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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, 2003

**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	Name of each exchange on which registered
Common Stock, \$.01 par value	Nasdaq National Market

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

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant on June 30, 2003 was approximately \$222,576,416 based upon the closing market price of \$12.62 on that date of a share of Common Stock as reported on the Nasdaq National Market. As of February 27, 2004, there were 18,359,783 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 12, 2004, are incorporated by reference into Part III of this Form 10-K.

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**PART I**

**ITEM 1. BUSINESS**

Heidrick & Struggles International, Inc. (“Heidrick & Struggles”) is a premier provider of executive search and leadership consulting services. We help our clients build leadership teams by facilitating the recruitment, development and retention of personnel for their executive management positions. In addition to executive search, which includes interim executive placement, we provide other leadership services including executive assessment and, through an alliance, executive coaching.

Heidrick & Struggles and its predecessors have been in the executive search business for over 50 years. We provide our services to a broad range of clients through our worldwide network of 311 consultants located in major cities around the world. For many of our clients, our global access to and knowledge of markets and candidates is an important characteristic of our business. We provide our executive search services on a retained basis, recruiting senior executives who often earn more than \$200,000 annually. Our clients include the following:

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

The executive search industry is highly fragmented, consisting of more than 4,000 executive search firms worldwide. Based on trade publication reports, we estimate that fewer than 10 executive search firms/alliances generated more than \$100 million in worldwide revenue during 2003. Executive search firms are generally separated into two broad categories: retained search firms and contingency search firms. Retained executive search firms fulfill their clients’ senior leadership needs by identifying potentially qualified candidates and assisting clients in evaluating and assessing these candidates for positions typically with annual cash compensation of \$150,000 and above. Retained executive search firms generally are compensated for their services whether or not the client employs a candidate identified by the search firm, and are generally retained on an exclusive basis. In contrast, contingency search firms usually focus primarily on positions with annual cash compensation of less than \$150,000 and are compensated only upon successfully placing a recommended candidate. Executive search firms normally charge a fee for their services equal to approximately one-third of the first year’s total compensation for the position being filled.

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

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

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

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

### **Available Information**

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

### **Organization**

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

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

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

**Client Services.** Our market-facing activities are primarily structured around four groups: Board Services, Key Accounts, Industry Practices and Functional Specialties. The needs of each client are often served by one or more of these groups, as a combination of specialized skills are sometimes required to effectively serve the client.

- **Board Services.** Those consultants in our company who have the most extensive experience placing members of boards of directors and chief executive officers are part of this group, which is coordinated by one of our Vice Chairmen. The services we perform for boards of directors and chief executive officers contribute substantially to our reputation.
- **Key Accounts.** We established this group because we believe it is valuable to both our company and our major clients to focus on serving these clients with an integrated services approach. Our key accounts are identified by the amount of work we historically have been engaged to perform for these clients or by revenue potential. Each identified account is managed by an account leader who has overall responsibility for drawing on the proper resources and skill sets within our company to serve that particular client.

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- *Industry Practices.* We have seven core industry practices: Financial Services, Industrial, Technology, Consumer, Health Care, Professional Services and Higher Education/Nonprofit. These core industry practices and their relative sizes, as measured by net revenue for 2003, are as follows:

<u>Industry Practices:</u>	<u>Percentage of Net Revenue</u>
Financial Services	28%
Industrial	20
Consumer	16
Technology	15
Health Care	9
Professional Services	9
Higher Education/Nonprofit	3
	<hr/>
	100%

Certain markets have a significant concentration of companies within particular industry sectors. For example, our Financial Services practice has its largest concentration of consultants in New York and London, two of the largest financial centers in the world. Each industry practice is coordinated by a Practice Managing Partner who facilitates the group's marketing activities.

- *Functional Specialties.* We recognize that searching for candidates for particular executive positions often requires specialized skill in much the same way as a search for an executive in a particular industry. As a result, many of our executive search consultants also specialize in searches for specific "C-level" functional positions which are roles that report directly to the chief executive officer such as chief financial officers, chief information officers, chief legal officers, chief marketing officers and chief human resources officers. Our functional specialists tend to have experience with appropriate candidates from many different industries.

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 a health care 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 Health Care practice and a third executive search consultant with expertise in chief financial officer recruiting. This same health care client may also engage us to perform skill-based assessments on each of its senior managers, which could require the expertise of a professional trained in this service. If the client company is designated a key account, all of our services will be coordinated by our account leader for that client.

### **Information by Geographic Segment**

*North America.* As of December 31, 2003, we had 146 executive search consultants in our North America segment, which includes the United States (except Miami) and Canada. Our North America segment generated approximately 54% of our worldwide net revenue in 2003. The largest offices in this segment in terms of net revenue are located in New York, San Francisco, Tysons Corner and Chicago.

*Latin America.* As of December 31, 2003, we had 18 executive search consultants in our Latin America segment, which includes Mexico and the rest of Latin America, as well as Miami, which serves as the gateway office to the region. Approximately 3% of our worldwide net revenue in 2003 was generated in this segment.

*Europe.* As of December 31, 2003, we had 114 executive search consultants in 14 European countries. Our Europe segment generated approximately 36% of our worldwide net revenue in 2003. Germany, the United Kingdom and France produced the highest levels of net revenue in this segment.

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*Asia Pacific.* As of December 31, 2003, we had 33 executive search consultants in the Asia Pacific segment. This segment generated approximately 7% of our worldwide net revenue in 2003.

For financial information relating to each geographic segment, see Note 2, *Segment Information*, in the Notes to Consolidated Financial Statements.

### **Seasonality**

Historically, in years that were not affected by significant economic change, there has been some seasonality in our business. As a percentage of total annual net revenue, the first and fourth quarters of the year are typically the lowest. On average, the variance between the highest and lowest net revenue quarters is approximately five percentage points.

### **Clients and Marketing**

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

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

No single client accounted for more than 3% of our net revenue in 2003, 2002 or 2001.

### **Information Management**

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

### **Professional Staff and Employees**

Our executive search professionals are categorized either as consultants or associates. Associates assist consultants by conducting research, making initial contact with candidates in some instances and performing other functions. As of December 31, 2003, we had 1,232 full-time equivalent employees, of whom 311 were executive search consultants, 310 were associates and 611 were other search, support and corporate staff.

During 2003, market conditions in Europe continued to weaken. In order to better align the size of our workforce with these market conditions, we reduced our workforce by 32 people, primarily in Europe, including 7 executive search consultants. The reduction represented approximately 2% of our global workforce. During

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2002, we reduced our global workforce by approximately 400 people, or 20%, including 112 executive and management search consultants, in order to better align the size of our employee base with market conditions. During 2001, we reduced our global workforce by 620 people, or 25%, including 136 executive and management search consultants, in order to adjust to weakening economic conditions.

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

### **Competition**

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

The overall search industry has relatively few barriers to entry. Higher barriers exist, however, for firms like ours that focus primarily on conducting searches for executive-level positions. At this level, clients rely more heavily on a search firm's reputation, 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 other leadership consulting services, including executive assessment and coaching, is highly fragmented, with no universally recognized market leaders. Several of our primary competitors in executive search also offer such complementary services but those typically represent less than a majority percentage of their revenue.

## EXECUTIVE OFFICERS

Our executive officers as of March 1, 2004 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position with Company</u>
Thomas J. Friel	56	Chairman and Chief Executive Officer; Director
Eduardo Antunovic	45	Regional Managing Partner, Southern Europe/Latin America
Jocelyn A. Dehnert	52	Regional Managing Partner, Northern Europe
Fritz E. Freidinger	39	Chief Legal Officer and Corporate Secretary
Bonnie W. Gwin	44	Regional Managing Partner, North America
L. Kevin Kelly	38	Regional Managing Partner, Asia Pacific
Jeff R. Scherb	46	Chief Technology and Operations Officer
Scott W. Sherwood	52	Chief Talent and Human Resources Officer
Kevin J. Smith	49	Chief Financial Officer

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 March 1, 2004:

**Thomas J. Friel** has been our Chairman and Chief Executive Officer since June 2003. Previously, Mr. Friel was Chairman of the Technology Practice, Chairman of the Leadership Services Group and a Vice Chairman of Heidrick & Struggles from October 2001 to June 2003. Prior to that, Mr. Friel was President of Heidrick & Struggles Ventures from 1999 to 2001. Mr. Friel also served on our Board of Directors subsequent to our initial public offering in 1999 until 2002 when the Board transitioned to a majority of independent directors. He joined us in 1979.

**Eduardo Antunovic** has been our Regional Managing Partner, Southern Europe/Latin America since September 2002 and Managing Partner, Global Industry Practices since December 2003. Previously, Mr. Antunovic was Area Managing Partner of our Latin America region from 2001 to 2002; Regional Managing Partner of our offices in Argentina, Brazil, Chile and Peru from 1999 to 2001; and Office Managing Partner, Sao Paulo from 1997 to 1999. He joined us in 1996.

**Jocelyn A. Dehnert** has been our Regional Managing Partner, Northern Europe since September 2002. Previously, Dr. Dehnert was Regional Managing Partner, Asia Pacific from October 2001 to August 2002, and Managing Partner of our Financial Services Practice in Asia Pacific from January 2000 to October 2001. She became a Partner with us in November 1996. She joined us in 1995.

**Fritz E. Freidinger** has been our Chief Legal Officer and Corporate Secretary since January 2004. Previously, Mr. Freidinger had been our General Counsel and Corporate Secretary since joining us in December 2002. Prior to that, Mr. Freidinger was Vice President, Global General Counsel and Corporate Secretary of Jones Lang LaSalle Incorporated from 2001 to 2002. From 1997 to 2001, Mr. Freidinger was with Hagan & Associates, a law firm providing services to Jones Lang LaSalle and its clients.

**Bonnie W. Gwin** has been our Regional Managing Partner, North America since January 2004 and Managing Partner, Technology and Professional Services Practice since October 2002. Previously, Ms. Gwin was Managing Partner, North American Operations from February 2003 to December 2003; Managing Partner, Chicago, Cleveland, and Toronto from October 2001 to October 2002; Office Managing Partner, Cleveland from January 2001 to October 2001; and Partner in Charge of our Software specialty practice from October 2000 to February 2001. She joined us in 1997.



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**L. Kevin Kelly** has been our Regional Managing Partner, Asia Pacific since September 2002. Previously, Mr. Kelly was Office Managing Partner, Tokyo from February 2002 to September 2002. He joined us in 1997.

**Jeff R. Scherb** has been our Chief Technology and Operations Officer since January 2004. Previously, Mr. Scherb had been our Chief Information Officer since joining us in September 2002. Prior to that, Mr. Scherb was Senior Vice President and Chief Technology Officer of Tribune Company from 1996 to 2002. Mr. Scherb also was President of Tribune Interactive at Tribune Company from 1999 to 2000.

**Scott W. Sherwood** has been our Chief Talent and Human Resources Officer since joining us in January 2004. Prior to that, Mr. Sherwood was President of Scott Sherwood & Associates, Inc. from 1997 to 2004.

**Kevin J. Smith** has been our Chief Financial Officer since joining us in January 2002. Prior to that, Mr. Smith was the Executive Vice President and Chief Financial Officer from 2000 to 2001 and the Senior Vice President and Chief Accounting Officer from 1998 to 2000 at True North Communications, Inc. From 1997 to 1998 he held various positions with Midcom Communications, Inc., including Executive Vice President and Chief Financial Officer, Chief Executive Officer, and consultant. In December 2003, we announced that Mr. Smith planned to leave our company on March 31, 2004. The search for his successor is currently underway.

## **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 restructuring of our compensation system or competitor hiring programs. If we cannot attract, hire and retain such consultants, our business, financial condition and results of operations may suffer.

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

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

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

We depend on our overall reputation and brand name recognition to secure new engagements and hire qualified consultants. Our success also depends on the individual reputations of our consultants. We obtain 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 blocking arrangements depend on the length of the client relationship, the frequency with which the client engages us to perform searches, the number of assignments we have performed for the client and the potential for future business with the client.

If a prospective client believes that we are overly restricted by these blocking 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 possess greater resources, greater name recognition and longer operating histories than we do in particular markets or practice areas. There are limited barriers to entry into the search industry and new search firms continue to enter the market. Many executive search firms that have a smaller client base may be subject to fewer blocking arrangements. In addition, our significant clients or prospective clients may decide to perform executive searches using in-house personnel. Finally, during soft economic climates, competitors sometimes reduce their fees in order to attract clients and increase market share. Because we typically do not discount our fees, we may experience some loss of 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 recommend a change in software platforms and programs. Such plans may result in an acceleration of depreciation expense over the shortened expected remaining life of the software. 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 and our other leadership consulting services. A client could assert a claim for violations of blocking arrangements, breaches of confidentiality agreements or malpractice. In addition, a candidate could assert an action against us. Possible claims include failure to maintain the confidentiality of the candidate's employment search or for discrimination or other violations of the employment laws. In various countries, we are subject to data protection laws impacting the handling of candidate resumes and other data. 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 and that the coverage will be available at reasonable rates. Significant uninsured liabilities could have a negative impact on our business, financial condition and results of operations.

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

We generate substantial revenue outside the United States. We offer our services through our offices in 27 countries around the world. We are exposed to the risk of changes in social, political 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 and trade practices are evolving. Commercial laws in these countries are often vague, arbitrary and inconsistently applied. Under these circumstances, it is difficult for us to determine at all times the exact requirements of such local laws. If we fail to comply with local laws, our business, financial condition and results of operations 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 revenue.**

The timing and strength of an economic recovery in the United States, Europe and other areas of the world continues to be unclear. It is difficult for us to forecast revenue generation with any degree of certainty, even in the near term, and to balance revenue with the required capacity. In 2003, 2002 and 2001, we took steps to reduce our workforce, consolidate and close offices and reduce other expenses. If we do not reduce our costs in proportion to demand for our services in a timely manner or if we reduce our workforce so that we are unable to service increased demand, our business, financial condition and results of operations could be adversely affected.

**We may not be able to generate sufficient profits to realize our tax loss carryforwards.**

In 2003, 2002 and 2001, we reported net losses, primarily due to restructuring activities necessary to align our cost structure with expected net revenue levels. The timing and strength of an economic recovery in the United States, Europe and other areas of the world continues to be unclear. During the fourth quarter of 2003, we recorded a full valuation allowance for our deferred tax assets for the U.S. and foreign operations which comprise the U.S. income tax entity. While we expect to be profitable in 2004 and beyond, there is no assurance that future taxable income will be sufficient to realize the benefit of tax loss carryforwards and other deferred tax assets. If after future assessments of the realizability of the deferred tax assets, we determine that a lesser allowance is required, we would record a reduction to the income tax expense and the valuation allowance in the period of such determination. If we are unable to generate taxable income in the long-term, our business, financial condition, results of operations and cash flow could suffer.

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

The timing and strength of an economic recovery in the United States, Europe and other areas of the world continues to be unclear. While current valuation estimates indicate that there has been no impairment of goodwill or other intangible assets, prolonged economic downturns could jeopardize the values assigned to goodwill and other intangible assets. If the carrying value of our reporting units' goodwill exceeds its implied fair value, then we must record an impairment loss equal to the difference. If our operations do not generate sufficient earnings and cash flow in the long-term, our business, financial condition and results of operations could suffer.

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

In 2002 and 2001, we consolidated and closed offices in order to reduce costs. This left us with a significant amount of unused office space with respect to which we are still required to make lease payments. At the time of the office closings we accrued the estimated costs associated with these actions. During 2003, we recorded restructuring expense of \$22.2 million to increase accruals for unused office space, reflecting the expectation of longer vacancy periods due primarily to weakness in the real estate markets in which the leased properties are located. While we have made progress in securing subleases for several properties, at December 31, 2003, we had six office locations designated as unused real estate, representing approximately 106,000 square feet. The total remaining commitment related to these properties is \$55.5 million of which \$30.0 million has been accrued at December 31, 2003, net of estimated sublease income. Inherent in these accruals are estimates concerning vacancy periods and sublease income. If we are unable to sublease or assign this unused office space within the estimated time frame, or if we sublease or assign this office space for amounts less than we had anticipated, our business, financial condition, results of operations and cash flow could suffer.

**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 us to be acquired in a transaction which is not approved by our Board of Directors. Some of the provisions in our Certificate of Incorporation and Bylaws include:

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

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

**ITEM 2. PROPERTIES**

Our corporate office is located in Chicago, Illinois. We have offices in major metropolitan areas in 27 countries around the world. All of our offices are leased. We do not own any real estate. The aggregate square footage of office space under lease was approximately 820,000 as of December 31, 2003. These office leases call for future minimum lease payments of approximately \$144.2 million and have terms that expire between 2004 and 2016, exclusive of renewal options that we can exercise. Approximately 127,000 square feet of office space has been sublet to third parties. See *Risk Factors* included in Item 1 of this Form 10-K for further information concerning unused office space.

**ITEM 3. LEGAL PROCEEDINGS**

We have contingent liabilities from various pending claims and litigation matters arising in the 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 December 2002, Mt. Sinai Medical Center of Miami filed suit against us regarding a search for a chief executive officer we performed in 1998. The suit is pending in the U.S. District Court for the Southern District of Florida. We believe the claims made by Mt. Sinai have no merit and are vigorously defending against the claims. Following a failure to achieve a compromise in mediation, the judge in this case ruled on our motion to dismiss the claims and active discovery commenced. The judge dismissed all the claims made by Mt. Sinai other than a claim for a breach of the covenant of good faith and fair dealing. Most of the discovery in this matter was completed during the fourth quarter of 2003. During this period, Mt. Sinai clarified the damages it is seeking – (i) the fee paid for the chief executive officer search of \$169,000, (ii) fees paid for other searches of approximately \$500,000 and (iii) between \$59 million and \$75 million based primarily upon the operating loss incurred by Mt. Sinai in 2001, the chief executive officer's last year at the hospital. We believe the claims made by Mt. Sinai are covered by our professional liability insurance policies with policy limits of \$20.0 million. While there can be no assurance as to the outcome, we believe that the claims are without merit and, as such, will not have a material adverse effect on our financial position, results of operations or liquidity. The trial in the matter is expected to begin in July 2004.

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

No matters were submitted to a vote of security holders during the last quarter of 2003.

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

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

<u>Year Ended December 31, 2003</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 16.14	\$ 9.96
Second Quarter	15.04	11.45
Third Quarter	20.00	12.35
Fourth Quarter	24.29	16.97
<u>Year Ended December 31, 2002</u>		
First Quarter	\$21.15	\$14.42
Second Quarter	22.92	17.90
Third Quarter	20.00	13.60
Fourth Quarter	16.35	11.85

As of February 27, 2004, the last reported price on the Nasdaq National Market for our common stock was \$21.27 per share and there were approximately 220 stockholders of record of the common stock.

We have never paid cash dividends on our common stock and do not presently anticipate paying any cash dividends on our common stock in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will be dependent upon our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors deemed relevant by the Board of Directors. Future indebtedness and loan facilities may also prohibit or restrict our ability to pay dividends and make distributions to our stockholders.

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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, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001 are derived from the audited historical consolidated financial statements which are included elsewhere in this Form 10-K. The data as of December 31, 2001, 2000 and 1999 and for the years ended December 31, 2000 and 1999 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,				
	2003	2002	2001	2000	1999(8)
	(in thousands, except per share and other operating data)				
<b>Statement of Operations Data:</b>					
Revenue:					
Revenue before reimbursements (net revenue)	\$ 317,934	\$ 350,712	\$ 455,534	\$ 594,394	\$ 415,847
Reimbursements	22,683(1)	26,133(1)	32,065(1)	33,221(1)	N/A(1)
Total revenue	340,617	376,845	487,599	627,615	415,847
Operating expenses:					
Salaries and employee benefits:					
Salaries and employee benefits	223,537	242,330	302,792	395,105(6)	277,580
Nonrecurring compensation expense	—	—	—	12,222(7)	14,448(9)(10)
General and administrative expenses:					
General and administrative expenses	87,250	106,913	157,404	156,242	104,144
Nonrecurring general and administrative expenses	—	—	—	1,753(7)	772(9)
Reimbursed expenses	22,683(1)	26,133(1)	32,065(1)	33,221(1)	N/A(1)
Restructuring charges	29,443(2)	48,532(2)	53,230(2)	—	—
Total operating expenses	362,913	423,908	545,491	598,543	396,944
Operating income (loss)	(22,296)	(47,063)	(57,892)	29,072	18,903
Non-operating income (expense):					
Interest income	1,687	2,018	5,523	8,723	3,513
Interest expense	(166)	(210)	(166)	(209)	(1,504)
Net realized and unrealized gains (losses) on equity and warrant portfolio	673(3)	(1,325)(3)	(3,703)(3)	7,399(3)	782(3)
Write-down of long-term investments	—	(5,000)(5)	(14,760)(5)	(240)(5)	—
Other, net	(1,722)	(73)	(517)	418	(152)
Net non-operating income (expense)	472	(4,590)	(13,623)	16,091	2,639
Equity in net loss of affiliate	—	—	—	—	(630)
Income (loss) before income taxes and cumulative effect of accounting change	(21,824)	(51,653)	(71,515)	45,163	20,912
Provision for (benefit from) income taxes	58,844(4)	(11,491)	(24,094)	25,746	15,120
Income (loss) before cumulative effect of accounting change	(80,668)	(40,162)	(47,421)	19,417	5,792
Cumulative effect of accounting change, net of tax	—	—	4,494(3)	—	—
Net income (loss)	\$ (80,668)	\$ (40,162)	\$ (42,927)	\$ 19,417	\$ 5,792
Basic earnings (loss) per common share	\$ (4.43)	\$ (2.22)	\$ (2.28)	\$ 1.02	\$ 0.42
Basic weighted average common shares outstanding	18,217	18,107	18,839	18,979	13,642
Diluted earnings (loss) per common share	\$ (4.43)	\$ (2.22)	\$ (2.28)	\$ 0.95	\$ 0.42
Diluted weighted average common shares outstanding	18,217	18,107	18,839	20,389	13,889
<b>Balance Sheet Data (at end of period):</b>					
Working capital	\$ 64,815	\$ 84,276	\$ 92,786	\$ 120,340	\$ 54,007
Total assets	304,032	367,835	411,106	523,644	334,749
Long-term debt, less current maturities	26	294	1,959	610	—
Stockholders' equity	125,813	199,711	229,591	287,677	167,880
<b>Other Operating Data:</b>					
Average number of consultants during the period	328	391	507	441	347



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### Notes to Selected Financial Data:

- (1) In November 2001, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred." EITF Issue No. 01-14 establishes that reimbursements received for certain out-of-pocket expenses should be reported as revenue. Historically, we classified reimbursements of out-of-pocket expenses as a reduction of operating expenses. We adopted this guidance in 2002 and made the corresponding reclassifications in the Statements of Operations for the years ended December 31, 2001 and 2000. The presentation required by EITF Issue No. 01-14 has no impact on operating income. Reimbursements for out-of-pocket expenses for 1999 are not presented separately as revenue and operating expenses as such data was not available for that year.
- (2) In October 2003, October 2002, October 2001 and June 2001, we announced cost reduction initiatives to better align costs with expected net revenue levels. These initiatives related to reductions of our workforce, consolidation and closing of offices, goodwill and intangible asset write-offs and, in 2001, the settlement of a former Chief Executive Officer's contract upon his retirement. For the years ended 2003, 2002 and 2001, we recognized restructuring charges of \$29.4 million, \$48.5 million and \$53.2 million, respectively, related to these announced initiatives.
- (3) We receive warrants for equity securities in our client companies, in addition to our cash fee, for services rendered on some searches. The warrants are recorded at fair value. Some of the warrants in our portfolio meet the definition of a derivative instrument under Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its subsequent amendments. In accordance with SFAS No. 133, subsequent changes in the fair value of these derivative instruments are recorded in the Consolidated Statement of Operations rather than as a component of accumulated other comprehensive income. We adopted SFAS No. 133 on January 1, 2001. As a result, in 2001, we recorded a transition adjustment to income of \$4.5 million, net of the consultants' share of the gain, other costs and taxes.  
  
Upon a value event such as an initial public offering or an acquisition, the equity securities arising from the exercise of warrants are monetized, resulting in a realized gain, net of the consultants' share of the gain and other costs. In 2003, 2002, 2001, 2000 and 1999, we recorded realized gains, net of the consultants' share of the gain and other costs, of \$0.7 million, \$1.6 million, \$1.0 million, \$7.4 million and \$0.8 million, respectively, related to the equity and warrant portfolio.  
  
