan documents. Our benefits program, compensation programs, and policies are reviewed from time to time by Company management and may be modified, amended, or terminated at any time.
7. **Business Expenses:** The Company will reimburse you for your business expenses in accordance with its policies.
8. **Compliance with Policies:** Subject to the terms of this Agreement, you agree that you will comply in all material respects with all policies and procedures applicable to similarly situated employees of the Company, generally and specifically.
9. **Termination of Employment:**
  - a. **Employment At Will:** You will be an "employee at will" of the Company, meaning that either party may terminate the employment relationship at any time for any reason (with or without cause or reason) upon written notice to the other party. A period of notice shall only be required if it is expressly provided in writing under written Company employment policies in effect at the time of such termination.
  - b. **No Notice Period in Case of Termination for Cause:** Notwithstanding any period of notice under written Company employment policies in effect at the time of termination, the Company shall have the right to terminate your employment for Cause immediately upon written notice.
  - c. **Compensation Upon Termination:** Upon the termination of your employment, you will be paid your Base Salary up through your last day of work (the "Termination Date"), and any other amounts required by law. Under the Company's Severance Pay Plan and serving in your MP, Strategic Partnerships role, you will be eligible for a severance benefit equal to six months of your Base Salary plus one half of your Management Bonus target in the event the Company terminates your employment without Cause, as defined in this Plan. Under the Company's Change in Control Plan and serving in a Section 16(b) Officer role, you will be eligible for a severance benefit equal to one time your Base Salary plus the highest of your target or three year average Management Bonus in the event of a change in control and termination of employment per the terms and conditions of this Plan. The Severance Pay Plan and the Change in Control Plan may be amended or modified at any time at the discretion of the HRCC.



- d. **Definition of Cause:** For purposes of this Agreement, "Cause" shall mean any of the following: (i) your engagement, during the performance of your duties hereunder, in acts or omissions constituting dishonesty, fraud, intentional breach of fiduciary obligation or intentional wrongdoing or malfeasance; (ii) your conviction for a felony; (iii) your material violation or breach of any provision of this Agreement; (iv) your unauthorized use or disclosure of confidential information pertaining to the Company's business; (v) your engagement in conduct causing demonstrable injury to the Company or its reputation.; (vi) your unreasonable failure or refusal to perform your duties as the Company reasonably requires, to meet goals reasonably established by the Company, or to abide by the Company's policies for the operation of its business, and the continuation, thereof after the receipt by you of written notice from the Company; (vii) your illegal use of drugs or use of alcohol or intoxication on work premises, during working time, or which interferes with the performance of your duties and obligations on behalf of the Company; or (viii) your death or Disability, as hereinafter defined. For purposes of this Agreement, "Disability" shall mean that you have been unable, for six (6) consecutive months, to perform your duties under this Agreement even with accommodation, as a result of physical or mental illness or injury.
  - e. **Return of Materials:** Upon the termination of your employment, you agree to return to the Company, all Company property, including all materials furnished to you during your employment (including but not limited to keys, computers, automobiles, electronic communication devices, files and identification cards) and all materials created by you during your employment. In addition, you agree that upon the termination of your employment you will provide the Company with all passwords and similar information which will be necessary for the Company to access materials on which you worked or to otherwise continue in its business.
10. **Confidentiality:** In the course of your employment with the Company you will be given access to and otherwise obtain knowledge of certain trade secrets and confidential and proprietary information pertaining to the business of the Company and its affiliates. During the term of your employment with the Company and thereafter, you will not, directly or indirectly, without the prior written consent of the Company, disclose or use for the benefit of any person, corporation or other entity, or for yourself, any trade secrets or other confidential or proprietary information concerning the Company or its affiliates, including, but not limited to, information pertaining to their clients, services, products, earnings, finances, operations, marketing, methods or other activities; provided, however, that the foregoing shall not apply to information which is of public record or is generally known, disclosed or available to the general public or the industry generally (other than as a result of your breach of this covenant or the breach by another employee of his or her confidentiality obligations). Notwithstanding the foregoing, you may disclose such information as is required by law during any legal proceeding or to your personal representatives and professional advisers as is required for purposes of rendering tax or legal advice, and, with respect to such personal representatives and professional advisers, you shall inform them of your obligations hereunder and take all reasonable steps to ensure that such professional advisers do not disclose the existence or substance thereof. Further, you shall not, directly or indirectly, remove or retain, and upon termination of employment for any reason you shall return to the Company, any records, computer disks