In 2003, the unrealized losses, net of the consultants' share of the losses and other costs, were less than \$0.1 million, related to the equity and warrant portfolio. In 2002 and 2001, we recorded unrealized losses, net of the consultants' share of the losses and other costs, of \$3.0 million and \$4.7 million, respectively, related to the equity and warrant portfolio.
- (4) 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 our net deferred tax assets for the U.S. and foreign operations which comprise the U.S. income tax entity. Judgment is required in developing our income tax provision, including the determination of deferred tax assets and liabilities and any valuation allowances that might be required against the deferred tax assets. In assessing the need for a valuation allowance, we considered all positive and negative evidence, including scheduled reversals of deferred tax liabilities, tax-planning strategies, projected future taxable income and recent financial performance. In 2003, 2002 and 2001, we reported net losses, primarily due to restructuring activities necessary to align our cost structure with expected net revenue levels. SFAS No. 109, "Accounting for Income Taxes," states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years. Based upon the provisions of SFAS No. 109, we recorded, in the fourth quarter of 2003, a full valuation allowance against our net deferred tax assets.
- (5) During 2002, we wrote-down our remaining investment in the ETF Group, incurring a non-cash charge of \$5.0 million. During 2001, we recorded non-cash charges of \$14.8 million to write down of our investments in Silicon Valley Internet Capital ("SVIC") and ETF Group. During 2000, we recorded a non-cash charge of \$0.2 million related to our investment in SVIC.
- (6) Includes non-cash compensation expense of \$2.7 million, due to the issuance of options by LeadersOnline, at a price below the deemed fair market value, for accounting purposes, at the time of issuance.
- (7) We incurred \$14.0 million of nonrecurring expenses during the third quarter of 2000 as a result of the withdrawal of LeadersOnline's proposed initial public offering. This included a non-cash compensation expense of \$12.2 million which represents the remainder of the non-cash compensation expense related to the issuance of options by LeadersOnline, at a price below the deemed fair market value for accounting purposes, at the time of issuance. The remaining \$1.8 million is due to the write-off of expenses related to the proposed initial public offering and is included in nonrecurring general and administrative expenses.
- (8) Heidrick & Struggles, Inc. acquired Heidrick & Struggles International, Inc., on February 26, 1999. The historical results of operations of Heidrick & Struggles International, Inc. have been included in the consolidated financial statements subsequent to the date of acquisition.
- (9) We recorded costs of \$2.8 million during the third quarter of 1999 as a result of the merger with Sullivan & Company on September 1, 1999. The costs consist of a \$2.0 million non-cash compensation expense for accelerated vesting of an employee equity ownership program in place at Sullivan & Company and \$0.8 million of transaction-related costs, including legal, accounting and advisory fees, which are included in nonrecurring general and administrative expenses.
- (10) We recorded nonrecurring compensation expense of \$12.4 million during the first quarter of 1999 as a result of the modification of the terms of the Mülder Partner GmbH & Co. KG ("Mülder") acquisition agreement, including the termination of all employment contingencies. This nonrecurring expense represents the write-off of \$2.9 million of deferred compensation assets, the settlement of the remaining cash due of \$4.3 million, and the issuance of 428,452 common shares (valued at \$5.2 million) to the previous owners of Mülder.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*This Management's Discussion and Analysis of Financial Condition and Results of Operations as well as other sections of this annual report on Form 10-K contain forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. The forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate and management's beliefs and assumptions. Forward-looking statements may be identified by the use of words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and similar expressions. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, forecasted or implied in the forward-looking statements. Factors that may affect the outcome of the forward-looking statements include, among other things, our ability to attract and retain qualified executive search consultants; the condition of the economies in the United States, Europe, or elsewhere; social or political instability in markets where we operate; price competition; our ability to achieve the planned cost savings from our cost reduction initiatives; our ability to sublease or assign unused office space; our ability to realize our tax loss carryforwards; 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 1 of this Form 10-K. We caution the reader that the list of factors may not be exhaustive. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.*

### Executive Overview

#### *Our Business*

We are a premier provider of executive search and leadership consulting services. We help our clients build leadership teams by facilitating the recruitment, assessment and development of personnel for their executive management positions. In addition to executive search for permanent and interim placements, we provide other leadership services, including executive assessment, and, through an alliance, executive coaching. We provide our services to a broad range of clients through our worldwide network of 311 consultants located in 27 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 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.

#### *Historical Perspective*

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

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The slowdown in the United States economy that began early in 2001, especially in the financial services and technology sectors, followed by a slowdown in other geographic markets, created an environment where the previous trends began to reverse. Commencing in June 2001, when we anticipated a decrease in net revenue compared to 2000, we took steps to reduce our cost base by reducing our workforce while retaining capacity to meet additional demand when the economy recovered. In October 2001, we announced further reductions in our workforce and consolidated or eliminated office space.

The initiatives related to these announcements, including the integration of LeadersOnline into our Executive Search business, were completed during the 2002 first quarter.

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

### *2003 Overview*

In 2003, continued global economic weakness and geopolitical tensions adversely impacted the business environment and, consequently, the demand for our services. Net revenue in 2003 was \$317.9 million, a decrease of 9.3%, from \$350.7 million in 2002, as a soft economy for much of the year adversely affected our results. Excluding the positive impact of exchange rate changes, net revenue decreased approximately 14% in 2003 compared to 2002.

This year also saw changes in our company's senior management with the resignations of our Chief Executive Officer, Mr. Piers Marmion, our President and Chief Operating Officer, Mr. David Anderson and our Chief Financial Officer, Mr. Kevin J. Smith. We recorded charges of \$6.1 million for these separations. In addition to these separation charges, we recorded \$2.8 million of other severance expense, primarily in Europe and North America.

During 2003, we recorded restructuring charges of \$29.4 million, consisting of \$3.9 million of severance expense, primarily in Europe, \$3.3 million of expense for goodwill and other intangible asset impairment, primarily related to a wholly-owned subsidiary in Finland which is expected to be converted to a licensee, and \$22.2 million of expense to increase accruals for unused office space, reflecting the expectation of longer vacancy periods due primarily to weakness in the real estate markets in which the leased properties are located. Due to these restructuring charges, we did not expect to achieve certain long-term profitability targets established in 2002 and therefore reversed \$1.3 million of accruals related to our Performance Share Program that had been recorded as of December 31, 2002.

Our 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 our net deferred tax assets for the U.S. and foreign operations which comprise the U.S. income tax entity. In assessing the need for a valuation allowance, we considered all positive and negative evidence, including scheduled reversals of deferred tax liabilities, tax-planning strategies, projected future taxable income and recent financial performance. In 2003, 2002 and 2001, we reported net losses, primarily due to restructuring activities necessary to align our cost structure with expected net revenue levels. Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years. Based upon the provisions of SFAS No. 109, we recorded a full valuation allowance against our net deferred tax assets.

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Despite these significant expenses recorded in 2003 and the decline in net revenue, we believe that our cost structure is better aligned with anticipated net revenue levels, primarily as a result of the restructuring and cost reduction initiatives which have occurred over the past three years. We ended the year with a cash balance of \$119.3 million, an increase of \$9.1 million, compared to \$110.2 million at December 31, 2002. Also, in December 2003, we secured a \$60.0 million revolving credit facility.

### *2004 Outlook*

For 2004, we currently anticipate that net revenue will grow at a rate in the mid-single digits. This performance assumes that the worldwide economy will continue to strengthen. At that level of net revenue growth, we would expect to generate operating margins in the 5 percent to 6 percent range.

We receive warrants for equity securities in our client companies, in addition to our cash fee, for services rendered on some searches. Upon a value event such as an initial public offering or an acquisition, the equity securities arising from the exercise of the warrants are monetized, resulting in a realized gain, net of the consultants' share of the gain and other costs. In 2003, 2002 and 2001, we recorded realized gains, net of the consultants' share of the gain and other costs, of \$0.7 million, \$1.6 million, \$1.0 million, respectively, related to the equity and warrant portfolio. With improvements in economic conditions, it is possible, although not certain, that we could realize gains which are significant to our reported earnings in the future.

### **Results of Operations**

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

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

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

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

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

	Year Ended December 31,		
	2003	2002	2001
<b>Revenue:</b>			
Revenue before reimbursements (net revenue)	\$ 317,934	\$ 350,712	\$ 455,534
Reimbursements	22,683	26,133	32,065
<b>Total revenue</b>	<b>340,617</b>	<b>376,845</b>	<b>487,599</b>
<b>Operating expenses:</b>			
Salaries and employee benefits	223,537	242,330	302,792
General and administrative expenses	87,250	106,913	157,404
Reimbursed expenses	22,683	26,133	32,065
Restructuring charges	29,443	48,532	53,230
<b>Total operating expenses</b>	<b>362,913</b>	<b>423,908</b>	<b>545,491</b>
Operating loss	(22,296)	(47,063)	(57,892)
Net non-operating income (expense)	472	(4,590)	(13,623)
Loss before income taxes and cumulative effect of accounting change	(21,824)	(51,653)	(71,515)
Provision for (benefit from) income taxes	58,844	(11,491)	(24,094)
Loss before cumulative effect of accounting change	(80,668)	(40,162)	(47,421)
Cumulative effect of accounting change, net of tax	—	—	4,494
<b>Net loss</b>	<b>\$ (80,668)</b>	<b>\$ (40,162)</b>	<b>\$ (42,927)</b>

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

	Year Ended December 31,		
	2003	2002	2001
<b>Revenue:</b>			
Revenue before reimbursements (net revenue)	100.0%	100.0%	100.0%
Reimbursements	7.1	7.5	7.0
<b>Total revenue</b>	<b>107.1</b>	<b>107.5</b>	<b>107.0</b>
<b>Operating expenses:</b>			
Salaries and employee benefits	70.3	69.1	66.5
General and administrative expenses	27.4	30.5	34.6
Reimbursed expenses	7.1	7.5	7.0
Restructuring charges	9.3	13.8	11.7
<b>Total operating expenses</b>	<b>114.1</b>	<b>120.9</b>	<b>119.7</b>
Operating loss	(7.0)	(13.4)	(12.7)
Net non-operating income (expense)	0.1	(1.3)	(3.0)
Loss before income taxes and cumulative effect of accounting change	(6.9)	(14.7)	(15.7)
Provision for (benefit from) income taxes	18.5	(3.3)	(5.3)
Loss before cumulative effect of accounting change	(25.4)	(11.5)	(10.4)
Cumulative effect of accounting change, net of tax	—	—	1.0
<b>Net loss</b>	<b>(25.4)%</b>	<b>(11.5)%</b>	<b>(9.4)%</b>

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

## 2003 Compared to 2002

*Total revenue.* Consolidated total revenue decreased \$36.2 million, or 9.6%, to \$340.6 million in 2003 from \$376.8 million in 2002. The decline in total revenue was due primarily to the decline in revenue before reimbursements (net revenue).

*Revenue before reimbursements (net revenue).* Consolidated net revenue decreased \$32.8 million, or 9.3%, to \$317.9 million in 2003 from \$350.7 million in 2002. Excluding the \$17.9 million positive impact of exchange rate changes, net revenue declined approximately 14%. We believe information regarding changes in net revenue excluding the impact of exchange rate changes is helpful in providing an understanding of the volume of business activity. Most of our practices experienced declines in net revenue. In 2003, the number of confirmed executive searches decreased 5% to 3,757 from 3,973 in 2002. We believe this decrease reflects the impact of the continuing weak global economic conditions.

Net revenue in North America was \$172.0 million in 2003, a decrease of \$22.2 million, or 11.4%, from \$194.2 million in 2002. Most of the practices experienced declines in net revenue with the most significant declines in the Technology and Financial Services practices. In Latin America, net revenue was \$11.2 million in 2003, an increase of \$0.2 million, or 2.0%, from \$11.0 million in 2002, reflecting increases in the Financial Services and Professional Services practices, despite the loss of net revenue from operations that were converted to licensees in 2002. Net revenue in Europe was \$113.0 million in 2003, a decrease of \$11.4 million, or 9.1%, from \$124.4 million in 2002. Excluding a positive impact of \$16.5 million due to exchange rate changes, Europe's net revenue decreased by approximately 22% from 2002. The decline in net revenue is attributable to general economic weakness, particularly in the Financial Services and Industrial practices, and the loss of net revenue from unprofitable operations that were converted to licensees or shut down during 2002. In Asia Pacific, net revenue was \$21.6 million in 2003, an increase of \$0.5 million, or 2.6%, from \$21.1 million in 2002. Excluding a positive impact of \$1.3 million due to exchange rate changes, Asia Pacific's net revenue was \$20.3 million, a decrease of approximately 3% compared to 2002. Increases in the Industrial and Consumer practices were more than offset by declines in the Technology and other practices.

*Salaries and employee benefits.* Consolidated salaries and employee benefits expense decreased \$18.8 million, or 7.8%, to \$223.5 million in 2003 from \$242.3 million in 2002. Salaries and employee benefits expense in 2003 includes \$6.1 million of expense related to the separation agreements of the former Chief Executive Officer, the former President and Chief Operating Officer and the Chief Financial Officer, approximately \$2.8 million of other severance-related expenses, primarily in Europe and North America, partially offset by a \$0.9 million reduction in employee benefit expense accruals and a benefit of \$1.3 million from the reversal of accruals recorded in 2002 for the Performance Share Program. Excluding these items, which we believe more appropriately reflects our core operations, consolidated salaries and employee benefits expense would have been \$216.8 million in 2003, a decrease of \$25.5 million, or 10.5%, compared to \$242.3 million in 2002. The decrease was primarily attributable to \$35.8 million of lower fixed costs as a result of the elimination of approximately 400 positions since March 2002, partially offset by \$10.3 million of additional performance-related compensation expense for executive search consultants and support staff. The average number of executive search consultants in 2003 was 328, a decrease of 16%, compared to an average of 391 in 2002.

As a percentage of net revenue, salaries and employee benefits expense increased to 70.3% in 2003 from 69.1% in 2002. Excluding the \$8.9 million of severance-related expenses, the \$0.9 million reduction of employee benefit accruals and the \$1.3 million of benefit resulting from the reversal of accruals related to the Performance Share Program, which we believe more appropriately reflects our core operations, salaries and employee benefits expense as a percentage of net revenue would have been 68.2% in 2003 compared to 69.1% in 2002. The decrease as a percentage of net revenue is primarily due to lower fixed salaries and employee benefits expense in relation to the net revenue levels, partially offset by a greater percentage of net revenue accrued for performance-based compensation.



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\$13.3 million; Latin America \$0.1 million; Europe \$7.0 million; Asia Pacific \$0.3 million; and Corporate \$2.5 million. Of the \$23.2 million of restructuring charges recorded in the 2002 first quarter, approximately \$15.2 million represents cash charges. No restructuring charges were recorded in the second or third quarters of 2002.

In October 2002, we announced additional reductions in our workforce and the consolidation and closing of offices, recording a charge of \$25.4 million. The actions affected 236 employees, of which 156 were in Europe. Of the reductions, 61 were executive and management search consultants and the remainder was support staff. Of the \$25.4 million restructuring charge, \$12.2 million was for severance and related costs, \$10.6 million was facilities-related and \$2.6 million was for the write-off of goodwill, intangible assets and software. By segment, the restructuring charges recorded in the fourth quarter of 2002 are as follows: North America \$6.4 million; Latin America \$0.5 million; Europe \$17.7 million; Asia Pacific \$0.4 million; and Corporate \$0.4 million. Of the \$25.4 million of restructuring charges recorded in the 2002 fourth quarter, approximately \$20.9 million represents cash charges.

Approximately \$45.8 million of the 2003 and 2002 restructuring charges remained unpaid as of December 31, 2003. The majority of the amounts remaining to be paid relate to real estate leases. Cash disbursements lag the charges because charges related to disposing of leases are recorded currently, while the cash spending for each affected lease will continue until sub-leasing, or negotiations with the lessor to terminate the lease, are completed. Based on current estimates, approximately \$18.1 million is expected to be paid in 2004, with the remaining \$27.7 million payable in years subsequent to 2004.

*Operating loss.* Our consolidated operating loss was \$22.3 million in 2003, a decrease of \$24.8 million compared to the operating loss of \$47.1 million in 2002. The following table summarizes our consolidated operating loss for the years ended December 31, 2003 and 2002, respectively:

<u>Operating income (loss):</u>	<u>2003</u>	<u>2002</u>	<u>Change</u>
		(in millions)	
Total regions	\$ 35.3	\$ 29.2	\$ 6.1
Corporate	(28.2)	(27.8)	(0.4)
Operating income before restructuring charges	7.1	1.5	5.7
Restructuring charges	(29.4)	(48.5)	19.1
Consolidated operating loss	<u>\$(22.3)</u>	<u>\$(47.1)</u>	<u>\$ 24.8</u>

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

The decrease in the consolidated operating loss was primarily due to lower restructuring charges and improved profitability in the geographic regions.

In North America, operating income in 2003 increased \$2.3 million to \$36.0 million from \$33.7 million in 2002. The decline of \$22.2 million in North America's net revenue was offset by \$18.0 million of lower fixed salaries and employee benefits expense, including a benefit from the forfeiture of certain restricted stock units and a reduction of accruals for employee benefits expense, a benefit of \$0.6 million related to the reversal of accruals for the Performance Share Program which were recorded in 2002 and \$9.5 million of lower discretionary spending and lower facilities-related expenses. Most of the cost savings are attributable to the reductions in workforce, and the consolidation and closing of offices, that have occurred since the 2002 first quarter. The cost reductions were offset by a \$3.6 million increase in performance-based compensation expense for executive search consultants and support staff.

In Latin America, operating income was \$0.9 million in 2003 compared to an operating loss of \$2.8 million in 2002. The operating loss in 2002 included \$1.7 million of costs associated with converting certain wholly-owned subsidiaries to licensees and an adjustment for value-added taxes.

In Europe, the operating loss was \$3.8 million in 2003, an increase of \$0.6 million, compared to an operating loss of \$3.2 million in 2002. The operating loss in 2003 includes approximately \$2.0 million of



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severance-related expenses. Excluding these severance-related expenses, which we believe more appropriately reflects our core operations, Europe's operating loss in 2003 would have been \$1.9 million, a decrease of \$1.3 million, compared to the \$3.2 million operating loss in 2002. The decline in net revenue of \$11.4 million was offset by \$10.4 million of lower fixed salaries and employee benefits expense, a reduction in bad debt expense of \$2.7 million, \$2.8 million of lower discretionary spending and approximately \$2.2 million of lower systems-related spending. These cost savings reflect the reductions in workforce and cost reduction initiatives which have occurred since the first quarter of 2002. These cost savings were partially offset by a \$5.4 million increase in performance-based compensation expense for executive search consultants and support staff.

In Asia Pacific, operating income in 2003 was \$2.3 million, an increase of \$0.8 million, compared to operating income of \$1.5 million in 2002. The increase was attributable to the increase in net revenue of \$0.5 million and lower fixed salaries and employee benefits expense.

Unallocated corporate expenses increased \$0.4 million, or 1.4%, to \$28.2 million in 2003 from \$27.8 million in 2002. Corporate expenses in 2003 include \$6.1 million of severance-related expenses for the separation agreements of three executives. Excluding these severance expenses, which we believe more appropriately reflects our core operations, unallocated corporate expenses would have been \$22.1 million, a decrease of \$5.7 million, or 20.5%, compared to 2002. This decline in corporate expenses reflects \$3.2 million of lower salaries and employee benefits expense and \$3.8 million of lower systems-related spending and operating expenses, partially offset by \$1.3 million of higher infrastructure-related costs.

Restructuring charges were \$29.4 million in 2003 compared to \$48.5 million in 2002. The restructuring charges are explained in the preceding section captioned, *2003 and 2002 Restructuring charges*.

*Net non-operating income (expense)*. The following table presents the components of our net non-operating income (expense) for 2003 and 2002, respectively:

<u>Non-operating income (expense):</u>	<u>2003</u>	<u>2002</u>	<u>Change</u>
	(in millions)		
Interest income	\$ 1.7	\$ 2.0	\$ (0.3)
Interest expense	(0.2)	(0.2)	—
Realized and unrealized gains (losses) on equity and warrant portfolio:			
Realized gains on investments	0.7	1.6	(0.9)
Unrealized losses on derivative instruments	—	(3.0)	3.0
	<u>0.7</u>	<u>(1.3)</u>	<u>2.0</u>
Write-down of long-term investment	—	(5.0)	5.0
Other, net	(1.7)	(0.1)	(1.6)
	<u>\$ 0.5</u>	<u>\$(4.6)</u>	<u>\$ 5.1</u>

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

Interest income in 2003 was approximately \$1.7 million compared to \$2.0 million in 2002. The decline is primarily due to lower returns on invested cash balances.

We receive warrants for equity securities in our client companies, in addition to our cash fee, for services rendered on some searches. The warrants are recorded at fair value. Some of the warrants in our portfolio meet the definition of a derivative instrument under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its subsequent amendments. In accordance with SFAS No. 133, subsequent changes in the fair value of these derivative instruments are recorded in the Consolidated Statements of Operations rather than as a component of accumulated other comprehensive income. Warrants which do not meet the definition of

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a derivative instrument are regularly reviewed for declines in value. Upon a value event such as an initial public offering or an acquisition, the equity securities arising from the exercise of the warrants are monetized, resulting in a realized gain, net of the consultants' share of the gain and other costs.

During 2003, we recognized \$0.7 million of realized gains and less than \$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 2002, we recognized \$1.6 million of realized gains and \$3.0 million of unrealized losses, net of the consultants' share of the gains (losses) and other costs, related to our equity and warrant portfolio. With improvements in economic conditions, it is possible, although not certain, that we could realize gains which are significant to our reported earnings in the future.

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

Net other non-operating expense was \$1.7 million in 2003 compared to \$0.1 million in 2002. Other non-operating expense consists primarily of exchange gains and losses on intercompany balances which are denominated in currencies other than the functional currency and which are not considered permanent in nature.

*Income taxes.* In 2003, we had a pre-tax loss of \$21.8 million and recorded income tax expense of \$58.8 million. 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. and foreign operations which comprise the U.S. income tax entity. Judgment is required in developing our income tax provision, including the determination of deferred tax assets and liabilities and any valuation allowances that might be required against the deferred tax assets. In assessing the need for a valuation allowance, we considered all positive and negative evidence, including scheduled reversals of deferred tax liabilities, tax-planning strategies, projected future taxable income and recent financial performance. In 2003, 2002 and 2001, we reported net losses, primarily due to restructuring activities necessary to align our cost structure with expected net revenue levels. SFAS No. 109, "Accounting for Income Taxes," states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years. Based upon the provisions of SFAS No. 109, we recorded, in the fourth quarter of 2003, a full valuation allowance against our net deferred tax assets.

The income tax expense recorded in 2003 also includes an expense of \$4.3 million, recorded in the first half of 2003, to reduce certain deferred tax assets, representing the excess of expense for accounting purposes over the deduction for tax purposes, required to be recorded upon the vesting of restricted stock units. In prior years, a portion of executive search consultant and management compensation was granted in restricted stock units at the then-average market price of approximately \$39 per share. This price served as the basis for the compensation expense and the related tax benefit and deferred tax asset. The restricted stock units vested in 2003 at an average market price of approximately \$12 per share. As this share price serves as the basis for the current tax deduction, we will realize a smaller tax benefit than initially recorded. Accordingly, we adjusted the deferred tax asset to reflect the lower tax benefit.

In 2002, we had a pre-tax loss of \$51.7 million and an income tax benefit of \$11.5 million. The effective tax benefit rate in 2002 was 22.2%, reflecting valuation allowances related to the recoverability of foreign tax credits, foreign net operating losses and other tax-related allowances. In addition, the income tax benefit in 2002 is reduced by approximately \$0.8 million of additional provision for income taxes in certain Latin American subsidiaries. The income tax provision and related current and deferred tax balances are more fully described in Note 6, *Income Taxes*, in the Notes to Consolidated Financial Statements.

We anticipate that the effective tax rate will continue to fluctuate in the future due to the mix of earnings and profits in the jurisdictions in which we operate. In 2004, we anticipate that we will generate a loss for U.S. income tax purposes, due primarily to the timing of tax deductions related to our restructuring charges, and

therefore do not anticipate recording or paying any U.S. income tax in 2004. We will however continue to record and pay income tax expense for certain of our foreign operations. While the Company expects to be profitable in 2004 and beyond, there is no assurance that future taxable income will be sufficient to realize the benefit of the deferred tax assets. If after future assessments of the realizability of the deferred tax assets, we determine a lesser allowance is required, we would record a reduction to the income tax expense and the valuation allowance in the period of such determination.

## 2002 Compared to 2001

*Total revenue.* Consolidated total revenue decreased \$110.8 million, or 22.7%, to \$376.8 million in 2003 from \$487.6 million in 2002. The decline in total revenue was due primarily to the decline in revenue before reimbursements (net revenue).

*Revenue before reimbursements (net revenue).* Consolidated net revenue decreased \$104.8 million, or 23.0%, to \$350.7 million in 2002 compared to \$455.5 million in 2001. Excluding the effect of exchange rate changes of \$5.5 million, net revenue declined approximately 24%. We believe information regarding changes in net revenue excluding the impact of exchange rate fluctuations is helpful in providing an understanding of the volume of business activity. The decline was due to decreased demand for our executive search services across most industries and disciplines, especially in our Technology and Financial Services practices. The number of confirmed executive searches decreased 20% from 2001. We believe this decrease reflects the impact of the global economic slowdown.

Net revenue in North America was \$194.2 million in 2002, a decrease of \$63.9 million, or 24.8%, from \$258.1 million in 2001. Increases in our Consumer and Professional Services practices were more than offset by declines in our Technology and Financial Services practices. In Latin America, net revenue decreased \$3.5 million, or 24.2%, to \$11.0 million in 2002 from \$14.5 million in 2001, as the region felt the effects of weak U.S. and local economies and political turmoil in some countries. Most of the practices reported declines. Net revenue in Europe decreased \$31.3 million, or 20.1%, to \$124.4 million in 2002 from \$155.7 million in 2001. Excluding the impact of exchange rate changes of \$5.2 million, Europe's net revenue declined approximately 24%. Most practices experienced declines in net revenue from 2001 to 2002. In Asia Pacific, net revenue was \$21.1 million in 2002, a decrease of \$6.1 million, or 22.5%, from \$27.2 million in 2001. Excluding the impact of exchange rate changes of \$0.3 million, Asia Pacific's net revenue decreased approximately 24% compared to 2001. Increases in the region's Professional Services and Higher Education/Nonprofit practices were more than offset by declines in the Financial Services, Technology, and other practices.

*Salaries and employee benefits.* Consolidated salaries and employee benefits expense decreased \$60.5 million, or 20.0%, to \$242.3 million in 2002 from \$302.8 million in 2001. The decrease was primarily attributable to \$23.2 million of lower accruals for performance-based compensation, related in part to the lower net revenue, and \$37.3 million of lower fixed costs as a result of the elimination of more than 1,000 positions, or approximately 40% of our workforce, since June 2001. As a percentage of net revenue, salaries and employee benefits expense increased to 69.1% in 2002 from 66.5% in 2001. This increase as a percentage of net revenue was primarily due to the impact of lower net revenue against our fixed salaries and employee benefits expense, partially offset by a lower percentage of net revenue being accrued for performance-based compensation for executive search consultants, management and support staff. The average number of executive search consultants in 2002 was 391, a decrease of 23%, compared to an average of 507 in 2001.