## HEIDRICK & STRUGGLES

or files, computer printouts, business plans or any copies or reproductions thereof, or any information or instruments derived therefrom, arising out of or relating to the business of the Company and its affiliates or obtained as a result of your employment by the Company.

11. Non-Solicitation/Non-Competition. Without the prior written consent of the Company, during the term of your employment with the Company and for a period of twelve (12) months after the termination of your employment with the Company, either unilaterally by you or by the Company for Cause, you shall not (i) become engaged in or otherwise become interested in, whether as an owner, officer, employee, consultant, director, stockholder, or otherwise, any company, enterprise or entity that provides or intends to provide services similar to those provided by the Company in the geographical area which you served during your employment with the Company; (ii) directly or indirectly solicit or assist any other person in soliciting any client of the Company with whom you had direct professional contact during the twelve (12) months immediately prior to the termination of your employment with the Company and during which you learned confidential information, or whose account you oversaw during your employment with the Company; (iii) directly or indirectly solicit, or assist any other person in soliciting, any employee of the Company or its affiliates (as of your termination of employment with the Company) or any person who, as of such date, was in the process of being recruited by the Company or its affiliates, or induce any such employee to terminate his or her employment with the Company or its affiliates; or (iv) hire or assist another in hiring any employee of the Company or its affiliates who potentially possesses the Company or its Affiliate's Confidential Information for a position where the employee's knowledge of such information might be relevant. The provisions of this Section 12 shall be in addition to any restrictive covenants that are set forth in or otherwise required by Company benefit plans. In the case of a discrepancy between this Section and any such restrictive covenant, the more restrictive language will apply.
12. Other Legal Matters:
  - a. No Other Agreements/Obligations: You have advised the Company that your execution and performance of the terms of this Agreement do not and will not violate any other agreement binding on you or the rights of any third parties and you understand that in the event this advice is not accurate the Company will not have any obligation to you under this Agreement.
  - b. Negotiation of Agreement: You acknowledge that you negotiated the terms of this Agreement with the Company and that you enter into this Agreement voluntarily.
  - c. Applicable Legal Standards: You will be an employee of the Company's United States operations and agree that your employment with the Company shall be governed by the laws of the United States of America and the State of Illinois.
  - d. Arbitration: Any controversy or claim arising out of or relating to this Agreement or for the breach thereof, or your employment, including without limitation any statutory claims (for example, claims for discrimination including but not limited to discrimination based on race, sex, sexual orientation, religion, national origin, age, marital status, handicap or disability; and claims relating to leaves of absence