*General and administrative expenses.* Consolidated general and administrative expenses decreased \$50.5 million, or 32.1%, to \$106.9 million in 2002 from \$157.4 million in 2001. This decrease was due to \$21.3 million of lower discretionary spending, \$18.6 million of lower bad debt expense, and \$8.1 million of lower infrastructure expense and other cost savings primarily from the consolidation and closing of offices. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," we did not record goodwill amortization in 2002. In 2001, general and administrative expenses included \$2.5 million of goodwill amortization. As a percentage of net revenue, general and administrative expenses decreased to 30.5% in 2002 from 34.6% in 2001.

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**2002 and 2001 Restructuring charges.** In 2002, we recorded restructuring charges of \$48.5 million related to reductions in our workforce and the consolidation and closing of offices. In 2001, we recorded restructuring charges of \$53.2 million related to reductions in our workforce, the consolidation and closing of offices, and the settlement of a former Chief Executive Officer's contract upon his retirement. The following table summarizes the workforce reductions as well as the restructuring charges related to the announced initiatives:

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

Note: Consultants include both executive and management search consultants.  
Totals and subtotals may not equal the sum of individual line items due to rounding.

In June 2001, we announced a reduction of our workforce. The actions affected 300 people, or 13% of the firm's global workforce. Of the reductions, 69 were executive and management search consultants and the remainder was support staff in executive and management search and in the corporate departments. Nearly two-thirds of the layoffs were in North America, 24% were in Europe, and the rest were in Latin America and Asia Pacific. As a result of this workforce reduction, we recorded restructuring charges of \$10.4 million in the nine months ended September 30, 2001, primarily for severance and related costs. The charges were substantially all cash.

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

As a result of the actions announced in October 2001, we recorded restructuring charges of \$42.8 million in the 2001 fourth quarter and \$23.2 million in the 2002 first quarter.

The restructuring charges of \$42.8 million recorded in the 2001 fourth quarter included \$15.0 million for severance and other employee-related costs, of which \$7.8 million relates to the settlement of a former Chief Executive Officer's contract upon his retirement. In addition, charges related to the consolidation and closing of offices were \$27.1 million, of which \$1.6 million is goodwill impairment related to the exit from South Africa and the Baltic region. The remainder of the charges, \$0.7 million, is primarily for other cash expenses incurred as

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a result of the announced actions. By segment, the restructuring charges recorded in the fourth quarter of 2001 were as follows: North America \$19.5 million; Europe \$14.2 million; Asia Pacific \$0.4 million; and Corporate \$8.7 million. Of the \$42.8 million of restructuring charges recorded in the 2001 fourth quarter, approximately \$39.4 million represents cash charges.

The 2002 first quarter restructuring charges of \$23.2 million include severance and other employee-related costs of \$10.4 million and \$12.8 million related to the consolidation and closing of offices. By segment, the restructuring charges recorded in the first quarter of 2002 are as follows: North America \$13.3 million; Latin America \$0.1 million; Europe \$7.0 million; Asia Pacific \$0.3 million; and Corporate \$2.5 million. Of the \$23.2 million of restructuring charges recorded in the 2002 first quarter, approximately \$15.2 million represents cash charges. No restructuring charges were recorded in the second or third quarters of 2002.

In October 2002, we announced additional reductions in our workforce and the consolidation and closing of offices, recording a charge of \$25.4 million. The actions affected 236 employees, of which 156 were in Europe. Of the reductions, 61 were executive and management search consultants and the remainder was support staff. Of the \$25.4 million of restructuring charges, \$12.2 million was for severance and related costs, \$10.6 million was facilities-related, and \$2.6 million was for the write-off of goodwill and other intangible assets. By segment, the restructuring charges recorded in the fourth quarter of 2002 were as follows: North America \$6.4 million; Latin America \$0.5 million; Europe \$17.7 million; Asia Pacific \$0.4 million; and Corporate \$0.4 million. Of the \$25.4 million of restructuring charges recorded in the fourth quarter of 2002, approximately \$20.9 million represents cash charges.

*Operating loss.* The following table summarizes our consolidated operating loss for the years ended December 31, 2002 and 2001, respectively:

<u>Operating income (loss):</u>	<u>2002</u>	<u>2001</u>	<u>Change</u>
		(in millions)	
Total regions	\$ 29.2	\$ 28.8	\$ 0.4
Corporate	(27.8)	(33.5)	5.7
Operating income (loss) before restructuring charges	1.5	(4.7)	6.2
Restructuring charges	(48.5)	(53.2)	4.7
Consolidated operating loss	<u>\$ (47.1)</u>	<u>\$ (57.9)</u>	<u>\$ 10.8</u>

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

Our consolidated operating loss was \$47.1 million in 2002, a decrease of \$10.8 million, compared to an operating loss of \$57.9 million in 2001. The decrease in the operating loss was primarily due to lower restructuring charges, lower corporate costs and improved profitability in the geographic regions. Operating income before restructuring charges, which we believe more appropriately reflects our core operations, increased \$6.2 million to \$1.5 million in 2002 from an operating loss before restructuring charges of \$4.7 million in 2001. The increase in operating income before restructuring charges was driven by a \$60.5 million reduction in salaries and employee benefits expense due to reductions in our workforce and lower accruals for performance-based compensation, and a \$50.5 million reduction of general and administrative expenses due to reduced spending on discretionary items, reductions in bad debt expense, and savings from office consolidations and closings. These cost reductions more than offset the \$104.8 million decline in net revenue in 2002 compared to 2001.

In North America, operating income for 2002 increased \$9.7 million to \$33.7 million from \$24.0 million in 2001. The decline of \$63.9 million in North America's net revenue was offset by \$33.9 million of lower salaries and employee benefits expense, \$19.4 million of lower bad debt expense and \$20.3 million of lower discretionary spending and facilities-related expenses. Most of the cost savings are attributable to the reductions in workforce, and the consolidation and closing of offices which have occurred since June 2001.

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

In Europe, the operating loss was \$3.2 million in 2002, compared to operating income of \$4.9 million in 2001. The decline of \$8.1 million was attributable to a \$31.3 million decline in Europe's net revenue, partially offset by \$6.6 million of lower discretionary spending and \$18.6 million of lower salaries and employee benefits expense reflecting the lower net revenue and lower headcount due to the reductions in workforce which have occurred since June 2001, partially offset by \$2.0 million of higher bad debt expense. The initiatives announced in the fourth quarter of 2002 were expected to improve the European region's profitability in 2003.

In Asia Pacific, operating income in 2002 was \$1.5 million compared to operating income of \$1.9 million in 2001. The decline in operating income of \$0.4 million was attributable to a decline in net revenue of \$6.1 million, partially offset by \$3.6 million of lower salaries and employee benefits expense and \$2.1 million of lower general and administrative expenses, primarily bad debt expense.

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

The restructuring charges incurred in 2002 and 2001 of \$48.5 million and \$53.2 million, respectively, are explained in the preceding section captioned, *2002 and 2001 Restructuring charges*.

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

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

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

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

We receive warrants for equity securities in our client companies, in addition to our cash fee, for services rendered on some searches. The warrants are recorded at fair value. Some of the warrants in our portfolio meet the definition of derivative instruments under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its subsequent amendments. In accordance with SFAS No. 133, subsequent changes in

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the fair value of these derivative instruments are recorded in the Consolidated Statements of Operations rather than as a component of accumulated other comprehensive income. Upon a value event such as an initial public offering or an acquisition, the equity securities arising from the exercise of the warrants are monetized, resulting in a realized gain, net of the consultants' share of the gain and other costs. During 2002, we recognized \$1.6 million of realized gains and \$3.0 million of unrealized losses, net of the consultants' share of the gains (losses) and other costs, related to our equity and warrant portfolio. During 2001, we recognized \$1.0 million of realized gains and \$4.7 million of unrealized losses, net of the consultants' share of the gains (losses) and other costs, related to our equity and warrant portfolio.

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

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

*Income taxes.* In 2002, the effective tax benefit rate was 22.2%, reflecting valuation allowances related to the recoverability of foreign tax credits, foreign net operating losses and other tax-related allowances. In 2001, the effective tax benefit was 33.7%. During 2002, we had a pre-tax loss of \$51.7 million compared to a loss before taxes and the cumulative effect of the accounting change, of \$71.5 million in 2001. The decline in the effective tax benefit rate in 2002 compared to 2001 is due primarily to the recording of valuation allowances related to the recoverability of foreign tax credits, foreign net operating losses and other tax-related allowances.

### **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 together with the funds expected to be generated from operations and funds available under our committed line of credit will be sufficient to finance our operations for the foreseeable future, as well as to finance the cash payments associated with our restructuring charges. We historically have paid a portion of our bonuses in December and the remainder in March. Employee bonuses are accrued throughout the year and are based on our performance and the performance of the individual employee. Our ability to undertake acquisitions may depend, in part, on access to additional funds.

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

Some deferred compensation arrangements with certain employees, which were executed prior to July 30, 2002, are structured as forgivable loans. The forgivable loans are accounted for as deferred compensation, and are therefore amortized to compensation expense over the forgiveness period. At December 31, 2003, we had \$0.9 million of deferred compensation structured as forgivable loans. The terms of a deferred compensation

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arrangement structured as a forgivable loan and granted to an executive officer are included in the employee's employment agreement as filed with the Securities and Exchange Commission.

*Lines of credit.* During 2003 and 2002, we had a \$50.0 million committed revolving credit facility. This facility was amended on April 29, 2003, November 27, 2002 and March 25, 2002, and would have expired on December 28, 2004. We paid a facility fee even if no portion of the line of credit was used. In addition, in February 2003, we entered into an uncommitted line of credit for \$5.0 million. There were no financial covenants or fees related to this unsecured line of credit.

In December 2003, we terminated the \$5.0 million uncommitted line of credit and replaced our \$50.0 million committed revolving credit facility with a new \$60.0 million committed revolving credit facility (the "Facility"). Under this Facility, we may borrow U.S. dollars, euros, sterling and other major traded currencies, as agreed by the banks. Borrowings under the Facility bear interest at the existing Alternate Base Rate or LIBOR plus a margin as determined by our compliance with certain tests of our financial condition. The Facility has financial tests we must meet or exceed relating to:

- fixed charge coverage (defined as consolidated EBITDAR minus consolidated capital expenditures to consolidated interest expense plus consolidated rental payments plus restricted payments.) (EBITDAR is defined as earnings before interest expense, taxes, depreciation, amortization and rental payments plus interest income);
- leverage (defined as consolidated total indebtedness to consolidated EBITDA plus interest income);
- current ratio (defined as current assets divided by current liabilities); and
- net worth.

The Facility sets limits on our ability to make acquisitions without bank approval and to incur additional debt outside of the Facility. We must pay a facility fee whether or not the Facility is used during the year.

In March 2004 we amended the Facility ("Amendment No. 1") to reduce the net worth covenant from \$145.0 million to \$110.0 million. This amendment was required as a result of the non-cash income tax expense of \$57.9 million, recorded in the fourth quarter of 2003, which provided a full valuation allowance for the net deferred tax assets related to the U.S. and foreign operations which comprise the U.S. income tax entity. See Note 6, *Income Taxes*, in the Notes to Consolidated Financial Statements.

There were no borrowings outstanding under the lines of credit at December 31, 2003 or December 31, 2002, nor were there any borrowings during the years ended December 31, 2003 and 2002, respectively. At December 31, 2003, after taking into effect Amendment No. 1, we were in compliance with the financial covenants of the Facility, and no event of default existed.

*Cash and cash equivalents.* Cash and cash equivalents at December 31, 2003 were \$119.3 million, an increase of \$9.1 million, compared to \$110.2 million at December 31, 2002.

*Cash from operating activities.* In 2003, cash provided by operating activities was \$10.4 million, reflecting our net loss, adjusted for non-cash items, a \$12.9 million reduction of net income taxes recoverable, which includes the refund of approximately \$15.0 million of U.S. income taxes paid in prior years arising from the carryback of net operating losses, partially offset by payments related to our restructuring charges and payments of bonuses in March and December 2003. In 2004, we anticipate that we will generate a loss for U.S. income tax purposes, due primarily to the timing of tax deductions related to our restructuring charges, and therefore do not anticipate paying U.S. income tax in 2004. We will however continue to record income tax expense and pay income taxes for certain of our foreign operations.



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In 2002, cash provided by operating activities was \$6.0 million, reflecting our net loss adjusted for non-cash items, a reduction of our trade receivables, and the \$16.6 million reduction of net income taxes recoverable, which includes the refund of approximately \$25.0 million of U.S. income taxes paid in prior years arising from the carryback of net operating losses to prior years and the recovery of estimated taxes paid in the first half of 2001, partially offset by the payments related to our restructuring charges and payment of bonuses in March 2002 and December 2002.

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

*Cash used in investing activities.* Cash used in investing activities was \$4.7 million in 2003, \$3.9 million in 2002 and \$22.8 million in 2001. The decline in the amount of cash used in investing activities in 2003 and 2002 compared to 2001 is due primarily to lower levels of capital expenditures and acquisitions of executive search firms.

During 2003 and 2002, we did not acquire any executive search firms. During 2001, we acquired three executive search firms for \$7.8 million, which was paid in cash, restricted stock units, shares of our common stock and notes payable.

Capital expenditures were \$5.8 million, \$5.2 million and \$24.1 million in 2003, 2002 and 2001, respectively. In 2003 and 2002, capital expenditures were primarily for computer equipment and software. In 2001, capital expenditures were primarily for office furniture and fixtures, leasehold improvements, and computer equipment and software. We anticipate that our capital expenditures for 2004 will be approximately \$8.0 million to \$10.0 million.

During 2003, 2002 and 2001, the amount of cash received from the sale of equity securities received as part of our warrant program, net of the consultants' share of the gain and other costs, was \$0.7 million, \$1.5 million and \$2.1 million, respectively.

*Cash used in financing activities.* Cash used in financing activities was \$2.0 million in 2003, \$1.8 million in 2002 and \$28.1 million in 2001. The cash used in financing activities is primarily for repurchases of our common stock and payments on debt related to acquisitions of executive search firms.

The repurchases of our common stock were made according to the March 6, 2001 Board of Directors' authorization for management to repurchase up to an aggregate of 2 million shares of our common stock with an aggregate purchase price up to \$100 million through March 5, 2003. From February 25, 2003 through March 5, 2003, we repurchased 288,000 shares of common stock for \$3.2 million. During 2002, we repurchased 4,032 shares of common stock for \$0.1 million. During 2001, we repurchased 1,445,500 shares of common stock for \$27.7 million.

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*Contractual obligations.* The following table presents our known contractual obligations as of December 31, 2003 and the expected timing of cash payments related to these contractual obligations:

<u>Contractual obligations:</u>	Payments due for the years ended December 31,				
	Total	2004	2005 and 2006	2007 and 2008	Thereafter
	(in millions)				
Long-term debt (1)	\$ 0.6	\$ 0.6	\$ —	\$ —	\$ —
Office space and equipment lease obligations (2)	146.5	30.0	45.9	36.4	34.2
Accrued restructuring charges - severance (3)	6.4	5.5	0.6	0.3	—
Asset retirement obligations (4)	1.4	—	—	0.3	1.1
Executives' separation agreements (5)	1.9	1.8	0.1	—	—
<b>Total</b>	<b>\$156.8</b>	<b>\$37.9</b>	<b>\$46.6</b>	<b>\$37.0</b>	<b>\$ 35.3</b>

(1) See Note 14, *Long-Term Debt*, in the Notes to Consolidated Financial Statements for additional information.

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

(3) See Note 3, *Restructuring Charges*, in the Notes to Consolidated Financial Statements for additional information.

(4) Represents the fair value of the obligation associated with a 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."

(5) Represents obligations for separation payments related to the resignations of our former Chief Executive Officer, the former President and Chief Operating Officer, and our Chief Financial Officer.

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, 2003. The obligations related to these employee benefit plans are described in Note 16, *Employee Benefit Plans*, and Note 17, *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.

### **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 in accordance with accounting principles generally accepted in the United States of America. Our significant accounting policies are discussed in Note 1, *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.

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:

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*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.

*Accruals related to the consolidation and closing of offices recorded as part of our restructuring charges.* In October 2003, October 2002, October 2001 and June 2001, we announced cost reduction initiatives to better align costs with expected revenue levels. These initiatives included the consolidation and closing of offices where we had long-term leases. At the time of the office closings and consolidations, we accrued the estimated costs associated with these actions. 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),” and Staff Accounting Bulletin No. 100, “Restructuring and Impairment Charges.” For cost reduction initiatives announced in the fourth quarter of 2003, 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 2003, we recorded \$22.2 million of restructuring charges to increase accruals for leased properties that had been identified as excess in previous office consolidation charges. The accruals for excess real estate were increased to reflect the expectation of longer vacancy periods due primarily to weakness in the real estate markets in which the leased properties are located. We believe that the accounting estimate related to accruals for the consolidation and closing of offices is a critical accounting estimate because it is highly susceptible to changes in the commercial real estate markets and the local regional economic factors where this leased office space is located.

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

Judgment is required in developing our income tax provision, including the determination of deferred tax assets and liabilities and any valuation allowances that might be required against the deferred tax assets. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including scheduled reversals of deferred tax liabilities, tax-planning strategies, projected future taxable income and recent financial performance. We reported net losses in 2003, 2002 and 2001, primarily as a result of recording restructuring charges in connection with aligning our cost structure with expected net revenue levels. SFAS No. 109, “Accounting for Income Taxes,” states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years. Based upon the provisions of SFAS No. 109, we recorded, in the fourth quarter of 2003, a non-cash income tax expense of \$57.9 million,

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providing a full valuation allowance against the net deferred tax assets for the U.S. and foreign operations which comprise the U.S. income tax entity. While we expect to be profitable in 2004 and beyond, there is no assurance that there will be sufficient future taxable income to realize the benefit of the deferred tax assets. If after future assessments of the realizability of the deferred tax assets, we determine a lesser allowance is required, we would record a reduction to the income tax expense and the valuation allowance in the period of such determination. In 2004, we anticipate that we will generate a loss for U.S. income tax purposes, due primarily to the timing of tax deductions related to our restructuring charges, and therefore do not anticipate recording any income tax expense or paying any U.S. income tax in 2004. We will however continue to record income tax expense and to pay income taxes for certain of our foreign operations.

We believe that the accounting estimate related to our income tax provision, deferred tax assets and liabilities and income taxes payable and recoverable is a critical accounting estimate because it is highly susceptible to our ability to generate taxable income in future years and to adequately provide for potential income tax-related liabilities.

*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 provisions of SFAS No. 142 require that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. Our reporting units are consistent with the reportable segments identified in Note 2, *Segment Information*, in the Notes to Consolidated Financial Statements. We determine the fair value of our reporting units using a discounted cash flow methodology with the assistance of an independent valuation firm. Under this approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step in order to determine the implied fair value of the reporting unit's goodwill and compare it to the carrying value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we must record an impairment loss equal to the difference.

The discounted cash flow approach, which we use to estimate the fair value of our reporting units, 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.

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.

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

In December 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities," which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. This Interpretation replaces FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," which was issued in January 2003. We will be required to apply Interpretation No. 46 (revised December 2003) to variable interests in variable interest entities created after December 31, 2003. We currently do not have any controlling financial interests that are within the scope of this Interpretation.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The Statement also includes required disclosures for financial instruments within its scope. The Statement was effective for instruments entered into or modified after May 31, 2003 and otherwise will be effective as of January 1, 2004, except for mandatorily redeemable financial instruments. For certain mandatorily redeemable financial instruments, the Statement will be effective on January 1, 2005. The effective date has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. We currently do not have any financial instruments that are within the scope of this Statement.

In December 2003, the FASB revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The disclosure requirements of SFAS 132 were revised to require more complete information in both annual and interim financial statements about pension and postretirement benefits as well as to increase the transparency of the financial reporting related to those plans and benefits. Except as noted, the revised disclosure requirements are effective for financial statements with fiscal years ending after December 15, 2003. The interim-period disclosures required by the revised Statement are effective for interim periods beginning after December 15, 2003. The additional disclosure of information about foreign plans required by the revised statement is effective for fiscal years ending after June 15, 2004. The adoption of the revisions of SFAS No. 132 will impact the disclosures related to our foreign pension plan, and is not expected to have a material impact on the Company's financial condition or results of operations.

**Quarterly Comparisons**

The following table sets forth certain financial information for each quarter of 2003 and 2002. 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							
	2003				2002			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Revenue before reimbursements (net revenue)	\$ 77,311	\$ 81,674	\$ 76,941	\$ 82,008	\$ 91,723	\$ 93,476	\$ 87,356	\$ 78,157
Operating income (loss) before restructuring charges	599	(1,641)	4,712	3,477	(4,987)	956	3,554	1,946
Restructuring charges	5,500(1)	—	1,413(2)	22,530(3)	23,169(5)	—	—	25,363(6)
Operating income (loss)	(4,901)	(1,641)	3,299	(19,053)	(28,156)	956	3,554	(23,417)
Income (loss) before income taxes	(5,041)	(1,520)	3,976	(19,239)	(27,285)	(5,227)	2,585	(21,726)
Provision for (benefit from) income taxes	1,696	1,089	2,924	53,135(4)	(9,550)	(1,830)	1,661	(1,772)
Net income (loss)	(6,737)	(2,609)	1,052	(72,374)	(17,735)	(3,397)	924	(19,954)
Basic earnings (loss) per common share	(0.37)	(0.14)	0.06	(3.95)	(0.98)	(0.19)	0.05	(1.10)
Diluted earnings (loss) per common share	(0.37)	(0.14)	0.05	(3.95)	(0.98)	(0.19)	0.05	(1.10)

- (1) During the first quarter of 2003, we recorded \$5.5 million of restructuring charges to increase accruals for leased properties that had been identified as excess in previously announced cost reduction initiatives.
- (2) During the third quarter of 2003, we recorded \$1.4 million of restructuring charges to increase accruals for leased properties that had been identified as excess in previously announced cost reduction initiatives.
- (3) During the fourth quarter of 2003, we recorded \$22.5 million of restructuring charges for severance related to reductions in our workforce, to increase accruals for leased properties that had been identified as excess in previously announced cost reduction initiatives, and to write-off goodwill and other intangible assets primarily related to a wholly-owned subsidiary in Finland which is expected to be converted to a licensee.
- (4) During the fourth quarter of 2003, we recorded a full valuation allowance against our net deferred tax assets for the U.S. and foreign operations which comprise the U.S. income tax entity. The increase in the valuation allowance, which resulted in a non-cash charge to income tax expense in the amount of \$57.9 million, was based on the provisions of SFAS No. 109, "Accounting for Income Taxes."
- (5) During the first quarter of 2002, we recorded \$23.2 million of restructuring charges related to the cost reduction initiatives announced in October 2001.
- (6) During the fourth quarter of 2002, we announced reductions in our workforce and the consolidation and closing of offices, and as a result recorded a restructuring charge of \$25.4 million in the fourth quarter of 2002.

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

*Derivative instruments.* We receive warrants for equity securities in our client companies, in addition to our cash fee, for services rendered on some searches. Some of the warrants meet the definition of a derivative instrument under Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and its subsequent amendments. The warrants are recorded at fair value. In accordance with SFAS No. 133, changes in the fair value of the derivatives are recorded in the Consolidated Statements of Operations. Each quarter’s results of operations are affected by the fluctuations in the fair value of these derivative instruments. Upon a value event such as an initial public offering or an acquisition, the equity securities arising from the exercise of the warrants are monetized, resulting in a realized gain, net of the consultants’ share of the gain and other costs. In 2003, 2002 and 2001, we recorded realized gains, net of the consultants’ share of the gain and other costs, of \$0.7 million, \$1.6 million, \$1.0 million, respectively, related to the equity and warrant portfolio. With improvements in economic conditions, it is possible, although not certain, that we could realize gains which are significant to our reported earnings in the future.

*Currency market risk.* With our operations primarily in North America, Latin America, Europe and Asia Pacific we conduct business using various currencies. Revenue earned in each country is generally matched with the associated expenses incurred, thereby reducing currency risk to earnings. However, because certain assets and liabilities are denominated in currencies other than the U.S. dollar, changes in currency rates may cause fluctuations in the valuation of such assets and liabilities. As the local currency of our subsidiaries has been designated as the functional currency, we are affected by the translation of foreign currency financial statements into U.S. dollars. Outside of North America, Europe is our largest region in terms of net revenue. A 1% change in the average exchange rate of the British pound and the euro would have increased or decreased our 2003 net loss by approximately \$0.3 million. For financial information by geographic segment, see Note 2, *Segment Information*, in the Notes to Consolidated Financial Statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

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CONSOLIDATED FINANCIAL STATEMENTS

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

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

We have audited the accompanying consolidated balance sheets of Heidrick & Struggles International, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the years then ended. In connection with our audits of the 2003 and 2002 consolidated financial statements, we have also audited the financial statement schedule for the years ended December 31, 2003 and 2002. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits. The 2001 consolidated financial statements and financial statement schedule of Heidrick & Struggles International, Inc. and subsidiaries as listed in the accompanying index were audited by other auditors who have ceased operations. Those auditors' reports, dated February 6, 2002, on the 2001 consolidated financial statements and financial statement schedule were unqualified, before the disclosures added and adjustments described in Notes 1, 2, and 11 to the consolidated financial statements, and included an explanatory paragraph that described the change in the Company's method of accounting for certain derivative financial instruments.