## HEIDRICK & STRUGGLES

mandated by state or federal law), breach of any contract or covenant (express or implied), tort claims, violation of public policy or any other alleged violation of statutory, contractual or common law rights (and including claims against the Company's officers, directors, employees or agents) if not otherwise settled between the parties, shall be conclusively settled by arbitration to be held in Chicago, Illinois, in accordance with the American Arbitration Association's Employment: Arbitration Rules and Mediation Procedures (the "Rules"). Arbitration shall be the parties' exclusive remedy for any such controversies, claims or breaches. The parties also consent to personal jurisdiction in Chicago, Illinois with respect to such arbitration. The award resulting from such arbitration shall be final and binding upon both parties. This Agreement shall be governed by the laws of the United States of America and the State of Illinois without regard to any conflict of law provisions of any jurisdiction. You and the Company hereby waive the right to pursue any claims relating to this Agreement, to your employment or to the termination thereof, through civil litigation outside the arbitration procedures of this provision, unless otherwise required by law. You and the Company each have the right to be represented by counsel with respect to arbitration of any dispute pursuant to this paragraph. The arbitrator shall be selected by agreement between the parties, but if they do not agree on the selection of an arbitrator within 30 days after the date of the request for arbitration, the arbitrator shall be selected pursuant to the Rules. With respect to any Claim brought to arbitration hereunder, both you and the Company shall be entitled to recover whatever damages would otherwise be available to you/it in any legal proceeding based upon the federal and/or state law applicable to the Claim, except that parties agree they shall not seek any award for punitive damages for any claims they may have under this Agreement. The decision of the arbitrator may be entered and enforced in any court of competent jurisdiction by either the Company or Employee. Each party shall pay the fees of their respective attorneys (except as otherwise awarded by the arbitrator), the expenses of their witnesses and any other expenses connected with presenting their cases, other costs, including the fees of the mediator, the arbitrator, the cost of any record or transcript of the arbitration, and administrative fees, shall be borne equally by the parties, one-half by you, on the one hand, and one-half by the Company, on the other hand. Should either party pursue any dispute or matter covered by this section by any method other than said arbitration, then the other party shall be entitled to recover all damages, costs, expenses, and attorneys' fees incurred as a result of such action. The provisions contained in this Section shall survive the termination and/or expiration of this Agreement.

- e. Notice: All notices and other communications under this Agreement shall be in writing to you at the above-referenced address or to the Company at its Chicago Headquarters, directed to the attention of the General Counsel.
- f. Full and Complete Agreement: This letter Agreement contains our entire understanding with respect to your employment and can be amended only in writing and signed by the Chief Executive Officer or General Counsel. This Agreement supersedes any and all prior agreements, whether written or oral, between you and the Company, that are not specifically incorporated by reference herein. You and the Company specifically acknowledge that no promises or commitments have been made that are not set forth in this letter.

- g. Severability: If any provision of this Agreement or the application thereof is held invalid, such invalidity shall not affect other provisions or applications of this Agreement that can be given effect without the invalid provision or application and, to such end, the provisions of this Agreement are declared to be severable.
- h. Survival of Provisions: The provisions of Sections 9 (b) and (c) and 10 through 12 of this Agreement shall survive the termination of your employment with the Company and the expiration or termination of this Agreement.

We look forward to your continued employment with the Company.

Sincerely,

/s/ L. Kevin Kelly

\_\_\_\_\_  
L. Kevin Kelly  
Chief Executive Officer

I hereby accept the terms and conditions of employment outlined in this Agreement.

/s/ Valerie E. Germain

\_\_\_\_\_  
Valerie E. Germain

12/14/07

\_\_\_\_\_  
Date

Copy:

Kathy Jensen Watts, Vice President Human Resources Americas  
Josée Wilson, Director Global Compensation  
Stephen W. Beard, Vice President and Deputy General Counsel

## HEIDRICK &amp; STRUGGLES

April 12, 2007

Mr. Sanjay Gupta  
401 River Grove Ct.  
Vernon Hills, IL 60061

Dear Sanjay:

Congratulations! On behalf of Heidrick & Struggles, Inc. (the "Company"), I am pleased to confirm our offer of employment to you. We are enthusiastic about your commitment to integrity, a spirit of partnership and collegiality, which are such an important part of our culture.

1. Start Date. You will commence employment on 4/18/07 (the "Effective Date").
2. Title. You will serve as SVP & Chief Information Officer reporting to the Company's Chief Executive Officer. You will be located in the Chicago Corporate office.
3. Base Salary. You will receive a monthly base salary of \$25,000, which is \$300,000 annually, subject to annual review starting in 2008.
4. Target Bonus. You will also participate in the Company's Management Incentive Plan (Tier II). Your target bonus for 2007 is \$159,375 (guaranteed at 75% for 2007, pro rated for the 8.5 months of 2007 during which you are employed), which is payable via a combination of cash and Restricted Stock Units (RSU) in accordance with our compensation program, payable when bonuses are paid in 2008. Bonuses are discretionary and are not earned until approved by the Compensation Committee and/or Board of Directors of the Company. The annual bonus will be payable only if you are in the Company's employ on the regular bonus payment date.
5. Incentive Compensation and Other Plans. You will be entitled to participate in other management compensation plans, including the Management Stock Option Plan, the Change in Control Severance Plan at Tier II and the Severance Pay Plan, as such plans may be amended from time to time.
6. Sign-On Equity. You will receive a grant of stock options to purchase 7,500 Heidrick & Struggles International, Inc common shares on May 31, 2007 (the Company's next published equity grant date). The options will vest ratably over a three year period and, will have a five year term and an exercise price equal to the closing price of a Company common share on May 31, 2007. In addition, you will receive 5,000 restricted stock units (RSUs) on May 31, 2007. The RSUs will vest ratably over a three year period and upon vesting will convert into an equal number of Heidrick & Struggles International, Inc common shares. Both the stock options and RSUs are subject to the approval of the Human Resources and Compensation Committee (HRCC) and your executing a grant agreement in a form presented to you by the Company.

Sears Tower 233 South Wacker Drive Suite 4200 Chicago, IL 60606-6303 Phone 312/496-1200 Fax: 312/496-1290

Heidrick & Struggles, Inc. Office in Principal Cities of the World [www.heidrick.com](http://www.heidrick.com)

7. Benefits. You will be eligible to participate in the Company's benefit programs on your first day of employment. Our benefits program includes group health, dental, vision, life/AD&D, long-term disability, short-term disability salary continuation, paid holidays, Flexible Spending Account, and the Heidrick & Struggles, Inc. 401(k) Profit-Sharing and Retirement Plan. Our benefits program, compensation programs, and policies are reviewed from time to time by Company management and may be modified, amended, or terminated at any time.
8. Business expenses. The Company will reimburse you for all of your reasonable and appropriate business expenses in accordance with its policies.
9. Employment authorization. Pursuant to the Immigration and Nationality Act, our company is required to verify the identity and employment authorization of all new hires. In order to comply with this legal obligation, we must complete an Employment Eligibility Verification Form 1-9 within three days of hire. We have enclosed a Form 1-9 for your review. Please note that you will need to provide either (i) one document from "List A" or (ii) one document from "List B" and one document from "List C" of the form (see page two of the enclosed 1-9 Form). Your initial and continuing employment will be subject to your having the ability to work legally in the United States. If you anticipate having difficulty completing the Form 1-9 or producing the required documents, please advise me as soon as possible.
10. Confidentiality. Your employment with the Company under this Agreement necessarily involves your access to and understanding of certain trade secrets and confidential information pertaining to the business of the Company and its affiliates. During the term of your employment with the Company and thereafter, you will not, directly or indirectly, without the prior written consent of the Company, disclose or use for the benefit of any person, corporation or other entity, or for yourself any and all files, trade secrets or other confidential information concerning the internal affairs of the Company and its affiliates, including, but not limited to, information pertaining to its clients, services, products, earnings, finances, operations, methods or other activities; provided, however, that the foregoing shall not apply to information which is of public record or is generally known, disclosed or available to the general public or the industry generally (other than as a result of your breach of this covenant). Notwithstanding the foregoing, you may disclose such information as is required by law during any legal proceeding or to your personal representatives and professional advisers and, with respect to such personal representatives and professional advisers, you shall inform them of your obligations hereunder and take all reasonable steps to ensure that such professional advisers do not disclose the existence or substance thereof. Further, you shall not, directly or indirectly, remove or retain, and upon termination of employment for any reason you shall return to the Company, any records, computer disks, computer printouts, business plans or any copies or reproductions thereof, or any information or instruments derived there from, arising out of or relating to the business of the Company and its affiliates or obtained as a result of your employment by the Company.
11. Non-Solicitation/Non-Competition. During the term of your employment with the Company and for a period of six-months after the termination of your employment with the Company, you shall not (i) become an employee of or consultant to any principal competitor of the Company in substantially the same function as your employment with the Company or its affiliates in the twelve-months prior to termination of your employment or (ii) directly or indirectly solicit or hire, or assist any other person in soliciting or hiring, any employee of the Company or its affiliates (as of your termination of employment with the Company) or any person who, as of such date, was in the process of being recruited by the Company or its affiliates, or induce any such employee to terminate his or her employment with the Company or its affiliates.