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

In our opinion, the 2003 and 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heidrick & Struggles International, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule for the years ended December 31, 2003 and 2002, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As described above, the 2001 consolidated financial statements of Heidrick & Struggles International, Inc. and subsidiaries as listed in the accompanying index were audited by other auditors who have ceased operations. As described in Note 11, these consolidated financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which was adopted by the Company as of January 1, 2002. In our opinion, the disclosures for 2001 in Note 11 are appropriate. As described in Note 1, the Company adopted the provisions of Emerging Issues Task Force Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-pocket' Expenses Incurred," in 2002, and the amounts in the 2001 consolidated statement of operations have been reclassified to conform to the current presentation. As described in Note 2, the Company changed the composition of its reportable segments in 2002, and the amounts in the 2001 consolidated financial statements relating to reportable segments have been restated to conform to the current composition of reportable segments. We audited the adjustments that were applied to reclassify the presentation of expense reimbursements and to restate the disclosures for reportable segments reflected in the 2001 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of Heidrick & Struggles International, Inc. and subsidiaries other than with respect to such adjustments and disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.

/s/ KPMG LLP

Chicago, Illinois  
February 18, 2004

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

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

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

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

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

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

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

/s/ ARTHUR ANDERSEN LLP

Chicago, Illinois,  
February 6, 2002

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

	December 31,	
	2003	2002
<b>Current assets:</b>		
Cash and cash equivalents	\$ 119,289	\$ 110,220
Accounts receivable, less allowance for doubtful accounts of \$4,785 and \$7,463 at December 31, 2003 and 2002, respectively	46,847	41,774
Other receivables	3,191	3,552
Prepaid expenses	9,022	11,881
Income taxes recoverable, net	—	10,896
Deferred income taxes, net	—	24,924
	<hr/>	<hr/>
Total current assets	178,349	203,247
<b>Property and equipment:</b>		
Leasehold improvements	27,416	27,385
Office furniture, fixtures and equipment	26,879	27,906
Computer equipment and software	49,959	46,414
	<hr/>	<hr/>
	104,254	101,705
Accumulated depreciation and amortization	(70,788)	(63,475)
	<hr/>	<hr/>
Property and equipment, net	33,466	38,230
<b>Other non-current assets:</b>		
Assets designated for retirement and pension plans	28,751	21,196
Investments	2,842	3,007
Other non-current assets	4,226	9,478
Goodwill	48,627	50,271
Other intangible assets, net	7,771	10,230
Deferred income taxes, net	—	32,176
	<hr/>	<hr/>
Total other non-current assets	92,217	126,358
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 304,032</b>	<b>\$ 367,835</b>

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

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

	December 31,	
	2003	2002
<b>Current liabilities:</b>		
Current maturities of long-term debt	\$ 568	\$ 1,161
Accounts payable	7,196	8,887
Accrued expenses—		
Salaries and employee benefits	61,275	67,514
Other	22,056	20,704
Current portion of accrued restructuring charges	18,090	20,705
Income taxes payable, net	4,349	—
	<hr/>	<hr/>
Total current liabilities	113,534	118,971
<b>Non-current liabilities:</b>		
Long-term debt, less current maturities	26	294
Retirement and pension plans	32,232	25,234
Non-current portion of accrued restructuring charges	27,698	18,531
Other non-current liabilities	4,729	5,094
	<hr/>	<hr/>
Total non-current liabilities	64,685	49,153
	<hr/>	<hr/>
<b>Total liabilities</b>	178,219	168,124
<b>Stockholders' equity:</b>		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, no shares issued at December 31, 2003 and 2002	—	—
Common stock, \$.01 par value, 100,000,000 shares authorized, of which 18,339,567 and 18,152,346 shares were outstanding at December 31, 2003 and 2002, respectively	196	196
Treasury stock at cost, 1,246,210 and 1,433,431 shares at December 31, 2003 and 2002, respectively	(21,898)	(27,421)
Additional paid in capital	250,093	260,445
Accumulated deficit	(106,895)	(26,227)
Cumulative foreign currency translation adjustment	6,712	(1,241)
Unrealized gain on available-for-sale investments, net of tax	—	57
Deferred stock-based compensation	(2,395)	(6,098)
	<hr/>	<hr/>
Total stockholders' equity	125,813	199,711
	<hr/>	<hr/>
<b>Total liabilities and stockholders' equity</b>	\$ 304,032	\$ 367,835

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,		
	2003	2002	2001
<b>Revenue:</b>			
Revenue before reimbursements (net revenue)	\$ 317,934	\$ 350,712	\$ 455,534
Reimbursements	22,683	26,133	32,065
<b>Total revenue</b>	<b>340,617</b>	<b>376,845</b>	<b>487,599</b>
<b>Operating expenses:</b>			
Salaries and employee benefits	223,537	242,330	302,792
General and administrative expenses	87,250	106,913	157,404
Reimbursed expenses	22,683	26,133	32,065
Restructuring charges	29,443	48,532	53,230
<b>Total operating expenses</b>	<b>362,913</b>	<b>423,908</b>	<b>545,491</b>
<b>Operating loss</b>	<b>(22,296)</b>	<b>(47,063)</b>	<b>(57,892)</b>
<b>Non-operating income (expense):</b>			
Interest income	1,687	2,018	5,523
Interest expense	(166)	(210)	(166)
Net realized and unrealized gains (losses) on equity and warrant portfolio	673	(1,325)	(3,703)
Write-down of long-term investments	—	(5,000)	(14,760)
Other, net	(1,722)	(73)	(517)
<b>Net non-operating income (expense)</b>	<b>472</b>	<b>(4,590)</b>	<b>(13,623)</b>
<b>Loss before income taxes and cumulative effect of accounting change</b>	<b>(21,824)</b>	<b>(51,653)</b>	<b>(71,515)</b>
Provision for (benefit from) income taxes	58,844	(11,491)	(24,094)
<b>Loss before cumulative effect of accounting change</b>	<b>(80,668)</b>	<b>(40,162)</b>	<b>(47,421)</b>
Cumulative effect of accounting change, net of tax	—	—	4,494
<b>Net loss</b>	<b>\$ (80,668)</b>	<b>\$ (40,162)</b>	<b>\$ (42,927)</b>
<b>Basic and diluted loss per common share:</b>			
Loss before cumulative effect of accounting change	\$ (4.43)	\$ (2.22)	\$ (2.52)
Cumulative effect of accounting change	—	—	0.24
<b>Total basic and diluted loss per common share</b>	<b>\$ (4.43)</b>	<b>\$ (2.22)</b>	<b>\$ (2.28)</b>
<b>Weighted average common shares outstanding:</b>			
Basic and diluted	18,217	18,107	18,839

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

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

	Common Stock		Treasury Stock	Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Deferred Stock-Based Compensation	Total
	Shares	Amount						
<b>Balance at December 31, 2000</b>	<b>19,373</b>	<b>\$ 194</b>	<b>\$ —</b>	<b>\$ 234,619</b>	<b>\$ 56,862</b>	<b>\$ 1,858</b>	<b>\$ (5,856)</b>	<b>\$ 287,677</b>
Net loss before cumulative effect of accounting change		—	—	—	(47,421)	—	—	(47,421)
Other comprehensive income (loss):								
Unrealized loss on available-for-sale investments, net of tax (pretax \$258)		—	—	—	—	(147)	—	(147)
Foreign currency translation adjustment		—	—	—	—	(4,002)	—	(4,002)
Cumulative effect of accounting change, net of tax (pretax \$7,882)		—	—	—	4,494	(3,581)	—	913
<b>Total comprehensive income (loss)</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>(42,927)</b>	<b>(7,730)</b>	<b>—</b>	<b>(50,657)</b>
Treasury and common stock transactions:								
Issuance of restricted stock units		—	—	22,295	—	—	(8,127)	14,168
Amortization of deferred compensation		—	—	—	—	—	4,024	4,024
Forfeitures of restricted stock units		—	—	(885)	—	—	52	(833)
Issuance of stock for acquisitions	20	—	—	430	—	—	—	430
Exercise of stock options	49	1	—	675	—	—	—	676
Net (purchases) re-issuances of treasury stock	(1,435)	—	(27,459)	68	—	—	—	(27,391)
Vesting of restricted stock units	34	—	—	(269)	—	—	—	(269)
Accrued compensation		—	—	1,766	—	—	—	1,766
<b>Balance at December 31, 2001</b>	<b>18,041</b>	<b>195</b>	<b>(27,459)</b>	<b>258,699</b>	<b>13,935</b>	<b>(5,872)</b>	<b>(9,907)</b>	<b>229,591</b>
Net loss		—	—	—	(40,162)	—	—	(40,162)
Other comprehensive income (loss):								
Unrealized gain on available-for-sale investments, net of tax (pretax \$83)		—	—	—	—	48	—	48
Foreign currency translation adjustment		—	—	—	—	4,640	—	4,640
<b>Total comprehensive income (loss)</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>(40,162)</b>	<b>4,688</b>	<b>—</b>	<b>(35,474)</b>
Treasury and common stock transactions:								
Issuance of restricted stock units		—	—	2,055	—	—	(2,055)	—
Amortization of deferred compensation		—	—	—	—	—	5,096	5,096
Forfeitures of restricted stock units		—	—	(2,900)	—	—	768	(2,132)
Issuance of common stock	47	—	—	332	—	—	—	332
Exercise of stock options	63	1	—	889	—	—	—	890
Net (purchases) re-issuances of treasury stock	1	—	38	63	—	—	—	101
Accrued compensation under performance share program		—	—	1,307	—	—	—	1,307
<b>Balance at December 31, 2002</b>	<b>18,152</b>	<b>196</b>	<b>(27,421)</b>	<b>260,445</b>	<b>(26,227)</b>	<b>(1,184)</b>	<b>(6,098)</b>	<b>199,711</b>
Net loss		—	—	—	(80,668)	—	—	(80,668)
Other comprehensive income (loss):								
Unrealized loss on available-for-sale investments, net of tax (pretax \$97)		—	—	—	—	(57)	—	(57)
Foreign currency translation adjustment		—	—	—	—	7,953	—	7,953
<b>Total comprehensive income (loss)</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>(80,668)</b>	<b>7,896</b>	<b>—</b>	<b>(72,772)</b>
Treasury and common stock transactions:								
Issuance of restricted stock units		—	—	3,203	—	—	(3,203)	—
Amortization of deferred compensation		—	—	—	—	—	5,167	5,167
Forfeitures of restricted stock units		—	—	(3,625)	—	—	1,739	(1,886)
Exercise of stock options	102	—	1,806	(145)	—	—	—	1,661
Purchases of treasury stock	(288)	—	(3,175)	—	—	—	—	(3,175)
Re-issuances of treasury stock	21	—	399	(91)	—	—	—	308
Vesting of restricted stock units, net of tax withholdings	353	—	6,493	(8,387)	—	—	—	(1,894)
Decrease in accrued compensation under performance share program		—	—	(1,307)	—	—	—	(1,307)
<b>Balance at December 31, 2003</b>	<b>18,340</b>	<b>\$ 196</b>	<b>\$ (21,898)</b>	<b>\$ 250,093</b>	<b>\$ (106,895)</b>	<b>\$ 6,712</b>	<b>\$ (2,395)</b>	<b>\$ 125,813</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,		
	2003	2002	2001
<b>Cash flows from operating activities:</b>			
Net loss	\$ (80,668)	\$ (40,162)	\$ (42,927)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	14,073	15,262	22,156
Loss on sale of property and equipment	27	339	901
Gain on sale of equity securities	(688)	(1,630)	(978)
Write-down of long-term investments	—	5,000	14,760
Deferred income taxes	59,333	(12,030)	(12,388)
Net unrealized loss on derivative instruments	15	2,955	4,681
Cumulative effect of accounting change, net of tax	—	—	(4,494)
Stock-based compensation expense, net	1,974	4,271	3,251
Restructuring charges	29,443	48,532	53,230
Cash paid for restructuring charges	(19,230)	(25,396)	(20,792)
Changes in assets and liabilities:			
Trade and other receivables	(978)	17,223	50,329
Accounts payable	(2,299)	(5,172)	3,337
Accrued expenses	(13,335)	(30,342)	(42,327)
Income taxes recoverable, net	12,856	16,583	(39,390)
Retirement and pension plan liabilities	2,231	2,887	(611)
Other assets and liabilities, net	7,650	7,710	(9,231)
Net cash provided by (used in) operating activities	10,404	6,030	(20,493)
<b>Cash flows from investing activities:</b>			
Acquisitions, net of cash acquired	—	—	(2,400)
Capital expenditures	(5,806)	(5,201)	(24,059)
Proceeds from sales of equity securities, net	688	1,457	2,147
Other, net	399	(204)	1,558
Net cash used in investing activities	(4,719)	(3,948)	(22,754)
<b>Cash flows from financing activities:</b>			
Proceeds from stock options exercised	1,661	890	676
Purchases of treasury stock	(3,175)	(81)	(27,721)
Payments on debt	(476)	(2,583)	(1,015)
Net cash used in financing activities	(1,990)	(1,774)	(28,060)
<b>Effect of foreign currency exchange rates on cash and cash equivalents</b>	5,374	1,180	(4,797)
<b>Net increase (decrease) in cash and cash equivalents</b>	9,069	1,488	(76,104)
<b>Cash and cash equivalents:</b>			
Beginning of year	110,220	108,732	184,836
End of year	\$ 119,289	\$ 110,220	\$ 108,732
<b>Supplemental disclosures of cash flow information</b>			
Cash paid (refunded) for—			
Interest	\$ 96	\$ 37	\$ 172
Income taxes, net	(12,136)	(15,335)	26,962
<b>Supplemental schedule of noncash financing and investing activities</b>			
Unrealized gain (loss) on available-for-sale investments	\$ (97)	\$ 83	\$ (258)
Debt from the acquisition of net assets	—	—	3,580
Issuance of stock for merger and acquisitions	—	—	430

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



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. Summary of Significant Accounting Policies**

*Nature of Business*

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

*Principles of Consolidation*

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

*Use of Estimates*

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

*Revenue Recognition*

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

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.

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

In May 2003, the EITF reached a consensus on Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables.” The consensus mandates how to identify whether goods or services or both that are to be delivered

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

separately in a bundled sales arrangement should be accounted for separately because, in the EITF's language, they are "separate units of accounting." The guidance can affect the timing of revenue recognition for such arrangements, even though it does not change rules governing the timing or pattern of revenue recognition of individual items accounted for separately. The Company adopted EITF Issue No. 00-21 in 2003 and reviews the terms and conditions of assignments to ensure compliance with the revenue recognition criteria in this accounting guidance.

*Salaries and Employee Benefits*

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

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

Some deferred compensation arrangements with certain employees, which were executed prior to July 30, 2002, are structured as forgivable loans. The forgivable loans are accounted for as deferred compensation, and are therefore amortized to compensation expense over the forgiveness period. At December 31, 2003, \$0.9 million of deferred compensation was structured as forgivable loans. The terms of a deferred compensation arrangement structured as a forgivable loan and granted to an executive officer are included in the employee's employment agreement as filed with the Securities and Exchange Commission.

*Stock-Based Compensation*

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

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

Had compensation expense been determined based upon fair value at the grant date for all awards in accordance with SFAS No. 123, the Company's pro forma net earnings and basic and diluted earnings per share for the years ended December 31, 2003, 2002 and 2001 would have been as follows:

	2003	2002	2001
<b>Net loss:</b>			
As reported	\$(80,668)	\$(40,162)	\$(42,927)
Add: Stock-based compensation expense already included in net income, net of tax in 2002 and 2001	1,974	2,520	1,918
Deduct: Pro forma employee compensation cost related to stock options, restricted stock units and the performance share program, net of tax in 2002 and 2001	(8,417)	(11,880)	(11,166)
<b>Pro forma</b>	<b>\$(87,111)</b>	<b>\$(49,522)</b>	<b>\$(52,175)</b>
<b>Basic and diluted loss per share:</b>			
As reported	\$ (4.43)	\$ (2.22)	\$ (2.28)
<b>Pro forma</b>	<b>(4.78)</b>	<b>(2.73)</b>	<b>(2.77)</b>

The weighted average fair value of options at their grant date during 2003, 2002 and 2001, were \$5.42, \$8.75, and \$20.50, respectively. The estimated fair value of each option granted is calculated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model were as follows:

	2003	2002	2001
Risk-free interest rate	2.6 %	4.4 %	4.9 %
Expected years until exercise	4.5	4.5	6.2
Expected stock volatility	50.0 %	52.0 %	61.3 %
Dividend yield	0%	0%	0%

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

See Note 15, *Stock-Based Compensation*, for additional information.

*Asset Retirement Obligations*

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires entities to recognize the fair value of a liability for legal obligations associated with the retirement of tangible long-lived assets in the period incurred, if a reasonable estimate of the fair value can be made. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company adopted SFAS No. 143 on January 1, 2003. The adoption of SFAS No. 143 did not have a material impact on the Company's financial condition or results of operations. Amounts related to asset retirement obligations, related primarily to the Company's obligation at the end of the lease term to return office space to the landlord in its original condition, are included in the financial statements as leasehold improvements and non-current liabilities.

*Income Taxes*

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities, applying enacted statutory tax rates in effect for the year in which the tax differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the

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

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. See Note 6, *Income Taxes*, for additional information.

*Earnings (Loss) per Common Share*

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

*Translation of Foreign Currencies*

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

*Cash and Cash Equivalents*

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

*Concentration of Credit Risk*

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of accounts receivable. Concentrations of credit risk with respect to accounts receivable are limited due to the Company's large number of clients and their dispersion across many different industries and geographies. At December 31, 2003, 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. As such, these factors may change over time causing the allowance level to adjust accordingly.

*Property and Equipment*

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful 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 and fixtures	5–10 years
Computer equipment and software	3–8 years

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

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

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

*Investments*

The Company's investments include warrants and equity securities in client companies that are received, in addition to the cash fee, for services rendered on some searches. Some of the warrants meet the definition of a derivative instrument under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its subsequent amendments, which the Company adopted on January 1, 2001. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. Changes in the fair value of these derivative instruments, during 2001 and prospectively, are recorded in the Consolidated Statement of Operations. Other warrants received and which do not meet the definition of a derivative under SFAS No. 133 are regularly reviewed for declines in fair value. Upon a value event such as an initial public offering or an acquisition, any equity securities arising from the exercise of a warrant are accounted for as available-for-sale investments.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. This statement is effective for contracts entered into or modified after June 30, 2003. The Company adopted SFAS No. 149 on July 1, 2003. The adoption of SFAS No. 149 did not have a material impact on the Company's financial condition or results of operations.

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

*Business Combinations*

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

*Goodwill and Other Intangible Assets*

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." Under the new rule, goodwill and intangible assets that have indefinite useful lives are no longer amortized. Rather, these assets are subject to, at a minimum, an annual assessment for impairment by applying a fair-value-based test. SFAS No. 142 also requires that intangible assets with finite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

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

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

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

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

See Note 11, *Goodwill and Other Intangible Assets*, for additional information.

*Impairment of Long-Lived Assets*

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," provides a single accounting model for long-lived assets to be disposed of. SFAS No. 144 also changes the criteria for classifying an asset as held for sale, broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The Company adopted SFAS No. 144 on January 1, 2002.

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

*Restructuring Charges*

For restructuring activities announced prior to January 1, 2003, the accruals for restructuring charges 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)," and SAB No. 100, "Restructuring and Impairment Charges."

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.

In the Consolidated Statements of Operations, the restructuring charges have been segregated on a separate line titled, "Restructuring charges." For segment reporting, the restructuring charges have been segregated and therefore do not impact the comparisons among years.

See Note 3, *Restructuring Charges*, for additional information.

*Guarantor Accounting*

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim and annual periods ending

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

after December 31, 2002. The Company adopted Interpretation No. 45 on January 1, 2003. The adoption of Interpretation No. 45 did not have a material impact on the Company's financial condition or results of operations.

See Note 19, *Guarantees*, for additional information.

*Reclassifications*

Certain amounts in previously issued financial statements have been reclassified to conform to the 2003 classifications.

**2. Segment Information**

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

In accordance with EITF Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred," reimbursements of out-of-pocket expenses are classified as revenue. For segment purposes, reimbursements are reported separately and therefore are not included in the net revenue by geographic region. The presentation required by EITF Issue No. 01-14 has no impact on the operating income (loss) of the geographic regions. The Company believes that analyzing trends in revenue before reimbursements (net revenue) and analyzing operating expenses as a percentage of net revenue more appropriately reflects the Company's core operations.

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

In conjunction with the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002, all goodwill and intangible assets have been assigned to the appropriate reporting unit.

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

The revenue, operating income (loss), depreciation and amortization, and capital expenditures, by segment, for the years ended December 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
<b>Revenue:</b>			
North America	\$ 172,043	\$ 194,241	\$ 258,142
Latin America	11,242	11,020	14,534
Europe	113,034	124,391	155,684
Asia Pacific	21,615	21,060	27,174
	<u>317,934</u>	<u>350,712</u>	<u>455,534</u>
Revenue before reimbursements (net revenue)	317,934	350,712	455,534
Reimbursements	22,683	26,133	32,065
	<u>340,617</u>	<u>376,845</u>	<u>487,599</u>
Total revenue	<u>\$ 340,617</u>	<u>\$ 376,845</u>	<u>\$ 487,599</u>
<b>Operating income (loss):</b>			
North America	\$ 35,994	\$ 33,711	\$ 24,017
Latin America	863	(2,775)	(1,986)
Europe	(3,818)	(3,209)	4,884
Asia Pacific	2,258	1,497	1,916
	<u>35,297</u>	<u>29,224</u>	<u>28,831</u>
Total regions	35,297	29,224	28,831
Corporate	(28,150)	(27,755)	(33,493)
	<u>7,147</u>	<u>1,469</u>	<u>(4,662)</u>
Operating income (loss) before restructuring charges	7,147	1,469	(4,662)
Restructuring charges	(29,443)	(48,532)	(53,230)
	<u>(22,296)</u>	<u>(47,063)</u>	<u>(57,892)</u>
Consolidated operating loss	<u>\$ (22,296)</u>	<u>\$ (47,063)</u>	<u>\$ (57,892)</u>
<b>Depreciation and amortization:</b>			
North America	\$ 5,631	\$ 5,760	\$ 6,616
Latin America	393	431	400
Europe	5,886	7,098	5,935
Asia Pacific	846	787	743
	<u>12,756</u>	<u>14,076</u>	<u>13,694</u>
Total regions	12,756	14,076	13,694
Corporate	1,317	1,186	8,462
	<u>14,073</u>	<u>15,262</u>	<u>22,156</u>
Total	<u>\$ 14,073</u>	<u>\$ 15,262</u>	<u>\$ 22,156</u>
<b>Capital expenditures:</b>			
North America	\$ 2,235	\$ 536	\$ 6,274
Latin America	71	104	685
Europe	1,174	1,790	12,765
Asia Pacific	814	210	377
	<u>4,294</u>	<u>2,640</u>	<u>20,101</u>
Total regions	4,294	2,640	20,101
Corporate	1,512	2,561	3,958
	<u>5,806</u>	<u>5,201</u>	<u>24,059</u>
Total	<u>\$ 5,806</u>	<u>\$ 5,201</u>	<u>\$ 24,059</u>



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

The identifiable assets, and goodwill and other intangible assets, by segment, at December 31, 2003 and 2002 are as follows:

	December 31,	
	2003	2002
<b>Identifiable assets:</b>		
North America	\$ 64,403	\$ 71,670
Latin America	5,139	4,367
Europe	138,057	142,467
Asia Pacific	21,165	21,964
	<hr/>	<hr/>
Total regions	228,764	240,468
Corporate	75,268	127,367
	<hr/>	<hr/>
Total	\$ 304,032	\$ 367,835
	<hr/>	<hr/>
<b>Goodwill and other intangible assets, net:</b>		
North America	\$ 22,099	\$ 22,810
Latin America	—	—
Europe	32,735	36,188
Asia Pacific	1,564	1,503
	<hr/>	<hr/>
Total regions	56,398	60,501
Corporate	—	—
	<hr/>	<hr/>
Total	\$ 56,398	\$ 60,501
	<hr/>	<hr/>

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

### 3. Restructuring Charges

In June 2001, October 2001, October 2002 and October 2003, the Company announced cost reduction initiatives to better align costs with expected net revenue levels. During 2001, 2002 and 2003 the Company recorded restructuring charges of \$53.2 million, \$48.5 million and \$29.4 million, respectively.

The following table summarizes the workforce reductions as well as the restructuring charges related to all announced initiatives:

Restructuring Charges by Announcement Date:	Employee Reductions			Restructuring Charges			
	Consultants	All Other	Total	Employee-related	Office Closings	Other Cash Charges	Total
<b>June 2001 Announcement:</b>							
Q2 2001	63	222	285	\$ 7,717	\$ —	\$ 446	\$ 8,163
Q3 2001	6	9	15	980	1,020	272	2,272
<b>Total</b>	<b>69</b>	<b>231</b>	<b>300</b>	<b>\$ 8,697</b>	<b>\$ 1,020</b>	<b>\$ 718</b>	<b>\$ 10,435</b>
<b>October 2001 Announcement:</b>							
Q4 2001	67	253	320	\$ 15,043	\$ 27,047	\$ 705	\$ 42,795
Q1 2002	51	115	166	10,373	12,796	—	23,169
<b>Total</b>	<b>118</b>	<b>368</b>	<b>486</b>	<b>\$ 25,416</b>	<b>\$ 39,843</b>	<b>\$ 705</b>	<b>\$ 65,964</b>
<b>October 2002 Announcement:</b>							
Q4 2002	61	175	236	\$ 12,187	\$ 13,176	\$ —	\$ 25,363
<b>2003 Announcements:</b>							
Q1 2003	—	—	—	\$ —	\$ 5,500	\$ —	\$ 5,500
Q3 2003	—	—	—	—	1,413	—	1,413
Q4 2003	7	25	32	3,946	18,584	—	22,530
<b>Total</b>	<b>7</b>	<b>25</b>	<b>32</b>	<b>\$ 3,946</b>	<b>\$ 25,497</b>	<b>\$ —</b>	<b>\$ 29,443</b>
<b>Restructuring Charges by Year:</b>							
Total 2001	136	484	620	\$ 23,740	\$ 28,067	\$ 1,423	\$ 53,230
Total 2002	112	290	402	\$ 22,560	\$ 25,972	\$ —	\$ 48,532
Total 2003	7	25	32	\$ 3,946	\$ 25,497	\$ —	\$ 29,443

Note: Consultants include both executive and management search consultants.  
Totals and subtotals may not equal the sum of individual line items due to rounding.