12. Other Legal Matters. You will be an “employee at will” of the Company, meaning that either party may terminate the employment relationship at any time for any reason (with or without Cause or Good Reason), except for such period of notice as may be expressly provided in writing under written Company employment policies in effect at the time of such termination. Your initial and continuing employment will be subject to your having the ability to work legally in the United States.

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

This letter agreement contains our entire understanding and can be amended only in writing and signed by you and Human Resources. You specifically acknowledge that no promises or commitments have been made to you that are not set forth in this letter.

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

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

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

Sanjay Gupta  
April 12, 2007  
Page 4

Sanjay, I am very much looking forward to you joining the Heidrick & Struggles team. I know that you will make an important contribution to the Company.

Sincerely,

/s/ L. Kevin Kelly

\_\_\_\_\_  
L. Kevin Kelly  
Chief Executive Officer

cc: Eileen Kamerick, K. Steven Blake, Kathy J. Watts, Josee Wilson

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

/s/ Sanjay Gupta  
\_\_\_\_\_  
Sanjay Gupta

12 APRIL, 2007  
\_\_\_\_\_  
Date



**EXHIBIT 21 SUBSIDIARIES OF REGISTRANT**

BEIJING HEIDRICK & STRUGGLES INTERNATIONAL MANAGEMENT CONSULTING COMPANY LIMITED, a China Limited Partnership (Joint Venture 90% Ownership)

H&S HOLDINGS LIMITED, a Thailand corporation

H&S SOFTWARE DEVELOPMENT and KNOWLEDGE MANAGEMENT CENTRE PRIVATE LIMITED, an India corporation

HEIDRICK & STRUGGLES (CAYMAN ISLANDS), INC., a Cayman Islands corporation

HEIDRICK & STRUGGLES (INDIA) PRIVATE LIMITED, an India corporation

HEIDRICK & STRUGGLES (KOREA), INC., a Korea corporation

HEIDRICK & STRUGGLES (NZ) LIMITED, a New Zealand corporation

HEIDRICK & STRUGGLES (UK) FINANCE COMPANY LIMITED, a United Kingdom company

HEIDRICK & STRUGGLES AB, a Sweden corporation

HEIDRICK & STRUGGLES AG, a Switzerland corporation

HEIDRICK & STRUGGLES ARGENTINA, S.A., an Argentina corporation

HEIDRICK & STRUGGLES ASIA-PACIFIC, LTD., an Illinois corporation

HEIDRICK & STRUGGLES AUSTRALIA, LTD., an Illinois corporation

HEIDRICK & STRUGGLES BV, a Netherlands corporation

HEIDRICK & STRUGGLES CANADA, INC., a Canada corporation

HEIDRICK & STRUGGLES (CENTRAL EASTERN EUROPE) SRL, a Romanian corporation

HEIDRICK & STRUGGLES CONSULTORES de GESTAO Lda, a Portugal corporation

HEIDRICK & STRUGGLES DE CHILE LIMITADA, a Chile corporation

HEIDRICK & STRUGGLES DO BRASIL LTDA, a Brazilian corporation

HEIDRICK & STRUGGLES DUTCH PARTNERSHIP, a Netherlands partnership

HEIDRICK & STRUGGLES ESPANA, INC., an Illinois corporation

HEIDRICK & STRUGGLES FAR EAST LIMITED (Hong Kong), a Hong Kong corporation

HEIDRICK & STRUGGLES HOLDINGS DO BRASIL LTDA, a Brazilian corporation

HEIDRICK & STRUGGLES HONG KONG LTD., an Illinois corporation

HEIDRICK & STRUGGLES, INC., a Delaware corporation

HEIDRICK & STRUGGLES INTERIM EXECUTIVE GmbH, a Germany Limited Liability Company

HEIDRICK & STRUGGLES INTERNATIONAL SRL, an Italy corporation

HEIDRICK & STRUGGLES JAPAN, LTD., an Illinois corporation

HEIDRICK & STRUGGLES JAPAN GODO KAISHA, a Japanese limited liability company

HEIDRICK & STRUGGLES LATIN AMERICA, INC., an Illinois corporation

HEIDRICK & STRUGGLES LEBANON SAL (OFF-SHORE), a Lebanese corporation

HEIDRICK & STRUGGLES (MIDDLE EAST) LLC, a Dubai corporation

HEIDRICK & STRUGGLES (RUSSIA) LLC, a Russian corporation

HEIDRICK & STRUGGLES, S.A. de C.V., a Mexico corporation

HEIDRICK & STRUGGLES Sp.zo.o, a Poland corporation

HEIDRICK & STRUGGLES SINGAPORE PTE LTD., a Singapore corporation

HEIDRICK & STRUGGLES TAIWAN LIMITED, a Taiwan corporation

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HEIDRICK & STRUGGLES (THAILAND) CO., LTD, a Thailand corporation

HEIDRICK & STRUGGLES UK LIMITED, a UK corporation

HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG, GmbH, an Austria corporation

HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG GmbH & Co. KG, a Germany Limited Partnership

HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG VERWALTUNG, GmbH, a Germany Limited Liability Company

**Consent of Independent Registered Public Accounting Firm**

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

We consent to the incorporation by reference in the registration statements (No. 333-147476, No. 333-130143, No. 333-82424, No. 333-58118, No. 333-32544, and No. 333-73443) on Form S-8 of Heidrick & Struggles International, Inc. of our report dated February 28, 2008, with respect to the consolidated balance sheets of Heidrick & Struggles International, Inc. (the Company) and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2007 and the effectiveness of internal control over financial reporting as of December 31, 2007, which report appears in the December 31, 2007 annual report on Form 10-K of Heidrick & Struggles International, Inc.

Our report dated February 28, 2008 notes that the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, on December 31, 2006, SFAS No. 123R, *Share-Based Payment*, on January 1, 2006, and Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*, on January 1, 2007.

/s/ KPMG LLP

Chicago, Illinois  
February 28, 2008

## CERTIFICATION

I, L. Kevin Kelly, certify that:

1. I have reviewed this annual report on Form 10-K 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: February 28, 2008

/s/ L. Kevin Kelly

L. Kevin Kelly  
Chief Executive Officer

## CERTIFICATION

I, Eileen A. Kamerick, certify that:

1. I have reviewed this annual report on Form 10-K 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: February 28, 2008

/s/ Eileen A. Kamerick

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Eileen A. Kamerick  
Executive Vice President, Chief Financial Officer & Chief Administrative  
Officer

**CERTIFICATION**

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

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

The Annual Report on Form 10-K for the year ended December 31, 2007 (the "Form 10-K") of the Company fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 28, 2008

/s/ L. Kevin Kelly

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L. Kevin Kelly  
Chief Executive Officer

**CERTIFICATION**

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

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

The Annual Report on Form 10-K for the year ended December 31, 2007 (the "Form 10-K") of the Company fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 28, 2008

/s/ Eileen A. Kamerick

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Eileen A. Kamerick

Executive Vice President, Chief Financial Officer & Chief Administrative Officer