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

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

In October 2001, the Company announced additional reductions in its workforce, the consolidation and closing of offices, and the settlement of a former Chief Executive Officer's contract upon his retirement. These initiatives, which were completed during the 2002 first quarter, affected 486 employees, including 118 executive and management search consultants. The remaining employees were search and corporate support staff. Approximately 55% of the reduction was in North America, 35% was in Europe, and the rest in Latin America and Asia Pacific. As a result of these actions, the Company recorded \$42.8 million of restructuring charges in the fourth quarter of 2001. These charges include severance and other employee-related costs of \$15.0 million, of which \$7.8 million relates to the settlement of a former Chief Executive Officer's contract upon his retirement, and costs relating to the consolidation and closing of offices of \$27.1 million, of which \$1.6 million is goodwill impairment related to the exit from South Africa and the Baltic region. The remainder of the charges, \$0.7 million, is primarily for other cash expenses recorded as a result of the announced initiatives. By segment, the restructuring charges recorded in the fourth quarter of 2001 are as follows: North America \$19.5 million; Europe \$14.2 million; Asia Pacific \$0.4 million; and Corporate \$8.7 million. Of the \$42.8 million of restructuring charges recorded in the fourth quarter of 2001, approximately \$39.4 million represents cash charges. In addition, the Company recorded restructuring charges of \$23.2 million in the first quarter of 2002 related to these announced initiatives. The restructuring charges recorded in the first quarter of 2002 include severance and other employee-related costs of \$10.4 million and \$12.8 million related to the consolidation and closing of offices. By segment, the restructuring charges recorded in the first quarter of 2002 are as follows: North America \$13.3 million; Latin America \$0.1 million; Europe \$7.0 million; Asia Pacific \$0.3 million; and Corporate \$2.5 million. Of the \$23.2 million of restructuring charges recorded in the first quarter of 2002, approximately \$15.2 million represents cash charges.

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

In 2003, the Company recorded restructuring charges of \$29.4 million. The charges include severance and other employee-related costs of \$3.9 million related to reductions in workforce, primarily in Europe, expense of \$22.2 million to increase accruals for leased properties that had been identified as excess in previous office consolidation charges and \$3.3 million of expense for goodwill and other intangible impairment, related primarily to a wholly-owned subsidiary in Finland which is expected to be converted to a licensee. The workforce reductions, which occurred during the fourth quarter of 2003, affected 32 people, primarily in Europe, and included 7 executive search consultants. The accruals for excess real estate were increased to reflect the expectation of longer vacancy periods due primarily to weakness in the real estate markets in which the leased properties are located. The restructuring charges by segment are as follows: North America \$7.0 million; Europe \$22.1 million; and Corporate \$0.3 million. Of the \$29.4 million of restructuring charges recorded in 2003, approximately \$25.8 million represents cash charges.

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

The table below outlines the restructuring charges along with related cash payments, non-cash charges and amounts unpaid as of December 31, 2001, 2002 and 2003, respectively:

	Severance and Other Employee- Related Costs	Office Closings	Other Cash Charges	Total
Restructuring charges recorded in 2001	\$ 23,740	\$ 28,067	\$ 1,423	\$ 53,230
Cash payments	(18,759)	(877)	(1,156)	(20,792)
Non-cash charge	—	(3,908)	—	(3,908)
<b>Restructuring charges unpaid as of December 31, 2001</b>	<b>4,981</b>	<b>23,282</b>	<b>267</b>	<b>28,530</b>
Restructuring charges recorded in 2002	22,560	25,972	—	48,532
Cash payments	(12,635)	(12,494)	(267)	(25,396)
Non-cash charges	(2,903)	(9,527)	—	(12,430)
<b>Restructuring charges unpaid as of December 31, 2002</b>	<b>12,003</b>	<b>27,233</b>	<b>—</b>	<b>39,236</b>
Restructuring charges recorded in 2003	3,946	25,497	—	29,443
Cash payments	(9,506)	(9,724)	—	(19,230)
Non-cash charges	—	(3,661)	—	(3,661)
<b>Restructuring charges unpaid as of December 31, 2003</b>	<b>\$ 6,443</b>	<b>\$ 39,345</b>	<b>\$ —</b>	<b>\$ 45,788</b>

The majority of the amounts remaining to be paid as of December 31, 2003 relate to real estate leases which require cash payments until sub-leasing, or at such time in which negotiations with the lessor to terminate the lease are completed. Based on current estimates, of the \$45.8 million of restructuring charges unpaid as of December 31, 2003, approximately \$18.1 million is expected to be paid in 2004 with the remainder payable in years subsequent to 2004.

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

The realized and unrealized gains (losses), net of the consultants' share of the gains (losses) and other costs, for the years ended December 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
Realized gains on investments	\$ 688	\$ 1,630	\$ 978
Unrealized losses on derivative instruments	(15)	(2,955)	(4,681)
<b>Net realized and unrealized gains (losses) on equity and warrant portfolio</b>	<b>\$ 673</b>	<b>\$ (1,325)</b>	<b>\$ (3,703)</b>

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

**5. Comprehensive Income (Loss)**

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting comprehensive income (loss). Comprehensive income (loss) includes net income (loss) as currently reported under accounting principles generally accepted in the United States of America, and also considers the effect of additional economic events that are not required to be reported in determining net income (loss), but rather are reported as a separate component of stockholders' equity. The Company reports foreign currency translation gains and losses and unrealized gains and losses on available-for-sale investments, net of tax, as components of comprehensive income. The components of comprehensive loss for the years ended December 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
Net loss before cumulative effect of accounting change	\$(80,668)	\$(40,162)	\$(47,421)
Change in foreign currency translation adjustment	7,953	4,640	(4,002)
Change in unrealized gain on available-for-sale investments, net of tax	(57)	48	(147)
Cumulative effect of accounting change, net of tax	—	—	913
<b>Comprehensive loss</b>	<b>\$(72,772)</b>	<b>\$(35,474)</b>	<b>\$(50,657)</b>

**6. Income Taxes**

The sources of income (loss) before income taxes for the years ended December 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
United States	\$ (5,970)	\$(27,323)	\$(71,561)
Foreign	(15,854)	(24,330)	46
<b>Subtotal</b>	<b>(21,824)</b>	<b>(51,653)</b>	<b>(71,515)</b>
Cumulative effect of accounting change, pre-tax	—	—	7,882
<b>Loss before income taxes</b>	<b>\$(21,824)</b>	<b>\$(51,653)</b>	<b>\$(63,633)</b>

The provision for (benefit from) income taxes for the years ended December 31, 2003, 2002 and 2001 is as follows:

	2003	2002	2001
<b>Current—</b>			
Federal	\$ —	\$(12,446)	\$(14,041)
State and local	254	1,988	(2,752)
Foreign	2,413	12,375	6,919
<b>Deferred</b>	<b>56,177</b>	<b>(13,408)</b>	<b>(14,220)</b>
<b>Provision for (benefit from) income taxes, before income tax effect of cumulative accounting change</b>	<b>58,844</b>	<b>(11,491)</b>	<b>(24,094)</b>
Tax effect of cumulative effect of accounting change	—	—	3,388
<b>Total provision for (benefit from) income taxes</b>	<b>\$ 58,844</b>	<b>\$(11,491)</b>	<b>\$(20,706)</b>

**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, 2003, 2002 and 2001 to income taxes at the statutory U.S. federal income tax rate of 35% is as follows:

	2003	2002	2001
Income tax benefit at the statutory U.S. federal rate	\$ (7,638)	\$ (18,078)	\$ (22,271)
State income tax benefit, net of federal tax benefit	(224)	(1,588)	(3,690)
Nondeductible expenses	614	4,679	1,581
Effect of foreign tax credits	—	(15,127)	(1,823)
Foreign tax differential and branch taxes	2,292	4,120	1,390
Increase in valuation allowance	57,889	14,700	4,346
Vesting of restricted stock units	4,273	—	—
Other, net	1,638	(197)	(239)
	<u>          </u>	<u>          </u>	<u>          </u>
Total provision for (benefit from) income taxes	\$58,844	\$ (11,491)	\$ (20,706)

The deferred tax amounts have been classified in the Consolidated Balance Sheets as of December 31, 2003 and 2002 as follows:

	2003	2002
Current deferred tax assets	\$ 16,638	\$ 25,130
Current deferred tax liabilities	(117)	(206)
Valuation allowance	(16,521)	—
	<u>          </u>	<u>          </u>
Current deferred tax asset, net	—	24,924
	<u>          </u>	<u>          </u>
Non-current deferred tax assets	77,705	64,534
Non-current deferred tax liabilities	(7,616)	(8,715)
Valuation allowance	(70,089)	(23,643)
	<u>          </u>	<u>          </u>
Non-current deferred tax asset, net	—	32,176
	<u>          </u>	<u>          </u>
Net deferred tax assets	\$ —	\$ 57,100

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

The deferred tax assets and liabilities as of December 31, 2003 and 2002 are attributable to the following components:

	2003	2002
<b>Deferred tax assets attributable to:</b>		
Receivable allowances	\$ 1,648	\$ 3,012
Accrued vacations	1,254	1,648
Accrued bonuses	9,081	15,947
Liability for nonqualified retirement plans	6,239	5,813
Other accrued expenses	6,492	7,889
Leasehold improvements and equipment	2,438	3,860
Foreign net operating loss carryforwards	15,706	10,943
Write-down of investments	6,855	6,879
Goodwill	3,410	1,929
Accrued restructuring charges	17,331	14,629
Federal and state tax benefit on net operating loss carryforwards	10,874	4,100
U.S. foreign tax credit carryforwards	13,015	13,015
	<hr/>	<hr/>
Deferred tax assets, before valuation allowance	94,343	89,664
	<hr/>	<hr/>
<b>Deferred tax liabilities attributable to:</b>		
System development costs	(2,941)	(3,564)
Unrealized gain on equity and warrant portfolio	(1,280)	(1,338)
Other	(3,512)	(4,019)
	<hr/>	<hr/>
Deferred tax liabilities	(7,733)	(8,921)
	<hr/>	<hr/>
Valuation allowance	(86,610)	(23,643)
	<hr/>	<hr/>
Net deferred tax assets	\$ —	\$ 57,100
	<hr/>	<hr/>

Judgment is required in developing the Company's income tax provision, including the determination of deferred tax assets and liabilities and any valuation allowances that might be required against the deferred tax assets. In assessing the realizability of deferred tax assets, the Company considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In assessing the need for a valuation allowance, the Company considered all positive and negative evidence, including scheduled reversals of deferred tax liabilities, tax-planning strategies, projected future taxable income and recent financial performance. The Company generated net losses in 2003, 2002 and 2001, primarily as a result of recording restructuring charges in connection with aligning its cost structure with expected net revenue levels. SFAS No. 109, "Accounting for Income Taxes," states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years. Based upon the provisions of SFAS No. 109, the Company recorded a full valuation allowance to reduce its net tax assets for the U.S. and foreign operations which comprise the U.S. income tax entity, recording a non-cash income tax expense of \$57.9 million in the fourth quarter of 2003. In addition, the valuation allowance was increased by \$5.1 million related to foreign net operating losses.

At December 31, 2003, the Company has \$25.0 million of loss carryforwards related to the Company's U.S. tax filings. These losses will expire primarily in 2023. In addition, the Company has \$50.0 million of loss carryforwards related to its foreign tax filings. Depending on the tax rules of the foreign tax jurisdictions, the

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

losses can be carried forward indefinitely or the carryforward periods are limited, ranging from 5 years to 15 years. The Company also has U.S. foreign tax credits of \$13.0 million, which expire in 2004 through 2007.

While the Company expects to be profitable in 2004 and beyond, there is no assurance that there will be sufficient future taxable income to realize the benefit of the deferred tax assets, including the U.S. and foreign net operating losses. If after future assessments of the realizability of the deferred tax assets, the Company determines a lesser allowance is required, it would record a reduction to the income tax expense and the valuation allowance in the period of such determination.

The 2003 income tax expense also includes an expense of \$4.3 million, recorded in the first half of 2003, to reduce certain deferred tax assets, representing the excess of expense for accounting purposes over the deduction for tax purposes, required to be recorded upon the vesting of restricted stock units. In prior years, a portion of consultant and management compensation was granted in restricted stock units at the then-average market price of approximately \$39 per share. This price served as the basis for the compensation expense and the related tax benefit and deferred tax asset. The restricted stock units vested in 2003 at an average market price of approximately \$12 per share. As this share price serves as the basis for the current tax deduction, the Company will realize a smaller tax benefit than initially recorded. Accordingly, the Company adjusted the deferred tax asset to reflect the lower tax benefit.

As of December 31, 2003, the Company had undistributed earnings held in its foreign subsidiaries. The Company has not recognized a deferred tax liability for the undistributed earnings of its foreign operations that arose in 2003 and prior years because the Company currently does not expect to remit those earnings in the foreseeable future. Determination of the amount of unrecognized deferred tax liability related to undistributed earnings of foreign subsidiaries is not practicable. A deferred tax liability will be recognized if and when the Company is no longer able to demonstrate that it plans to permanently reinvest undistributed earnings.

**7. Cumulative Effect of Change in Accounting Principle**

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



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

**8. Basic and Diluted Earnings Per Common Share**

A reconciliation of the basic and diluted earnings (loss) per share, and the shares used in the computation, for the years ended December 31, 2003, 2002 and 2001 is as follows:

	2003	2002	2001
<b>Basic loss per common share:</b>			
Net loss available to common stockholders	\$(80,668)	\$(40,162)	\$(42,927)
Weighted average common shares outstanding	18,217	18,107	18,839
Basic loss per common share	\$ (4.43)	\$ (2.22)	\$ (2.28)
<b>Diluted loss per common share:</b>			
Net loss available to common stockholders	\$(80,668)	\$(40,162)	\$(42,927)
Weighted average common shares outstanding	18,217	18,107	18,839
Dilutive common shares	—	—	—
Weighted average diluted common shares outstanding	18,217	18,107	18,839
Diluted loss per common share	\$ (4.43)	\$ (2.22)	\$ (2.28)

For the years ended December 31, 2003, 2002 and 2001, there were approximately 0.7 million, 0.9 million and 1.0 million dilutive common shares, respectively, that were not included in the computation of the loss per common share because the effect of their inclusion would be anti-dilutive.

**9. Investments**

The Company had investments of \$2.8 million and \$3.0 million at December 31, 2003 and 2002, respectively. Investments primarily include the fair value of the Company's warrants and equity securities in publicly traded and private companies.

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

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

**10. Other Non-current Assets**

Other non-current assets primarily include the assets related to the non-current portion of deferred compensation and the non-current portion of prepaid rent. At December 31, 2003 and 2002, the Company had \$4.2 million and \$9.5 million of non-current assets, respectively.

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

**11. Goodwill and Other Intangible Assets**

*Goodwill*

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the Company's annual goodwill impairment test was performed in the fourth quarter of 2003 and 2002. A transitional goodwill impairment test was performed as of January 1, 2002, upon adoption SFAS No. 142. For each of these tests, the fair value of each of the Company's reporting units was determined using a discounted cash flow methodology with the assistance of an independent valuation firm. These impairment tests indicated that the fair value of each reporting unit exceeded its carrying amount. As a result, no impairment charge was recorded.

As a result of adopting SFAS No. 142, the Company ceased to record annual goodwill amortization of approximately \$2.5 million in 2002. Operating results excluding goodwill amortization for the years ended December 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
Reported net loss	\$(80,668)	\$(40,162)	\$(42,927)
Add back: Goodwill amortization, net of tax	—	—	2,027
<b>Adjusted net loss</b>	<b>\$(80,668)</b>	<b>\$(40,162)</b>	<b>\$(40,900)</b>
<b>Basic and diluted loss per common share:</b>			
Reported net loss	\$ (4.43)	\$ (2.22)	\$ (2.28)
Add back: Goodwill amortization, net of tax	—	—	0.11
<b>Adjusted net loss</b>	<b>\$ (4.43)</b>	<b>\$ (2.22)</b>	<b>\$ (2.17)</b>

Changes in the carrying amount of goodwill for the year ended December 31, 2003 were as follows:

	North America	Europe	Asia Pacific	Total
Balance at December 31, 2002	\$18,362	\$30,406	\$1,503	\$50,271
Earn-out payments	—	—	39	39
Impairment losses	—	(2,255)	—	(2,255)
Exchange rate fluctuations	—	550	22	572
<b>Balance at December 31, 2003</b>	<b>\$18,362</b>	<b>\$28,701</b>	<b>\$1,564</b>	<b>\$48,627</b>

As part of the cost reduction initiatives announced in October 2003, the Company wrote off \$2.3 million of goodwill. The write-down related primarily to a wholly-owned subsidiary in Finland which is expected to be converted to a licensee. The operation had been acquired in 2000.

As part of the cost reduction initiatives announced in October 2002, the Company exited a management search operation in Europe that had been acquired by the Company in 2001. This management search operation had not been fully integrated with the other operations in the Europe reporting unit. As a result of exiting this operation, the Company wrote off \$1.8 million of goodwill related to this operation.

As part of the cost reduction initiatives announced in October 2001, the Company wrote off approximately \$1.6 million of goodwill related to the Company's exit from South Africa and the Baltic region.

See Note 3, *Restructuring Charges*, for additional information.

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

*Other Intangible Assets*

As part of the cost reduction initiatives announced in October 2003, the Company wrote off \$1.1 million of intangible assets. The write-down related primarily to a wholly-owned subsidiary in Finland which is expected to be converted to a licensee. The operation had been acquired in 2000.

In connection with the restructuring charges recorded in 2002, the Company wrote off approximately \$0.5 million of intangible assets primarily related to the Company's exit from a management search operation in Europe that had been acquired by the Company in 2001.

See Note 3, *Restructuring Charges*, for additional information.

The carrying amount of amortizable intangible assets and the related accumulated amortization at December 31, 2003 and 2002 are as follows:

	Weighted Average Life	2003			2002		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	14.7	\$ 11,302	\$ (3,537)	\$ 7,765	\$ 13,046	\$ (3,290)	\$ 9,756
Other intangible assets	5.0	1,625	(1,619)	6	2,211	(1,737)	474
<b>Total</b>		<b>\$ 12,927</b>	<b>\$ (5,156)</b>	<b>\$ 7,771</b>	<b>\$ 15,257</b>	<b>\$ (5,027)</b>	<b>\$ 10,230</b>

The aggregate intangible amortization expense for the years ended December 31, 2003, 2002 and 2001 is as follows:

	2003	2002	2001
Aggregate intangible amortization expense	\$ 1,499	\$ 2,028	\$ 2,076

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

Year ended December 31,	
2004	\$881
2005	874
2006	874
2007	874
2008	874

**12. Business Combinations**

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

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

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

**13. Other Accrued Liabilities**

The components of other accrued liabilities at December 31, 2003 and 2002 are as follows:

	2003	2002
Deferred revenue	\$10,148	\$ 6,846
Accrued rent	2,542	2,928
Accrued sales and value-added taxes	2,986	2,511
Other	6,380	8,419
<b>Total</b>	<b>\$22,056</b>	<b>\$20,704</b>

**14. Long-Term Debt**

At December 31, 2003 and 2002, long-term debt consists of notes payable due as a result of acquisitions. The future principal payments on debt are as follows:

Year ended December 31,	
2004	\$568
2005	26
<b>Total</b>	<b>\$594</b>

The fair value of debt based on current rates for similar debt is estimated to be \$0.6 million at December 31, 2003.

**15. Stock-Based Compensation**

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

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

The Plan further provides that the total number of shares with respect to which incentive stock options may be granted shall not exceed 2,000,000. No incentive stock options have been granted under the Plan as of December 31, 2003.

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

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

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

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

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

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

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

The MSOP is designed to align the interests of executives and stockholders with the common goal of increasing stockholder value. It provides for annual grants of options. Generally, the options vest over a three-year period, are forfeited in the event the participant is not in the Company’s employ on the vesting date and have a five-year term.

The PSP provides long-term incentive compensation based on the Company’s cumulative performance and the price of the Company’s common stock measured at the end of a three-year award cycle. The awards are expressed as shares of the Company’s common stock and the participants will earn and be paid from zero to 150% of their performance shares based on the Company’s achievement against specific performance goals. The value of the PSP award at the payout date is determined by a combination of the Company’s performance against the specific performance goals and the price of the Company’s common stock on the payout date. Performance shares are paid in cash or shares of the Company’s common stock at the sole discretion of the Company. The cost of the performance shares is expensed over the three-year service period at an amount anticipated to be earned. During 2002, the compensation expense related to the 2002 PSP was \$1.3 million. During 2003, the Company reversed this accrual as the Company determined that the targets established for the 2002 – 2004 PSP cycle would not be achieved due primarily to the restructuring charges which were recorded in 2003. In addition, no expense was recorded for the 2003 PSP as the Company determined that, due to the restructuring charges recorded in 2003, the targets established for the 2003 – 2005 PSP cycle would not be achieved. In December 2003, the Compensation Committee of the Company’s Board of Directors determined that no further PSP awards will be granted.

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

*Restricted Stock Units*

Restricted stock unit activity for the three years ended December 31, 2003 is as follows:

	Number of Restricted Stock Units
<b>Outstanding on December 31, 2000</b>	458,541
Granted	758,510
Vested and converted to common stock	(53,800)
Forfeited	(21,034)
<b>Outstanding on December 31, 2001</b>	1,142,217
Granted	152,074
Vested and converted to common stock	(75,978)
Forfeited	(89,503)
<b>Outstanding on December 31, 2002</b>	1,128,810
Granted	262,264
Vested and converted to common stock	(500,145)
Forfeited	(146,629)
<b>Outstanding on December 31, 2003</b>	744,300

Total deferred compensation amortization expense for restricted stock units for 2003, 2002 and 2001 was \$5.2 million, \$5.1 million, and \$4.0 million, respectively. The weighted average fair value, at the time of grant, of restricted stock units granted during 2003, 2002 and 2001 was \$12.21, \$19.94 and \$27.41, respectively.

*Non-qualified Stock Options*

Activity for non-qualified stock options for the three years ended December 31, 2003 is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
<b>Outstanding on December 31, 2000</b>	2,740,239	\$ 28.85
Granted	950,677	33.98
Exercised	(48,644)	14.00
Forfeited	(184,803)	25.91
<b>Outstanding on December 31, 2001</b>	3,457,469	30.62
Granted	1,154,000	18.37
Exercised	(63,330)	14.00
Forfeited	(446,270)	31.06
<b>Outstanding on December 31, 2002</b>	4,101,869	27.44
Granted	920,000	12.01
Exercised	(102,846)	14.74
Forfeited	(1,419,615)	29.61
<b>Outstanding on December 31, 2003</b>	3,499,408	\$ 22.85

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

Information about non-qualified stock options at December 31, 2003 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-\$17.73	1,632,190	4.6	\$ 13.11	346,205	\$ 14.11
\$18.02-\$21.12	703,335	3.4	\$ 18.40	223,975	18.40
\$35.13-\$44.88	1,133,883	4.9	\$ 38.73	679,919	39.51
\$57.00-\$57.00	30,000	1.7	\$ 57.00	22,500	57.00
<b>\$11.90-\$57.00</b>	<b>3,499,408</b>	<b>4.4</b>	<b>\$ 22.85</b>	<b>1,272,599</b>	<b>\$ 29.19</b>

**16. Employee Benefit Plans**

*Qualified Retirement Plan*

The Company has a defined contribution retirement plan for all eligible employees in the United States. The plan contains a 401(k) provision which provides for employee tax-deferred contributions. The Company matched employee contributions on a two-for-one basis up to a maximum contribution of \$2,000 per participant for each of the years ended December 31, 2003, 2002 and 2001. 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. Plan expense for the years ended December 31, 2003, 2002 and 2001 was \$0.8 million, \$1.0 million and \$1.2 million, respectively. Discretionary contributions were not made for the years ended December 31, 2003, 2002 and 2001.

The plan allows participants the option of having their account balances or portions thereof invested in the Company's common stock. At December 31, 2003 and 2002, respectively, the plan held 661,230 and 953,720 shares of the Company's common stock.

*Nonqualified Retirement Plan*

The Company has a nonqualified retirement plan for employees in the United States classified as senior associates and senior information specialists. This plan provides for discretionary employer contributions. There was no plan expense for the years ended December 31, 2003 and 2002. The plan expense for the year ended December 31, 2001 was \$0.4 million. The liability for this retirement plan at December 31, 2003 and 2002, was \$0.7 million and \$0.9 million, respectively.

*Deferred Compensation Plans*

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

For the U.S. Plan, certain U.S.-based employees are given the opportunity to defer up to 100% of their eligible cash compensation into several different investment vehicles, including a Company stock fund. Cash deferrals must be made for a minimum of one year. These deferrals are always vested and are not subject to a risk of forfeiture. The U.S. Plan also allows participants to continue to defer beyond the mandatory initial two-year deferral period any share-based deferrals earned under the MIP. The extension of the deferral must be for a minimum of one year. As of December 31, 2003 and 2002, the compensation deferred in the U.S. Plan was \$1.2 million and \$0.9 million, respectively. As of December 31, 2003, the U.S. Plan was not funded.

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

For the U.K. Plan, certain U.K.-based employees are given the opportunity to waive the right to their annual discretionary bonus payment. The Company may then choose to make a contribution on the employee's behalf into an Employee Benefit Trust ("EBT"). The trustee of the EBT has full discretion over the administration and the EBT's choice of investments. The assets and liabilities of the EBT are included in the Consolidated Balance Sheets at December 31, 2003 and 2002. As of December 31, 2003, the compensation deferred in the U.K. Plan was \$2.6 million of which \$2.6 million was funded. As of December 31, 2002, the compensation deferred in the U.K. Plan was \$1.3 million of which \$0.4 million was funded.

**17. 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 following table provides a reconciliation of the benefit obligation for the years ended December 31, 2003 and 2002:

	2003	2002
<b>Change in benefit obligation:</b>		
Benefit obligation at January 1,	\$ 22,700	\$ 19,184
Service cost	668	618
Interest cost	1,278	1,104
Actuarial gain	(3,776)	(1,025)
Benefits paid	(820)	(531)
Translation difference	4,612	3,350
	<u>24,662</u>	<u>22,700</u>
Benefit obligation at December 31,	24,662	22,700
Unrecognized net gain (loss)	3,136	(532)
	<u>\$ 27,798</u>	<u>\$ 22,168</u>
<b>Accrued benefit cost at December 31:</b>		
Unfunded status of the plan	\$ 24,662	\$ 22,700
Unrecognized net gain (loss)	3,136	(532)
	<u>\$ 27,798</u>	<u>\$ 22,168</u>
<b>Assumptions:</b>		
Discount rate	5.25%	6.0%
Rate of compensation increase	2.50%	4.0%
<b>Components of net periodic benefit cost:</b>		
Service cost	\$ 668	\$ 618
Interest cost	1,278	1,104
	<u>\$ 1,946</u>	<u>\$ 1,722</u>

The pension benefits are fully reinsured within a group insurance contract with Victoria Lebensversicherung AG. The surrender value at December 31, 2003 and 2002 was \$26.2 million and \$21.2 million, respectively. Because the reinsurance is not segregated from the Company's assets for purposes of SFAS No. 87, "Employers' Accounting for Pensions," the reinsurance is not regarded as an asset with respect to the pension plan. This asset is included in the Consolidated Balance Sheets at December 31, 2003 and 2002, as a component of assets designated for retirement and pension plans.



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

**18. Line of Credit**

During 2003 and 2002, the Company had a \$50.0 million committed revolving credit facility. This facility was amended on April 29, 2003, November 27, 2002 and March 25, 2002, and would have expired on December 28, 2004. The Company paid a facility fee even if no portion of the line of credit was used. In addition, in February 2003, the Company entered into an uncommitted line of credit for \$5.0 million. There were no financial covenants or fees related to this unsecured line of credit.

In December 2003, the Company terminated the \$5.0 million uncommitted line of credit and replaced the \$50.0 million committed revolving credit facility with a new \$60.0 million committed revolving credit facility (the "Facility"). Under this Facility, the Company may borrow U.S. dollars, euros, sterling and other major traded currencies, as agreed by the banks. Borrowings under the Facility bear 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 Facility has financial tests the Company must meet or exceed relating to:

- fixed charge coverage (defined as consolidated EBITDAR minus consolidated capital expenditures to consolidated interest expense plus consolidated rental payments plus restricted payments.) (EBITDAR is defined as earnings before interest expense, taxes, depreciation, amortization and rental payments plus interest income);
- leverage (defined as consolidated total indebtedness to consolidated EBITDA plus interest income);
- current ratio (defined as current assets divided by current liabilities); and
- net worth.

The Facility sets limits on the Company's ability to make acquisitions without bank approval and to incur additional debt outside of the Facility. The Company must pay a facility fee whether or not the Facility is used during the year.

In March 2004, the Company amended the Facility ("Amendment No. 1") to reduce the net worth covenant from \$145.0 million to \$110.0 million. This amendment was required as a result of the non-cash income tax expense of \$57.9 million, recorded in the fourth quarter of 2003, which provided a full valuation allowance for the net deferred tax assets related to the U.S. and foreign operations which comprise the U.S. income tax entity. See Note 6, *Income Taxes*, for additional information.

There were no borrowings outstanding under the lines of credit existing at December 31, 2003 or December 31, 2002, nor were there any borrowings during the years ended December 31, 2003 and 2002, respectively, under the then existing lines of credit. At December 31, 2003, after taking into effect Amendment No. 1, the Company was in compliance with the financial covenants of the Facility, and no event of default existed.

**19. Guarantees**

The Company has issued guarantees on the payment of lease commitments for office space for certain subsidiaries in Europe and Asia Pacific. The guarantees were made to secure the respective lease agreements. The guarantees are for the term of the lease agreements, which extend through 2009. For each guarantee issued, if the subsidiary defaults on a lease payment, the Company would have to perform under the guarantee. The maximum amount of undiscounted payments the Company would be required to make in the event of default is approximately \$1.4 million as of December 31, 2003. No amount has been accrued for the Company's obligation under these guaranty arrangements.

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

**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 2016. 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, 2003, 2002 and 2001, was \$32.0 million, \$35.5 million and \$41.6 million, respectively.

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

	<u>Office leases</u>	<u>Equipment leases</u>	<u>Total</u>
<b>Year ending December 31,</b>			
2004	\$ 28,929	\$ 1,135	\$ 30,064
2005	24,164	692	24,856
2006	20,858	218	21,076
2007	19,221	58	19,279
2008	17,079	33	17,112
Thereafter	33,933	166	34,099
<b>Total</b>	<b>\$ 144,184</b>	<b>\$ 2,302</b>	<b>\$ 146,486</b>

The aggregate minimum future lease payments on office leases is \$144.2 million. The Company has contractual sub-lease arrangements to receive aggregate sublease income of \$11.3 million related to certain leases that expire at various dates through 2016. The sublease income relates to properties which were sublet as part of the office consolidations and closings announced in 2003, 2002 and 2001. See Note 3, *Restructuring Charges*, for additional information.

*Litigation*

The Company has contingent liabilities from various pending claims and litigation matters arising in the 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 position, results of operations or liquidity.

In December 2002, Mt. Sinai Medical Center of Miami filed suit against the Company regarding a search for a chief executive officer that the Company performed in 1998. The suit is pending in the U.S. District Court for the Southern District of Florida. The Company believes the claims made by Mt. Sinai have no merit and are vigorously defending against the claims. Following a failure to achieve a compromise in mediation, the judge in this case ruled on the Company's motion to dismiss the claims, and active discovery commenced. The judge dismissed all the claims made by Mt. Sinai other than a claim for a breach of the covenant of good faith and fair dealing. Most of the discovery in this matter was completed during the fourth quarter of 2003. During this period, Mt. Sinai clarified the damages it is seeking – (i) the fee paid for the chief executive officer search of \$169,000, (ii) fees paid for other searches of approximately \$500,000 and (iii) between \$59 million and \$75 million based

primarily upon the operating loss incurred by Mt. Sinai in 2001, the chief executive officer's last year at the hospital. The Company believes the claims made by Mt. Sinai are covered by our professional liability insurance policies with policy limits of \$20 million. While there can be no assurance as to the outcome, the Company believes that the claims are without merit and, as such, will not have a material adverse effect on the Company's financial position, results of operations or liquidity. The trial in the matter is expected to begin in July 2004.

## **21. Recently Issued Financial Accounting Standards**

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities," which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. This Interpretation replaces FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," which was issued in January 2003. The Company will be required to apply this Interpretation to variable interests in variable interest entities created after December 31, 2003. The Company currently does not have any controlling financial interests that are within the scope of this Interpretation.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The Statement also includes required disclosures for financial instruments within its scope. For the Company, the Statement was effective for instruments entered into or modified after May 31, 2003 and otherwise will be effective as of January 1, 2004, except for mandatorily redeemable financial instruments. For certain mandatorily redeemable financial instruments, the Statement will be effective for the Company on January 1, 2005. The effective date has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. The Company currently does not have any financial instruments that are within the scope of this Statement.

In December 2003, the FASB revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The disclosure requirements of SFAS 132 were revised to require more complete information in both annual and interim financial statements about pension and postretirement benefits as well as to increase the transparency of the financial reporting related to those plans and benefits. Except as noted, the revised disclosure requirements are effective for financial statements with fiscal years ending after December 15, 2003. The interim-period disclosures required by the revised Statement are effective for interim periods beginning after December 15, 2003. The additional disclosure of information about foreign plans required by the revised statement is effective for fiscal years ending after June 15, 2004. The adoption of the revisions of SFAS No. 132 will impact the disclosures related to our foreign pension plan and is not expected to have a material impact on the Company's financial condition or results of operations.

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

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

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

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

ARTHUR ANDERSEN LLP

Chicago, Illinois  
February 6, 2002

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

<u>Allowance for doubtful accounts:</u>	<u>Balance at Beginning of Year</u>	<u>Charged to Costs &amp; Expenses</u>	<u>Deduction Including Currency Translation</u>	<u>Balance at End of Year</u>
<u>Year Ended December 31,</u>				
2003	\$ 7,463	(989)	(1,689)	\$ 4,785
2002	\$ 13,749	1,871	(8,157)	\$ 7,463
2001	\$ 16,452	20,494	(23,197)	\$ 13,749

**See accompanying Reports of Independent Public Accountants.**

**PART II (continued)**

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

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

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

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

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

**ITEM 9A. CONTROLS AND PROCEDURES**

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

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

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

**(b) Changes in Internal Controls**

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

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS**

The information required by this Item will be included under the captions “Election of Directors,” “Nominees for Director,” “Class 2005 Directors,” and “Class 2006 Directors” in our 2004 Proxy Statement and is incorporated herein by reference. See also “Executive Officers” included in Part I of this report.

In addition, information required by this Item will be included under the caption “Audit Committee,” in our 2004 Proxy Statement and is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item will be included under the captions “Executive Compensation—Summary Compensation Table,” “Executive Compensation—Option Grant Table,” “Executive Compensation—Aggregated Option Exercises and Year-End Option Values” and “Employment Agreements” in our 2004 Proxy Statement and is incorporated herein by reference.

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

The information required by this Item will be included under the caption “Voting Securities of Certain Beneficial Owners and Management” in our 2004 Proxy Statement and is incorporated herein by reference.

**Equity Compensation Plan Information**

The following table sets forth additional information as of December 31, 2003, about shares of our common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements, divided between plans approved by our stockholders and plans or arrangements not submitted to the stockholders for approval.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders (1)	3,885,060(2)	\$ 22.85	2,623,024
Equity compensation plans not approved by stockholders (3)	358,648(4)	—	—
<b>Total equity compensation plans</b>	<b>4,243,708</b>	<b>\$ 22.85</b>	<b>2,623,024</b>

(1) For a description of the types of securities that may be issued under our GlobalShare Program I and GlobalShare Program II (collectively, the “Plan”), please read Note 15, *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 385,652 restricted stock units.

(3) For a description of the material terms of our Restricted Stock Unit Plan (the “RSU Plan”), please read Note 15, *Stock-Based Compensation*, in the Notes to Consolidated Financial Statements contained in Item 8 to this annual report on Form 10-K.

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



**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required by this Item will be included under the caption “Certain Relationships and Related Transactions” in our 2004 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 2004 Proxy Statement and is incorporated herein by reference.

**PART IV****ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K**

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

1. Index to Consolidated Financial Statements:

See Consolidated Financial Statements included as part of this Form 10-K beginning on page 39.

2. Financial Statement Schedules:

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3. 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 Hereto and JPMorgan Chase Bank, as Administrative Agent
10.02	Amendment No. 3 to Credit Agreement among Heidrick & Struggles International, Inc., the Lenders Party thereto and JPMorgan Chase Bank, as Administrative Agent (Incorporated by reference to Exhibit 10.01 of the Registrant's Form 10-Q Filed May 15, 2003)
10.03	Employment agreement of Thomas J. Friel (Incorporated by reference to Exhibit 10.01 of the Registrant's Form 10-Q filed on August 14, 2003)
10.04	Employment Agreement of Jocelyn Dehnert (Incorporated by reference to Exhibit 10.02 of the Registrant's Form 10-Q filed on May 15, 2003)
10.05	Employment Agreement of Kevin J. Smith (Incorporated by reference to Exhibit 10.14 of the Registrant's Form 10-Q filed on May 15, 2002)
*10.06	Employment Agreement of Gerard R. Roche
*10.07	Employment Agreement of Joie Gregor
*10.08	Employment Agreement of Fritz E. Freidinger
10.09	Separation Agreement of Piers Marmion (Incorporated by reference to Exhibit 10.02 of the Registrant's 10-Q filed August 14, 2003)
10.10	Separation Agreement of David Anderson (Incorporated by reference to Exhibit 10.03 of the Registrant's 10-Q filed August 14, 2003)
*10.11	Separation Agreement of Kevin J. Smith
10.12	Amended and Restated 1998 Heidrick & Struggles Global Share Program I and 1998 Heidrick & Struggles Global Share Program II (Incorporated by reference to Exhibit 10.08 of this Registrant's Form 10-K filed on March 26, 2003)

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<u>Exhibit No.</u>	<u>Description</u>
10.13	Heidrick & Struggles International, Inc. Restricted Stock Unit Plan (Incorporated by reference to Exhibit 4.03 of this Registrant's Registration Statement on Form S-8 (File No. 333-32544))
10.14	Amendment No. 1 to the Heidrick & Struggles Restricted Stock Unit Plan (Incorporated by reference to Exhibit 99.05 of the Registrant's Form 10-K filed on March 29, 2002)
10.15	Heidrick & Struggles International, Inc. Deferred Compensation Plan (Incorporated by reference to Exhibit 4.1 of this Registrant's Registration Statement on Form S-8 (File No. 333-82424))
10.16	Heidrick & Struggles International, Inc. Change in Control Severance Plan (Incorporated by reference to Exhibit 99.07 of the Registrant's Form 10-K filed on March 29, 2002)
*14.00	Excerpts of the Heidrick & Struggles Code of Business Conduct and Ethics that constitute a 'code of ethics' for purposes of Item 406 of Regulation S-K
*21.01	Subsidiaries of the Registrant
*23.01	Independent Auditors' Consent
*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) REPORTS ON FORM 8-K

On October 30, 2003 we furnished a report under Item 7 and Item 12 regarding a news release reporting our 2003 third quarter financial results.

On November 13, 2003 we furnished a report under Item 7 and Item 9 regarding our Investor Presentation.

On December 17, 2003 we filed a report under Item 5 and Item 7 announcing that Kevin J. Smith, our Chief Financial Officer, will leave the Company on March 31, 2004.

### (c) SEE EXHIBIT INDEX ABOVE

### (d) 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 March 12, 2004.**

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

By \_\_\_\_\_ /S/ KEVIN J. SMITH

Title \_\_\_\_\_ Chief Financial 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 March 12, 2004.**

<u>Signature</u>	<u>Title</u>
/S/ THOMAS J. FRIEL _____ Thomas J. Friel (principal executive officer)	Chairman, Chief Executive Officer and Director
/S/ KEVIN J. SMITH _____ Kevin J. Smith (principal financial and accounting officer)	Chief Financial Officer
/S/ RICHARD I. BEATTIE _____ Richard I. Beattie	Director
/S/ JOHN A. FAZIO _____ John A. Fazio	Director
/S/ ROBERT E. KNOWLING, JR. _____ Robert E. Knowling, Jr.	Director
/S/ GERARD R. ROCHE _____ Gerard R. Roche	Director
/S/ FREDERIC V. SALERNO _____ Frederic V. Salerno	Director
/S/ DOUGLAS C. YEARLEY _____ Douglas C. Yearley	Director

**[GRAPHIC]**

CREDIT AGREEMENT

dated as of

December 22, 2003

among

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

The Lenders Party Hereto

and

JPMORGAN CHASE BANK,  
as Administrative Agent

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JPMORGAN CHASE BANK,  
as Arranger

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Exhibit D	— Form of Commitment and Acceptance	



The parties hereto agree as follows:

ARTICLE I

Definitions

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

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

“Acquisition Amount” means \$75,000,000; provided that no more than \$40,000,000 of such amount shall be payable in cash for any acquisition or series of related acquisitions.

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

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

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

“Affected Foreign Subsidiary” is defined in the definition of Subsidiary Guarantor.

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

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

“Aggregate Commitment” means the total Commitments for all the Lenders.

“Alternate Base Rate” means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1%

and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate, respectively.

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

“Applicable Rate” means, for any day, with respect to any ABR Loan or Eurocurrency Revolving Loan, or with respect to the facility fees payable hereunder, as the case may be, the applicable rate per annum set forth below under the caption “ABR Spread”, “Eurocurrency Spread” or “Facility Fee Rate”, as the case may be, based upon the Pricing Ratios as reflected in the then most recently delivered Financials but subject to the following:

<u>Financial Test:</u>	<u>ABR Spread</u>	<u>Eurocurrency Spread</u>	<u>Facility Fee Rate</u>
Category 1: Leverage Ratio is greater than 1.00:1.00	0.250%	1.25%	0.500%
Category 2: Leverage Ratio is greater than 0.50:1.00 but less than 1.00:1.00	0.125%	1.125%	0.375%
Category 3: Leverage Ratio is less than or equal to 0.50:1.00 but Category 4 is not applicable	0%	1.000%	0.250%
Category 4: Leverage Ratio is less than or equal to 0.50:1.00 <u>and</u> Fixed Charge Coverage Ratio is greater than 2.00:1.00	0%	0.800%	0.200%

For purposes of the foregoing,

(i) if the Borrower fails to deliver the Financials to the Administrative Agent at the time required pursuant to Section 5.01, then Category 1 above shall be deemed to be applicable until the first Business Day of the calendar month immediately following the date on which such Financials are so received by the Administrative Agent;

(ii) adjustments, if any, to the Applicable Rate shall be effective on the first Business Day of the calendar month immediately following the date on which the Administrative Agent has received the applicable Financials; and

(iii) each determination of the Applicable Rate made by the Administrative Agent in accordance with the foregoing shall be conclusive and binding on the Borrower and each Lender (absent manifest error).

“Approved Fund” has the meaning assigned to such term in Section 9.04.

“Approximate Equivalent Amount” of any currency with respect to any amount of Dollars shall mean the Equivalent Amount of such currency with respect to such amount of Dollars on or as of such date, rounded up to the nearest amount of such currency as determined by the Administrative Agent from time to time.

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

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

“Availability Period” means the period from and including the Effective Date to but excluding the earlier of the Maturity Date and the date of termination of the Commitments pursuant to the terms hereof.

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

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

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

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

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

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

“Buying Lender” is defined in Section 2.23(b).

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

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

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

“Change in Control” means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof), of Equity Interests representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding Equity Interests of the Borrower; (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of the Borrower by Persons who were neither (i) nominated by the board of directors of the Borrower nor (ii) appointed by directors so nominated; or (c) the acquisition of direct or indirect Control of the Borrower by any Person or group.

“Change in Law” means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or the Issuing Bank (or, for purposes of Section 2.15(b), by any

lending office of such Lender or by such Lender's or the Issuing Bank's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

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

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

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

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

"Commitment" means, with respect to each Lender, the commitment of such Lender to make Revolving Loans and to acquire participations in Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's Revolving Credit Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.09, (b) increased from time to time pursuant to Section 2.23 and (c) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Commitment is set forth on Schedule 2.01, or in the Assignment and Assumption pursuant to which such Lender shall have assumed its Commitment, as applicable. The initial aggregate amount of the Lenders' Commitments is \$60,000,000.

"Commitment Increase Notice" is defined in Section 2.23(a).

"Computation Date" is defined in Section 2.04.

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

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

“Consolidated EBITDAR” means Consolidated Operating Income *plus*, (i) Consolidated Interest Income, (ii) depreciation, (iii) amortization, (iv) the Designated Charges and (v) Consolidated Rental Expense, all calculated for the Borrower and its Subsidiaries in accordance with GAAP on a consolidated basis.

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

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

“Consolidated Net Income” means, with reference to any period, the net income of the Borrower and its Subsidiaries calculated in accordance with GAAP on a consolidated basis.

“Consolidated Net Worth” means at any time the consolidated stockholders’ equity of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time.

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

“Consolidated Operating Income” means, with reference to any period, the gross revenues *less* Consolidated Operating Expense, all calculated for the Borrower and its Subsidiaries on a consolidated basis for such period and as calculated in the manner disclosed by the Borrower in its Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

“Consolidated Rental Expense” means, with reference to any period, all payments under Operating Leases to the extent deducted in computing Consolidated Operating Income, net of any related income from subleases, in each case calculated for the Borrower and its Subsidiaries on a consolidated basis for such period.

“Consolidated Rental Payments” means, with reference to any period, all payments under all Operating Leases (including payments for leases which have been reserved against), net of any related income from subleases, in each case calculated for the Borrower and its Subsidiaries on a consolidated basis for such period.

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

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

“Country Risk Event” means:

- (i) any law, action or failure to act by any Governmental Authority in the Borrower’s or Letter of Credit beneficiary’s country which has the effect of:
  - (a) changing the obligations under the relevant Letter of Credit, the Credit Agreement or any of the other Loan Documents as originally agreed or otherwise creating any additional liability, cost or expense to the Issuing Bank, the Lenders or the Administrative Agent,
  - (b) changing the ownership or control by the Borrower or Letter of Credit beneficiary of its business, or
  - (c) preventing or restricting the conversion into or transfer of the applicable Agreed Currency;
- (ii) force majeure; or
- (iii) any similar event

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

“Credit Event” means a Borrowing, an LC Disbursement or both.

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

“Designated Charges” means, to the extent deducted from gross revenues in computing Consolidated Operating Income, the aggregate of (i) nonrecurring compensation charges, (ii) nonrecurring general and administrative charges and (iii) special charges, all of the foregoing calculated for the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP; provided that the aggregate amount of Designated Charges incurred on and after January 1, 2003 shall not exceed \$65,000,000, of which no more than \$15,000,000 shall be incurred at any time on or after January 1, 2004.

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

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

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

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

“Effective Commitment Amount” is defined in Section 2.23(a).

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

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

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

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equity Interests” means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person, and any warrants, options or other rights entitling the holder thereof to purchase or acquire any such equity interest.



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

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

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

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

“EU” means the European Union.

“Euro” and/or “EUR” means the single currency of the participating member states of the EU.

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

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

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

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

“Existing Credit Agreement” means that certain Credit Agreement dated as of December 28, 2001 between the Borrower, the lenders party thereto and JPMorgan Chase Bank as administrative agent, as amended.

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

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

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

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

“Fixed Charge Coverage Ratio” is defined in Section 6.11.1.

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

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

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

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

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

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

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

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

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

“Indemnified Taxes” means Taxes other than Excluded Taxes.

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

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

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

“Issuing Bank” means JPMorgan Chase Bank, in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.06(i).

The Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term “Issuing Bank” shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

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

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

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

“Lender Increase Notice” is defined in Section 2.23(a).

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

“Letter of Credit” means any letter of credit issued, or deemed issued, pursuant to this Agreement.

“Leverage Ratio” is defined in Section 6.11.2.

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

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

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

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

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

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

“Material Indebtedness” means Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Swap Agreements, of any one or more of the Borrower and its Subsidiaries in an aggregate principal amount exceeding \$3,000,000. For purposes of determining Material Indebtedness, the “principal amount” of the obligations of the Borrower or any Subsidiary in respect of any Swap Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Borrower or such Subsidiary would be required to pay if such Swap Agreement were terminated at such time.

“Maturity Date” means December 22, 2006.

“Moody’s” means Moody’s Investors Service, Inc.

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

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

“New Money Credit Event” means with respect to the Issuing Bank, any increase (directly or indirectly) in the Issuing Bank’s exposure (whether by way of additional credit or banking facilities or otherwise, including as part of a restructuring) to the Borrower or any

Governmental Authority in the Borrower's or any applicable Letter of Credit beneficiary's country occurring by reason of (i) any law, action or requirement of any Governmental Authority in the Borrower's or such Letter of Credit beneficiary's country, or (ii) any request in respect of external indebtedness of borrowers in the Borrower's or such Letter of Credit beneficiary's country applicable to banks generally which conduct business with such borrowers, or (iii) any agreement in relation to clause (i) or (ii), in each case to the extent calculated by reference to the aggregate Revolving Credit Exposures outstanding prior to such increase.

"Obligations" means all Loans, LC Disbursements, advances, debts, liabilities, obligations, covenants and duties owing by the Borrower or any Subsidiary Guarantor to the Administrative Agent, any Lender, the Issuing Bank, any Affiliate of the Agent or any Lender, the Issuing Bank, or any indemnified Person hereunder, of any kind or nature, present or future, arising under this Agreement, the Subsidiary Guaranty, any Collateral Document or any other Loan Document, whether or not evidenced by any note, guaranty or other instrument, whether or not for the payment of money, whether arising by reason of an extension of credit, loan, guaranty, indemnification, or in any other manner, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, all interest, charges, expenses, fees, reasonable attorneys' fees and disbursements, reasonable paralegals' fees (in each case whether or not allowed), and any other sum chargeable to the Borrower or any Subsidiary Guarantor under this Agreement or any other Loan Document.

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

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

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

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

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

"Percentage" is defined in Section 2.23(b).

"Permitted Acquisition" means any acquisition (whether by purchase, merger, consolidation or otherwise but excluding in any event a Hostile Acquisition) by the Borrower or

any Subsidiary of all or substantially all the assets of, or all the Equity Interests in, a Person or division or line of business of a Person if, at the time of and immediately after giving effect thereto, (a) no Default has occurred and is continuing or would result therefrom, (b) the principal business of such Person shall be reasonably related to a business in which the Borrower and the Subsidiaries were engaged on the Effective Date, (c) each Subsidiary formed for the purpose of or resulting from such acquisition shall, to the extent required by the definition of Subsidiary Guarantor (in the case of a Domestic Subsidiary) or by the definition of Foreign Pledge Event (in the case of a Foreign Subsidiary) be a Subsidiary Loan Party and all of the Capital Stock of such Subsidiary Loan Party shall be owned directly by the Borrower or, to the extent so required by such definitions, a Subsidiary Loan Party, and all actions required to be taken with respect to such acquired or newly formed Subsidiary under Sections 5.9 and 5.10 shall have been taken, (d) the Borrower and the Subsidiaries are in compliance, on a pro forma basis after giving effect to such acquisition (without giving effect to any cost savings other than those actually realized as of the date of such acquisition or otherwise approved in writing by the Administrative Agent), with the covenants contained in Section 6.11 recomputed as of the last day of the most recently ended fiscal quarter of the Borrower for which financial statements are available, as if such acquisition (and any related incurrence or repayment of Indebtedness, with any new Indebtedness being deemed to be amortized over the applicable testing period in accordance with its terms) had occurred on the first day of each relevant period for testing such compliance and (e) with respect to an acquisition in respect of which the sum of all consideration paid or delivered in connection therewith exceeds \$10,000,000, the Borrower has delivered to the Administrative Agent an officers' certificate to the effect set forth in clauses (a), (b), (c) and (d) above, together with all relevant financial information for the Person or assets to be acquired and reasonably detailed calculations demonstrating satisfaction of the requirement set forth in clause (d) above.

"Permitted Encumbrances" means:

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

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

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

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

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



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

“Permitted Investments” means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in each case maturing within one year from the date of acquisition thereof;

(b) direct obligations of any agency of the United States of America, in each case maturing within one year from the date of acquisition thereof;

(c) municipal investments and direct obligations of any State of the United States of America, in each case with a rating of BBB+ or higher and a maximum maturity of 12 months (for securities where the interest rate is adjusted periodically (e.g. floating rate securities), the reset date will be used to determine the maturity date);

(d) investments in commercial paper maturing within 270 days from the date of acquisition thereof and having, at such date of acquisition, a rating of A-2 from S&P and P-2 from Moody’s;

(e) investments in certificates of deposit, banker’s acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof which has a combined capital and surplus and undivided profits of not less than \$500,000,000;

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

(g) money market funds that (i) comply with the criteria set forth in Securities and Exchange Commission Rule 2a-7 under the Investment Company Act of 1940, (ii) are rated AAA by S&P and Aaa by Moody’s and (iii) have portfolio assets of at least \$5,000,000,000;

(h) in the case of investments of any Foreign Subsidiary or non-domestic branch of the Borrower, securities issued by any foreign government or any political subdivision of any foreign government or any public instrumentality thereof having maturities of not more than one year from the date of acquisition thereof and, at the time of acquisition thereof and, at the time of acquisition, having an investment grade credit rating obtainable from S&P, Moody’s, or other generally recognized rating agency.

(i) investments in auction rate securities with a rating of BBB+ or higher and a maximum maturity of one year, for which the reset date will be used to determine the maturity date, all to the extent such investments are made in a manner consistent with past practice;

(j) investments in funds that invest solely in one or more of types of securities described in clauses (a) through (i) above; and

(k) in the case of investments by any Foreign Subsidiary or non-domestic branch of the Borrower, investments in time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with any highly capitalized commercial bank which is located in the jurisdiction where such non-domestic branch of the Borrower or such Foreign Subsidiary is located and which bank has an investment grade credit rating obtainable from S&P, Moody's or other generally recognized rating agency.

"Permitted Two-Year Investments" means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in each case maturing within two years from the date of acquisition thereof;

(b) direct obligations of any agency of the United States of America, in each case maturing within two years from the date of acquisition thereof;

(c) municipal investments and direct obligations of any State of the United States of America with a rating of BBB+ or higher and a maximum maturity of two years (for securities where the interest rate is adjusted periodically (e.g. floating rate securities), the reset date will be used to determine the maturity date);

(d) investments in certificates of deposit, banker's acceptances and time deposits maturing within two years from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof which has a combined capital and surplus and undivided profits of not less than \$500,000,000;

(e) in the case of investments by any Foreign Subsidiary or non-domestic branch of the Borrower, securities issued by any foreign government or any political subdivision of any foreign government or any public instrumentality thereof having maturities of not more than two years from the date of acquisition thereof and, at the time of acquisition thereof and, at the time of acquisition, having an investment grade credit rating obtainable from S&P, Moody's, or other generally recognized rating agency;

(f) investments in auction rate securities with a rating of BBB+ and a maximum maturity of two years, for which the reset date will be used to determine the maturity date, all to the extent such investments are made in a manner consistent with past practice;

(g) investments in funds that invest solely in one or more of the types of securities described in clauses (a) through (f) above; and

(h) in the case of investments by any non-domestic branch of the Borrower or any Foreign Subsidiary, investments in time deposits maturing within two years from the date of acquisition thereof issued or guaranteed by or placed with any highly capitalized commercial bank which is located in the jurisdiction where such non-domestic branch of the Borrower or such Foreign Subsidiary is located and which bank has an investment grade credit rating obtainable from S&P, Moody's or other generally recognized rating agency.

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

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

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

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

"Pricing Ratios" means, for any period the same is to be determined, the Leverage Ratio and, in the case of "Category 4" described in the definition of Applicable Rate, the Fixed Charge Coverage Ratio, in each case as determined as of the end of each of the Borrower's fiscal quarters for the applicable measurement period ending with the end of such fiscal quarter.

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

"Proposed New Lender" is defined in Section 2.23(a).

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

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

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

“Required Lenders” means, at any time, Lenders having Revolving Credit Exposures and unused Commitments representing at least 51% of the sum of the total Revolving Credit Exposures and unused Commitments at such time.

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

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

“Revolving Loan” means a Loan made pursuant to Section 2.03.

“S&P” means Standard & Poor’s.

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

“Selling Lender” is defined in Section 2.23(b).

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

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

“subsidiary” means, with respect to any Person (the “parent”) at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent’s consolidated financial

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

“Subsidiary” means any subsidiary of the Borrower.

“Subsidiary Guarantor” means each Subsidiary (other than any Foreign Subsidiary to the extent that designation of such Foreign Subsidiary as a Subsidiary Guarantor would (a) be prohibited by applicable law or (b) cause, as determined by the Borrower in its commercially reasonable judgment acting in good faith and upon the advice of its tax advisors, materially disadvantageous tax implications for the Borrower or any Domestic Subsidiary under Section 956 of the Code - each such Foreign Subsidiary, an “Affected Foreign Subsidiary”) (i) the consolidated gross revenues of which for the most recent fiscal quarter of the Borrower for which financial statements have been delivered pursuant to Section 5.01 were greater than five percent (5%) of the Borrower’s consolidated gross revenues for such fiscal quarter or (ii) the consolidated tangible assets of which as of the end of such fiscal quarter were greater than five percent (5%) of the Borrower’s consolidated tangible assets as of such date; provided that, if at any time the aggregate amount of the consolidated gross revenues or consolidated tangible assets of all Subsidiaries that are not Subsidiary Guarantors exceeds twenty percent (20%) of the Borrower’s consolidated gross revenues for any such fiscal quarter or twenty percent (20%) of the Borrower’s consolidated tangible assets as of the end of any such fiscal quarter, the Borrower (or, in the event the Borrower has failed to do so within ten days, the Administrative Agent) shall designate sufficient Subsidiaries (other than Affected Foreign Subsidiaries) as “Subsidiary Guarantors” to eliminate such excess, and such designated Subsidiaries shall for all purposes of this Agreement constitute Subsidiary Guarantors. The Subsidiary Guarantors on the Effective Date are identified in Schedule 3.01 hereto.

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

“Subsidiary Loan Party” means a Subsidiary Guarantor or a Pledged Subsidiary.

“Swap Agreement” means any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; provided that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of the Borrower or the Subsidiaries shall be a Swap Agreement.

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

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

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

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

“Unpledged Subsidiary” means each Foreign Subsidiary which is not a Pledged Subsidiary.

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

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

SECTION 1.03. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to

include such Person's successors and assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

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

## ARTICLE II

### The Credits

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

### SECTION 2.02. Loans and Borrowings.

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

(b) Subject to Section 2.14, each Revolving Borrowing shall be comprised entirely of ABR Loans or Eurocurrency Loans as the Borrower may request in accordance herewith. Each ABR Loan shall only be made in Dollars. Each Lender at its option may make any Eurocurrency Loan by causing any domestic or foreign branch or Affiliate of such Lender to

make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) At the commencement of each Interest Period for any Eurocurrency Revolving Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of \$250,000 and not less than \$1,000,000 (or the Approximate Equivalent Amount of each such amount if such Borrowing is denominated in an Agreed Currency other than Dollars). At the time that each ABR Revolving Borrowing is made, such Borrowing shall be in an aggregate amount that is an integral multiple of \$250,000 and not less than \$1,000,000; provided that an ABR Revolving Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Commitments or that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.06(e). Borrowings of more than one Type and Class may be outstanding at the same time; provided that there shall not at any time be more than a total of five Eurocurrency Revolving Borrowings outstanding.

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

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

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



If no election as to the Type of Revolving Borrowing is specified, then the requested Revolving Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Eurocurrency Revolving Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

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

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

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

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

SECTION 2.05. Reserved.

SECTION 2.06. Letters of Credit.

(a) General. Subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit denominated in an Agreed Currency for its own account, in a form reasonably acceptable to the Administrative Agent and the Issuing Bank, at any time and from time to time during the Availability Period. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control; provided, however, if the Issuing Bank is requested to issue Letters of Credit with respect to a jurisdiction the Issuing Bank deems, in its sole discretion, may at any time subject it to a New Money Credit Event or a Country Risk Event, the Borrower shall, at the request of the Issuing Bank, guaranty and indemnify the Issuing Bank against any and all costs, liabilities and losses resulting from such New Money Credit Event or Country Risk Event, in each case in a form and substance satisfactory to the Issuing Bank. Schedule 2.06 contains a schedule of certain letters of credit issued by JPMorgan Chase

Bank under the Existing Credit Agreement. Upon the effectiveness of this Agreement, from and after the Effective Date, such letters of credit shall be deemed to be Letters of Credit issued pursuant to this Section 2.06.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the Dollar Amount of such Letter of Credit, the Agreed Currency applicable thereto, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the Dollar Amount of the sum of the LC Exposure shall not exceed \$20,000,000 and (ii) the total Revolving Credit Exposures shall not exceed the Aggregate Commitment.

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

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

(e) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, New York City time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York City time, on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 12:00 noon, New York City time, on (i) the Business Day that the Borrower receives such notice, if such notice is received prior to 10:00 a.m., New York City time, on the day of receipt, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt; provided that the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 or 2.05 that such payment be financed with an ABR Revolving Borrowing in the Dollar Amount of such LC Disbursement and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Revolving Borrowing. If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable Percentage thereof. Promptly following receipt of such notice, each Lender shall pay to the Administrative Agent its Applicable Percentage of the payment then due from the Borrower, in the same manner as provided in Section 2.07 with respect to Loans made by such Lender (and Section 2.07 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Lenders have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear. Any payment made by a Lender pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of ABR Revolving Loans as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

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

- (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein,
- (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect,
- (iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or

(iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder.

None of the Administrative Agent, the Lenders nor the Issuing Bank, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

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

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

except that interest accrued on and after the date of payment by any Lender pursuant to paragraph (e) of this Section to reimburse the Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) Replacement of the Issuing Bank. The Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of the Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 2.12(b). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

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

SECTION 2.07. Funding of Borrowings.

(a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds (i) in the case of each Loan denominated in Dollars, by 12:00 noon, New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders and (ii) in the case of each Loan denominated in an Agreed Currency other than Dollars, by 12:00 noon, local time, in the city of the Administrative Agent's Eurocurrency Payment Office for such currency and at such Eurocurrency Payment Office for such currency. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower maintained with the Administrative Agent in New York City and designated by the Borrower in the applicable Borrowing Request; provided that ABR Revolving Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.06(e) shall be remitted by the Administrative Agent to the Issuing Bank.

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

SECTION 2.08. Interest Elections.

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

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

hand delivery or teletype to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

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

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

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

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

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

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

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

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

SECTION 2.09. Termination and Reduction of Commitments.

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

(b) The Borrower may at any time terminate, or from time to time reduce, the Commitments; provided that (i) each reduction of the Commitments shall be in an amount that is an integral multiple of \$1,000,000 and not less than \$5,000,000 and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans and reimbursement of LC Disbursements in accordance with Section 2.11, the Dollar Amount of the sum of the Revolving Credit Exposures would exceed the Aggregate Commitment.

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

SECTION 2.10. Repayment of Loans; Evidence of Debt.

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

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

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

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be conclusive evidence (absent manifest error) of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner



affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.11. Prepayment of Loans.

(a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to (i) prior notice in accordance with paragraph (b) of this Section, (ii) the payment of the funding compensation required by Section 2.16 and (iii) such prepayment being in an amount that is not less than \$1,000,000.

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

SECTION 2.12. Fees.

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

September and December of each year and on the date on which the Commitments terminate, commencing on the first such date to occur after the date hereof; provided that any facility fees accruing after the date on which the Commitments terminate shall be payable on demand. All facility fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(ii) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a utilization fee, which shall accrue at the rate of 0.125% on the average daily Revolving Credit Exposures (including any Revolving Credit Exposure for such Lender after the termination of such Lender's Commitment) for such Lender during each fiscal quarter in which the total Revolving Credit Exposures for all the Lenders at any time exceeds 50% of the Aggregate Commitment. Accrued utilization fees shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which the Commitments terminate, commencing on the first such date to occur after the date hereof; provided that any utilization fee accruing after the date on which the Commitments terminate shall be payable on demand. All utilization fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

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

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

(d) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the Issuing Bank, in the case of fees payable

to it) for distribution, in the case of facility fees and participation fees, to the Lenders. Fees (other than fees calculated in error) paid shall not be refundable under any circumstances.

SECTION 2.13. Interest.

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

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

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding paragraphs of this Section, (ii) in the case of any fee payable pursuant to Section 2.12(b)(i), 2% plus the rate otherwise applicable to such fee as provided in such Section or (iii) in the case of any other amount, 2% plus the rate applicable to ABR Loans as provided in paragraph (a) of this Section.

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

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

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

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

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

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

SECTION 2.15. Increased Costs.

(a) If any Change in Law shall:

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

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

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

(b) If any Lender or the Issuing Bank determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the

Issuing Bank, to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered.

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

(d) Failure or delay on the part of any Lender or the Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or the Issuing Bank pursuant to this Section for any increased costs or reductions incurred more than 180 days prior to the date that such Lender or the Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the Issuing Bank's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 180-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.16. Break Funding Payments. In the event of

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

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

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

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

(i) the amount of interest which would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of

the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over

(ii) the amount of interest which would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the commencement of such period, for deposits in the relevant currency of a comparable amount and period from other banks in the eurocurrency market. A certificate of any Lender setting forth in reasonable detail any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.17. Taxes.

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

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

(ii) the Borrower shall make such deductions and

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

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

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

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the

Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate.

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

(a) The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under Section 2.15, 2.16 or 2.17, or otherwise) prior to (i) in the case of payments denominated in Dollars, 12:00 noon, New York City time and (ii) in the case of payments denominated in an Agreed Currency other than Dollars, 12:00 noon, local time, in the city of the Administrative Agent's Eurocurrency Payment Office for such currency, in each case on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made (i) in the same currency in which the applicable Credit Event was made (or where such currency has been converted to the Euro, in the Euro) and (ii) to the Administrative Agent at its offices at 1111 Fannin, 10<sup>th</sup> Floor, Houston, Texas 77002 or, in the case of a Borrowing denominated in an Agreed Currency other than Dollars, the Administrative Agent's Eurocurrency Payment Office, except payments to be made directly to the Issuing Bank as expressly provided herein and except that payments pursuant to Sections 2.15, 2.16, 2.17 and 9.03 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments denominated in the same currency received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. Notwithstanding the foregoing provisions of this Section, if, after the making of any Credit Event in any currency other than Dollars, currency control or exchange regulations are imposed in the country which issues such currency with the result that the type of currency in which the Credit Event was made (the "Original Currency") no longer exists or the Borrower is not able to make payment to the Administrative Agent for the account of the Lenders in such Original Currency, then all payments to be made by the Borrower hereunder in such currency shall instead be made when due in Dollars in an amount equal to the Dollar Amount (as of the date of repayment) of such payment due, it being the intention of the parties hereto that the Borrower takes all risks of the imposition of any such currency control or exchange regulations.

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

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

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

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

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

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

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so



distributed to such Lender or Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

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

SECTION 2.19. Mitigation Obligations; Replacement of Lenders.

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

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

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

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

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

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

(iii) in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.17, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

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

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

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

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

**SECTION 2.23. Increase of Commitments.**

(a) At any time, the Borrower may request that the Aggregate Commitment be increased; provided that, without the prior written consent of all of the Lenders, (i) the Aggregate Commitment shall at no time exceed \$80,000,000 minus the aggregate amount of all reductions in the Aggregate Commitment previously made pursuant to Section 2.09; (ii) the Borrower shall not make any such request during the six month period following any reduction in the Aggregate Commitment previously made pursuant to Section 2.09; (iii) the Borrower shall not be entitled to make any such request more frequently than once in each 12-month period; and (iv) each such

request shall be in a minimum amount of at least \$5,000,000 and increments of \$5,000,000 in excess thereof. Such request shall be made in a written notice given to the Administrative Agent and the Lenders by the Borrower not less than twenty (20) Business Days prior to the proposed effective date of such increase, which notice (a "Commitment Increase Notice") shall specify the amount of the proposed increase in the Aggregate Commitment and the proposed effective date of such increase. In the event of such a Commitment Increase Notice, each of the Lenders shall be given the opportunity to participate in the requested increase ratably in proportions that their respective Commitments bear to the Aggregate Commitment. No Lender shall have any obligation to increase its Commitment pursuant to a Commitment Increase Notice. On or prior to the date that is ten (10) Business Days after receipt of the Commitment Increase Notice, each Lender shall submit to the Administrative Agent a notice indicating the maximum amount by which it is willing to increase its Commitment in connection with such Commitment Increase Notice (any such notice to the Administrative Agent being herein a "Lender Increase Notice"). Any Lender which does not submit a Lender Increase Notice to the Administrative Agent prior to the expiration of such ten (10) Business Day period shall be deemed to have denied any increase in its Commitment. In the event that the increases of Commitments set forth in the Lender Increase Notices exceed the amount requested by the Borrower in the Commitment Increase Notice, the Administrative Agent shall have the right, in consultation with the Borrower, to allocate the amount of increases necessary to meet the Borrower's Commitment Increase Notice. In the event that the Lender Increase Notices are less than the amount requested by the Borrower, not later than three (3) Business Days prior to the proposed effective date the Borrower may notify the Administrative Agent of any financial institution that shall have agreed to become a "Lender" party hereto (a "Proposed New Lender") in connection with the Commitment Increase Notice. Any Proposed New Lender shall be consented to by the Administrative Agent (which consent shall not be unreasonably withheld). If the Borrower shall not have arranged any Proposed New Lender(s) to commit to the shortfall from the Lender Increase Notices, then the Borrower shall be deemed to have reduced the amount of its Commitment Increase Notice to the aggregate amount set forth in the Lender Increase Notices. Based upon the Lender Increase Notices, any allocations made in connection therewith and any notice regarding any Proposed New Lender, if applicable, the Administrative Agent shall notify the Borrower and the Lenders on or before the Business Day immediately prior to the proposed effective date of the amount of each Lender's and Proposed New Lenders' Commitment (the "Effective Commitment Amount") and the amount of the Aggregate Commitment, which amount shall be effective on the following Business Day. Any increase in the Aggregate Commitment shall be subject to the following conditions precedent: (A) the Borrower shall have obtained the consent thereto of each Subsidiary Guarantor and its reaffirmation of the Loan Document(s) executed by it, which consent and reaffirmation shall be in writing and in form and substance reasonably satisfactory to the Administrative Agent, (B) as of the date of the Commitment Increase Notice and as of the proposed effective date of the increase in the Aggregate Commitment, all representations and warranties shall be true and correct in all material respects as though made on such date and no event shall have occurred and then be continuing which constitutes a Default or Event of Default, (C) the Borrower, the Administrative Agent and each Proposed New Lender or Lender that shall have agreed to provide a "Commitment" in support of such increase in the Aggregate Commitment shall have executed and delivered a "Commitment and Acceptance" substantially in the form of Exhibit D hereto, (D) counsel for the Borrower and for the Guarantors shall have provided to the Administrative

Agent supplemental opinions in form and substance reasonably satisfactory to the Administrative Agent and (E) the Borrower and each Proposed New Lender shall otherwise have executed and delivered such other instruments and documents as may be required under Article IV or that the Administrative Agent shall have reasonably requested in connection with such increase. If any fee shall be charged by the Lenders in connection with any such increase, such fee shall be in accordance with then prevailing market conditions, which market conditions shall have been reasonably documented by the Administrative Agent to the Borrower. Upon satisfaction of the conditions precedent to any increase in the Aggregate Commitment, the Administrative Agent shall promptly advise the Borrower and each Lender of the effective date of such increase. Upon the effective date of any increase in the Aggregate Commitment that is supported by a Proposed New Lender, such Proposed New Lender shall be a party to this Agreement as a Lender and shall have the rights and obligations of a Lender hereunder. Nothing contained herein shall constitute, or otherwise be deemed to be, a commitment on the part of any Lender to increase its Commitment at any time.

(b) For purposes of this clause (b), (A) the term "Buying Lender(s)" shall mean (1) each Lender the Effective Commitment Amount of which is greater than its Commitment prior to the effective date of any increase in the Aggregate Commitment, and (2) each Proposed New Lender that is allocated an Effective Commitment Amount in connection with any Commitment Increase Notice, (B) the term "Selling Lender(s)" shall mean each Lender whose Commitment is not being increased from that in effect prior to such increase in the Aggregate Commitment and (C) the term "Percentage" shall mean with respect to any Lender, the percentage obtained by dividing (w) such Lender's Commitment at such time (as adjusted from time to time in accordance herewith) by (x) the total Commitments at such time (as adjusted from time to time in accordance herewith); provided, if all of the Commitments are terminated pursuant hereto, then "Percentage" means the percentage obtained by dividing (y) such Lender's Revolving Credit Exposures by (z) the total Revolving Credit Exposures of all the Lenders. Effective on the effective date of any increase in the Aggregate Commitment pursuant to clause (a) above, each Selling Lender hereby sells, grants, assigns and conveys to each Buying Lender, without recourse, warranty, or representation of any kind, except as specifically provided herein, an undivided percentage in such Selling Lender's right, title and interest in and to its Revolving Credit Exposure in the respective Dollar Amounts and percentages necessary so that, from and after such sale, each such Selling Lender's Revolving Credit Exposure shall equal such Selling Lender's Percentage (calculated based upon the Effective Commitment Amounts) of the aggregate Revolving Credit Exposures. Effective on the effective date of the increase in the Aggregate Commitment pursuant to clause (a) above, each Buying Lender hereby purchases and accepts such grant, assignment and conveyance from the Selling Lenders. Each Buying Lender hereby agrees that its respective purchase price for the portion of the Revolving Credit Exposure purchased hereby shall equal the respective Dollar Amount necessary so that, from and after such payments, each Buying Lender's Revolving Credit Exposure shall equal such Buying Lender's Percentage (calculated based upon the Effective Commitment Amounts) of the aggregate Revolving Credit Exposures. Such amount shall be payable on the effective date of the increase in the Aggregate Commitment by wire transfer of immediately available funds to the Administrative Agent. Each Selling Lender hereby represents and warrants to each Buying Lender that such Selling Lender owns the Revolving Credit Exposure being sold and assigned hereby for its own account and has not sold, transferred or encumbered any or all of its interest in such Loans, except for participations which will be extinguished upon payment to Selling Lender

of an amount equal to the portion of the Revolving Credit Exposure being sold by such Selling Lender. Each Buying Lender hereby acknowledges and agrees that, except for each Selling Lender's representations and warranties contained in the foregoing sentence, each such Buying Lender has entered into its Commitment and Acceptance with respect to such increase on the basis of its own independent investigation and has not relied upon, and will not rely upon, any explicit or implicit written or oral representation, warranty or other statement of the Lenders or the Agent concerning the authorization, execution, legality, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or the other Loan Documents. The Borrower hereby agrees to compensate each Selling Lender for all losses, expenses and liabilities incurred by each Lender in connection with the sale and assignment of any Eurocurrency Loan hereunder on the terms and in the manner as set forth in Section 2.16 hereof.

### ARTICLE III

#### Representations and Warranties

The Borrower represents and warrants to the Lenders that:

SECTION 3.01. Organization; Powers; Subsidiaries. Each of the Borrower and its Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required. Schedule 3.01 hereto identifies each Subsidiary, the jurisdiction of its incorporation or organization, as the case may be, the percentage of issued and outstanding shares of each class of its capital stock or other Equity Interests owned by the Borrower and the other Subsidiaries and, if such percentage is not 100% (excluding directors' qualifying shares as required by law), a description of each class issued and outstanding. All of the outstanding shares of capital stock and other Equity Interests of each Subsidiary are validly issued and outstanding and fully paid and nonassessable and all such shares and other equity interests indicated on Schedule 3.01 as owned by the Borrower or another Subsidiary are owned, beneficially and of record, by the Borrower or such Subsidiary free and clear of all Liens, other than Liens created by the Collateral Documents and inchoate tax and ERISA Liens. There are no outstanding commitments or other obligations of any Subsidiary to issue, and no options, warrants or other rights of any Person to acquire, any shares of any class of capital stock or other equity interests of any Subsidiary.

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

SECTION 3.03. Governmental Approvals; No Conflicts. The Transactions

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

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

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

(d) will not result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries, other than Liens created pursuant to the Loan Documents.

SECTION 3.04. Financial Condition; No Material Adverse Change.

(a) The Borrower has heretofore furnished to the Lenders (or made available to the Lenders on the Securities and Exchange Commission's EDGAR web page) its consolidated balance sheet and statements of income, stockholders equity and cash flows

(i) as of and for the fiscal year ended December 31, 2002, reported on by KPMG LLP, independent public accountants, and (ii) as of and for the fiscal quarter and the portion of the fiscal year ended September 30, 2003, certified by its chief financial officer. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of the Borrower and its consolidated Subsidiaries as of such dates and for such periods in accordance with GAAP, subject to year-end audit adjustments and the absence of footnotes in the case of the statements referred to in clause (ii) above.

(b) Since September 30, 2003, except as otherwise disclosed by the Borrower in its Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended September 30, 2003, there has been no Material Adverse Change.

SECTION 3.05. Properties.

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

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

SECTION 3.06. Litigation, Labor Matters and Environmental Matters.

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

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

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

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

(ii) has become subject to any Environmental Liability,

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

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

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

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

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



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

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

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

SECTION 3.10. ERISA. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations under each Plan (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than \$3,000,000 the fair market value of the assets of such Plan, and the present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than \$3,000,000 the fair market value of the assets of all such underfunded Plans.

SECTION 3.11. Disclosure. The Borrower has disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. None of the reports, financial statements, certificates or other information furnished by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or delivered hereunder (as modified or supplemented by other information so furnished) contained, when furnished, any untrue statement of a fact or omitted to state any material fact necessary to make the statements contained therein, in the light of the circumstances under which they were made, not materially misleading; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time of such preparation.

SECTION 3.12. No Default. No Default has occurred and is continuing.

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

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

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

#### ARTICLE IV

##### Conditions

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

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

(b) The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of (A) the Chief Legal Officer of the Borrower and the Subsidiary Guarantors, substantially in the form of Exhibit B-1 and (B) Mayer, Brown, Rowe & Maw LLP, special counsel for the Borrower and the Subsidiary Guarantors, substantially in the form of Exhibit B-2, in each case covering such other matters relating to the Borrower and the Subsidiary Guarantors, this Agreement, the Subsidiary Guaranty or the Transactions as the Required Lenders shall reasonably request.

(c) Except as expressly permitted otherwise under Section 5.09, the Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Borrower and the Subsidiary Guarantors, the authorization of the Transactions and any other legal matters relating to the Borrower, the Subsidiary Guarantors, this Agreement, the Subsidiary Guaranty or the Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel.

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

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

(f) The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Effective Date, including, (i) closing fees for the account of each Lender in an amount equal to 0.10% of such Lender's Commitment and (ii) to the extent invoiced in reasonable detail and presented to the Borrower no less than two (2) Business Days prior to the Effective Date, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

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

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

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

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

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

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section; provided that the foregoing shall not prohibit the conversion of a Eurocurrency Revolving Borrowing into an ABR Borrowing pursuant to Section 2.08(e) or the conversion of an ABR Borrowing to a Eurocurrency Revolving Borrowing or the continuation of a Eurocurrency Revolving Borrowing if no Event of Default exists.

## ARTICLE V

### Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters

of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that:

SECTION 5.01. Financial Statements and Other Information. The Borrower will furnish to the Administrative Agent:

(a) as soon as practicable, and in any event no later than the earlier to occur of (x) the one-hundredth (100th) day after the end of each fiscal year of the Borrower, and (y) the fifth (5<sup>th</sup>) day after the date on which any of the following items are required to be delivered to the Securities and Exchange Commission, its audited consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by KPMG LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries for such fiscal year on a consolidated basis in accordance with GAAP consistently applied;

(b) as soon as practicable, and in any event no later than the earlier to occur of (x) the fiftieth (50<sup>th</sup>) day after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, and (y) the fifth (5<sup>th</sup>) day after the date on which any of the following items are required to be delivered to the Securities and Exchange Commission, its consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries for such period or periods on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(c) concurrently with any delivery of financial statements under clause (a) above, a reasonably detailed business plan and forecast (including a projected consolidated balance sheet, income statement and statement of cash flows) of the Borrower for such fiscal year;

(d) concurrently with any delivery of financial statements under clause (a) or (b) above, a certificate of a Financial Officer of the Borrower (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations computing the Pricing Ratios and demonstrating compliance with Sections 6.01 (e), 6.01 (f), 6.01 (h), 6.01 (i), 6.01 (j), 6.01 (k), 6.04, 6.06 and 6.11 and (iii) stating whether any change in GAAP or in the application thereof has occurred since the date of the audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(e) concurrently with any delivery of financial statements under clause (a) above, a certificate of the accounting firm that reported on such financial statements stating whether they obtained knowledge during the course of their examination of such financial statements of any Default (which certificate may be limited to the extent required by accounting rules or guidelines);

(f) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by the Borrower or any Subsidiary with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or distributed by the Borrower to its shareholders generally, as the case may be; and

(g) promptly following any reasonable request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of this Agreement, as the Administrative Agent or any Lender may reasonably request.

The statements and reports required to be furnished by the Borrower pursuant to clauses (a), (b) and (f) above shall be deemed furnished for such purpose upon delivery to the Administrative Agent for distribution to the Lenders through IntraLinks or other comparable electronic medium utilized by the Administrative Agent in connection with the credit facility evidenced hereby.

SECTION 5.02. Notices of Material Events. The Borrower will furnish to the Administrative Agent prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the Borrower or any Affiliate thereof that could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Borrower and its Subsidiaries in an aggregate amount exceeding \$2,500,000, and

(d) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 5.03. Existence; Conduct of Business. The Borrower will, and will cause each of its Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and business operations and the rights, licenses, permits, privileges and franchises material to the conduct of the business of the

Borrower and its Subsidiaries taken as a whole; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.03.

SECTION 5.04. Payment of Obligations. The Borrower will, and will cause each of its Subsidiaries to, pay its obligations, including Tax liabilities, that, if not paid, could result in a Material Adverse Effect before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.05. Maintenance of Properties; Insurance. The Borrower will, and will cause each of its Subsidiaries to, (a) keep and maintain all property material to the conduct of the business of the Borrower and its Subsidiaries taken as a whole in good working order and condition, ordinary wear and tear excepted, and (b) maintain, with financially sound and reputable insurance companies, insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations.

SECTION 5.06. Books and Records; Inspection Rights. The Borrower will, and will cause each of its Subsidiaries to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. The Borrower will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested.

SECTION 5.07. Compliance with Laws. The Borrower will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations and orders (including, without limitation, Environmental Laws) of any Governmental Authority applicable to it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.08. Use of Proceeds and Letters of Credit. The proceeds of the Loans will be used only for refinancing the Indebtedness under the Existing Credit Agreement and for other general corporate purposes of the Borrower and its Subsidiaries in the ordinary course of business. No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations T, U and X. Letters of Credit will be issued (i) to support or provide security for tenant lease obligations, (ii) to support worker's compensation obligations to the extent that the Dollar Amount of the sum of the LC Exposure thereof does not exceed \$5,000,000, (iii) for general corporate purposes of the Borrower and its Subsidiaries in the ordinary course of business to the extent that the Dollar Amount of the sum of the LC Exposure thereof does not exceed \$5,000,000 and (iv) for such other general corporate purposes of the Borrower and its Subsidiaries in the ordinary course of business as are approved in writing by the Administrative Agent in its sole discretion.

**SECTION 5.09. Additional Subsidiary Documentation.** As promptly as possible but in any event within thirty (30) days after any Person becomes a Subsidiary or any Subsidiary qualifies independently as, or is designated by the Borrower as, a Subsidiary Guarantor pursuant to the definition of “Subsidiary Guarantor”), the Borrower shall provide the Administrative Agent with written notice thereof setting forth information in reasonable detail describing the material assets of such Person and (a) shall cause each such Subsidiary which also qualifies or is designated by the Borrower as a Subsidiary Guarantor to deliver to the Administrative Agent a duly executed supplement to the Subsidiary Guaranty pursuant to which such Subsidiary agrees to be bound by the terms and provisions of the Subsidiary Guaranty, such supplement to be accompanied by appropriate corporate resolutions and legal opinions in form and substance reasonably satisfactory to the Administrative Agent or (b) shall cause the pledge of such Subsidiary’s Capital Stock pursuant to Section 5.10 to the extent such Subsidiary, but for its status as an Affected Foreign Subsidiary, would otherwise qualify or be designated by the Borrower as a Subsidiary Guarantor. The parties hereto acknowledge and agree that, notwithstanding the foregoing, such corporate resolutions and legal opinions in respect of Heidrick & Struggles, Inc., Heidrick & Struggles Unternehmensberatung GmbH & Co. KG, Heidrick & Struggles Asia-Pacific, Ltd., Heidrick & Struggles Latin America, Inc. and Heidrick & Struggles Espana, Inc. need not be delivered on the Effective Date but must be delivered by no later than thirty (30) days after the Effective Date (it being understood and agreed that the failure to deliver such instruments and documents by such date shall constitute an Event of Default under clause (d) of Article VII).

**SECTION 5.10. Pledge Agreements.** The Borrower shall execute or cause to be executed, by no later than thirty days after the date on which any First Tier Foreign Subsidiary would, but for its status as an Affected Foreign Subsidiary, qualify or be designated by the Borrower as a Subsidiary Guarantor, a Pledge Agreement in favor of the Administrative Agent for the benefit of the Holders of Secured Obligations with respect to 65% of all of the outstanding Capital Stock of such First Tier Foreign Subsidiary; provided that no such pledge of the Capital Stock of a First Tier Foreign Subsidiary shall be required hereunder to the extent such pledge is prohibited by applicable law or the Administrative Agent and its counsel reasonably determine that such pledge would not provide material Collateral for the benefit of the Holders of Secured Obligations pursuant to legally binding, valid and enforceable Pledge Agreements. The Borrower further agrees to deliver to the Administrative Agent all such Pledge Agreements and other Collateral Documents, together with appropriate corporate resolutions and other documentation (including legal opinions, the stock certificates representing the Capital Stock subject to such pledge, stock powers with respect thereto executed in blank, and such other documents as shall be reasonably requested to perfect the Lien of such pledge) in each case in form and substance reasonably satisfactory to the Administrative Agent, and in a manner that the Administrative Agent shall be reasonably satisfied that it has a first priority perfected pledge of or charge over the Collateral related thereto.

Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of Credit have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that:

SECTION 6.01. Indebtedness. The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Indebtedness, except:

(a) Indebtedness created hereunder and under the other Loan Documents;

(b) Indebtedness existing on the date hereof and set forth in Schedule 6.01 and extensions, renewals, refinancings and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof;

(c) Indebtedness of the Borrower to any Subsidiary and of any Subsidiary to the Borrower or any other Subsidiary;

(d) Guarantees by the Borrower of Indebtedness of any Subsidiary and by any Subsidiary of Indebtedness of the Borrower or any other Subsidiary;

(e) Indebtedness of the Borrower or any Subsidiary incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including Capital Lease Obligations and any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, and extensions, renewals, refinancings and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof; provided that (i) such Indebtedness is incurred prior to or within 180 days after such acquisition or the completion of such construction or improvement and (ii) the aggregate outstanding principal amount of Indebtedness permitted by this clause (e) shall not exceed \$3,000,000 at any time outstanding;

(f) Indebtedness of any Person that becomes a Subsidiary, or merges into the Borrower or a Subsidiary after the date hereof; provided that (i) such Indebtedness exists at the time such Person becomes a Subsidiary, or merges into the Borrower or a Subsidiary and is not created in contemplation of or in connection with such Person becoming a Subsidiary, or merging into the Borrower or a Subsidiary and (ii) the aggregate outstanding principal amount of Indebtedness permitted by this clause (f) shall not exceed \$3,000,000 at any time outstanding;

(g) Indebtedness of the Borrower or any Subsidiary as an account party in respect of trade letters of credit;

(h) Indebtedness of the Borrower or any Subsidiary in respect of workers' compensation claims, self-insurance obligations, performance bonds, surety, appeal or similar bonds and completion guarantees provided by the Borrower and the Subsidiaries in the ordinary course of business, provided that upon the incurrence of Indebtedness with respect to reimbursement type obligations regarding workers' compensation claims, such obligations are reimbursed within 30 days following such drawing or incurrence;



(i) Guarantees in the ordinary course of business by the Borrower or any Subsidiary of Indebtedness incurred by employees or prospective employees; provided that the aggregate principal amount of such Guarantees permitted by this clause (i) shall not exceed \$3,000,000 at any one time outstanding;

(j) Indebtedness under Swap Contracts entered into in the ordinary course of business for non-speculative purposes in order to hedge bona fide business risks associated with fluctuations in interest rates or currency exchange rates; and

(k) Other unsecured Indebtedness in an aggregate principal amount not exceeding \$10,000,000 at any time outstanding.

SECTION 6.02. Liens. The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(a) Permitted Encumbrances;

(b) any Lien on any property or asset of the Borrower or any Subsidiary existing on the date hereof and set forth in Schedule 6.02; provided that

(i) such Lien shall not apply to any other property or asset of the Borrower or any Subsidiary and

(ii) such Lien shall secure only those obligations which it secures on the date hereof and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(c) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any Subsidiary or existing on any property or asset of any Person that becomes a Subsidiary, or merges into the Borrower or a Subsidiary after the date hereof prior to the time such Person becomes a Subsidiary, or merges into the Borrower or a Subsidiary; provided that

(i) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming, or merging into, a Subsidiary, as the case may be,

(ii) such Lien shall not apply to any other property or assets of the Borrower or any Subsidiary and

(iii) such Lien shall secure only those obligations which it secures on the date of such acquisition or the date such Person becomes, or merges into, a Subsidiary, as the case may be and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(d) Liens on fixed or capital assets acquired, constructed or improved by the Borrower or any Subsidiary; provided that

- (i) such security interests secure Indebtedness permitted by clause (e) of Section 6.01,
  - (ii) such security interests and the Indebtedness secured thereby are incurred prior to or within 180 days after such acquisition or the completion of such construction or improvement,
  - (iii) the Indebtedness secured thereby does not exceed 100% of the cost of acquiring, constructing or improving such fixed or capital assets and
  - (iv) such security interests shall not apply to any other property or assets of the Borrower or any Subsidiary.
- (e) Liens created by the Collateral Documents.

In addition, neither the Borrower nor any of its Subsidiaries shall become a party to any agreement, note, indenture or other instrument, or take any other action, which would prohibit the creation of a Lien on any of its properties or other assets in favor of the Administrative Agent for the benefit of itself and the Holders of Secured Obligations, as additional collateral for the Secured Obligations.

SECTION 6.03. Fundamental Changes.

(a) The Borrower will not, and will not permit any Subsidiary to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or any substantial part of its assets, or all or substantially all of the stock of any of its Subsidiaries (in each case, whether now owned or hereafter acquired), or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing

- (i) any Subsidiary may merge into the Borrower in a transaction in which the Borrower is the surviving corporation,
- (ii) any Subsidiary, or branch of the Borrower or a Subsidiary, may merge into any Subsidiary in a transaction in which the surviving entity is a Subsidiary,
- (iii) any Subsidiary may sell, transfer, lease or otherwise dispose of its assets to the Borrower or to another Subsidiary and
- (iv) any Subsidiary may liquidate or dissolve if the Borrower determines in good faith that such liquidation or dissolution is in the best interests of the Borrower and is not materially disadvantageous to the Lenders; provided that any merger involving a Person that is not a Subsidiary immediately prior to such merger shall not be permitted unless also permitted by Section 6.04.

(b) The Borrower will not, and will not permit any of its Subsidiaries to, engage to any material extent in any business other than businesses of the type conducted by the

Borrower and its Subsidiaries on the date of execution of this Agreement and businesses reasonably related thereto.

SECTION 6.04. Investments, Loans, Advances, Guarantees and Acquisitions. The Borrower will not, and will not permit any of its Subsidiaries to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a wholly owned Subsidiary prior to such merger) any capital stock, evidences of indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of, make or permit to exist any loans or advances to, Guarantee any obligations of, or make or permit to exist any investment or any other interest in, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit, except:

(a) (i) Permitted Investments and (ii) so long as the aggregate outstanding amount thereof does not exceed \$20,000,000 at any time during the term of this Agreement, Permitted Two-Year Investments;

(b) investments existing on the date hereof and listed on Schedule 6.04;

(c) loans, advances or capital contributions made by the Borrower to any Subsidiary and made by any Subsidiary to the Borrower or any other Subsidiary (provided that not more than \$15,000,000 in loans, advances or capital contributions may be made and remain outstanding, during the term of this Agreement, by the Borrower or any Subsidiary Loan Party to a Person which is not a Subsidiary Loan Party);

(d) Guarantees constituting Indebtedness permitted by Section 6.01;

(e) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;

(f) Permitted Acquisitions, provided that the sum of all consideration paid or otherwise delivered in connection with Permitted Acquisitions (including the principal amount of any Indebtedness issued as deferred purchase price and fair market value of any other non-cash consideration) plus the aggregate principal amount of all Indebtedness otherwise incurred or assumed in connection with, or resulting from, Permitted Acquisitions (including Indebtedness of any acquired Persons outstanding at the time of the applicable Permitted Acquisition) shall not exceed, during the term of this Agreement, the Acquisition Amount;

(g) Guarantees by the Borrower and any Subsidiary of leases entered into in the ordinary course of business by any Subsidiary as lessee;

(h) extensions of credit in the nature of accounts receivable or notes receivable in the ordinary course of business;

(i) investments in payroll, travel, relocation and similar advances to employees and prospective employees to cover matters that are expected at the time of such

advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(j) investments in or acquisitions of stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Borrower or any Subsidiary or in satisfaction of judgments;

(k) investments in equity securities and rights to acquire equity securities acquired as part of fees charged to clients or otherwise in connection with the performance of services by the Borrower and its Subsidiaries in the ordinary course of business;

(l) warrants, options and Equity Interests received by the Borrower or any Subsidiary as full or partial compensation for services rendered by the Borrower or any Subsidiary, all in the ordinary course of business consistent with past practice;

(m) deposit accounts maintained in the ordinary course of business; and

(n) other investments by the Borrower in a cumulative aggregate amount not exceeding \$10,000,000 during the term of this Agreement.

SECTION 6.05. Swap Agreements. The Borrower will not, and will not permit any of its Subsidiaries to, enter into any Swap Agreement, except (a) Swap Agreements entered into to hedge or mitigate risks to which the Borrower or any Subsidiary has actual exposure (other than those in respect of Equity Interests or Subordinated Indebtedness of the Borrower or any of its Subsidiaries), and (b) Swap Agreements entered into with respect to foreign currency transactions or in order to effectively cap, collar or exchange rates (from fixed to floating rates, from one floating rate to another floating rate or otherwise) with respect to any interest-bearing liability or investment of the Borrower or any Subsidiary.

SECTION 6.06. Restricted Payments. The Borrower will not, and will not permit any of its Subsidiaries to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except

(a) the Borrower may declare and pay dividends with respect to its Equity Interests payable solely in additional shares of its common stock,

(b) Subsidiaries may declare and pay dividends ratably with respect to their Equity Interests, and

(c) so long as no Event of Default has then occurred or is continuing, or would arise after giving effect thereto, the Borrower may make Restricted Payments.

SECTION 6.07. Transactions with Affiliates. The Borrower will not, and will not permit any of its Subsidiaries to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except

(a) in the ordinary course of business at prices and on terms and conditions not materially less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties,

(b) transactions between or among the Borrower and Subsidiary Loan Parties not involving any other Affiliate,

(c) any transfer or other disposition permitted by Section 6.03 and

(d) any Restricted Payment permitted by Section 6.06.

SECTION 6.08. Restrictive Agreements. The Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon

(a) the ability of the Borrower or any Subsidiary to create, incur or permit to exist any Lien upon any of its property or assets, or

(b) the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to the Borrower or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary; provided that

(i) the foregoing shall not apply to restrictions and conditions imposed by law or by this Agreement,

(ii) the foregoing shall not apply to restrictions and conditions existing on the date hereof identified on Schedule 6.08 (but shall apply to any extension or renewal of, or any amendment or modification expanding the scope of, any such restriction or condition),

(iii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary or an asset pending such sale, provided such restrictions and conditions apply only to the Subsidiary or the asset that is to be sold and such sale is permitted hereunder,

(iv) clause (a) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness and

(v) clause (a) of the foregoing shall not apply to customary provisions in leases restricting the assignment thereof.

SECTION 6.09. Changes in Fiscal Year. The Borrower shall not, nor shall it permit any Subsidiary to, change its fiscal year from its present basis; provided that any Subsidiary acquired after the Effective Date pursuant to a Permitted Acquisition may change its fiscal year to the fiscal year basis employed by the Borrower within one (1) year following such

Permitted Acquisition so long as the Borrower delivers thirty (30) days' prior written notice of such change to the Administrative Agent.

SECTION 6.10. Subordinated Indebtedness. The Borrower will not, and will not permit any Subsidiary to, make any Prohibited Amendment to any indenture, note or other agreement evidencing or governing any Subordinated Indebtedness, or directly or indirectly voluntarily prepay, decrease or in substance decrease, purchase, redeem, retire or otherwise acquire, any Subordinated Indebtedness. As used herein, "Prohibited Amendment" means any amendment or modification the effect of which is to: (a) increase the interest rate on such Subordinated Indebtedness; (b) change the dates upon which payments of principal or interest are due on such Subordinated Indebtedness other than to extend such dates; (c) change any default or event of default other than to delete or make less restrictive any default provision therein, or add any covenant with respect to such Subordinated Indebtedness; (d) change the redemption or prepayment provisions of such Subordinated Indebtedness other than to extend the dates therefor or to reduce the premiums payable in connection therewith; (e) grant any security or collateral to secure payment of such Subordinated Indebtedness; or (f) change or amend any other term if such change or amendment would materially increase the obligations of the Borrower or applicable Subsidiary thereunder or confer additional material rights on the holder of such Subordinated Indebtedness in a manner adverse to the Borrower, any Subsidiary, the Administrative Agent or any Lender.

SECTION 6.11. Financial Covenants.

SECTION 6.11.1. Fixed Charge Coverage Ratio. The Borrower will not permit the ratio (the "Fixed Charge Coverage Ratio"), determined as of the end of each of its fiscal quarters ending on and after December 31, 2003 for the period of 4 consecutive fiscal quarters ending with the end of such fiscal quarter, of (i) Consolidated EBITDAR *minus* Consolidated Capital Expenditures to (ii) Consolidated Interest Expense *plus* Consolidated Rental Payments *plus* Restricted Payments (other than those permitted by Section 6.06(a) or (b)), all calculated for the Borrower and its Subsidiaries on a consolidated basis, to be less than the applicable ratio set forth below:

<u>FISCAL QUARTER ENDING DURING THE FOLLOWING PERIODS:</u>	<u>FIXED CHARGE COVERAGE RATIO SHALL NOT BE LESS THAN:</u>
Effective Date – June 30, 2004	1.00:1.00
July 1, 2004 – December 31, 2004	1.10:1.00
January 1, 2005 – September 30, 2005	1.20:1.00
October 1, 2005 – December 31, 2005	1.25:1.00
January 1, 2006 – March 31, 2006	1.30:1.00
April 1, 2006 and thereafter	1.35:1.00

SECTION 6.11.2. Leverage Ratio. The Borrower will not permit the ratio (the "Leverage Ratio"), determined as of the end of each of its fiscal quarters ending on and after December 31, 2003, of (i) Consolidated Total Indebtedness to (ii) Consolidated EBITDA for the period of 4 consecutive fiscal quarters ending with the end of such fiscal quarter, to be greater than 1.50 to 1.0.

SECTION 6.11.3. Current Ratio. The Borrower will not permit the ratio, determined as of the end of each of its fiscal quarters ending on and after December 31, 2003, of (i) the sum of (without duplication) current assets of the Borrower and its Subsidiaries on a consolidated basis to (ii) current liabilities of the Borrower and its Subsidiaries on a consolidated basis, in each case in accordance with GAAP, to be less than 1.30 to 1.0.

SECTION 6.11.4. Minimum Net Worth. The Borrower will at all times maintain Consolidated Net Worth of not less than the sum of (i) \$145,000,000, plus (ii) 50% of Consolidated Net Income earned in each fiscal quarter beginning with the fiscal quarter ending on March 31, 2004 (without deduction for losses), plus 75% of Net Cash Proceeds received by the Borrower or any Subsidiary.

## ARTICLE VII

### Events of Default

If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of three Business Days;

(c) any representation or warranty made or deemed made by or on behalf of the Borrower or any Subsidiary in or in connection with this Agreement, the Subsidiary Guaranty, any other Loan Document or any amendment or modification thereof or waiver hereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Agreement, the Subsidiary Guaranty or any amendment or modification thereof or waiver thereunder, shall prove to have been incorrect when made or deemed made;

(d) (i) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Sections 5.01, 5.02, 5.03 (with respect to the Borrower's existence), 5.08, 5.09 or 5.10 or in Article VI, or (ii) any Loan Document shall for any reason not be or shall cease to be in full force and effect or is declared to be null and void, or the Borrower or any Subsidiary takes any action for the purpose of terminating, repudiating or rescinding any Loan Document or any of its obligations thereunder;

(e) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in clause (a), (b) or (d) of this Article), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender);

(f) the Borrower or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable;

(g) any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; provided that this clause (g) shall not apply to secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the



appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the Borrower or any Subsidiary shall

(i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect,

(ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article,

(iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of its assets,

(iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding,

(v) make a general assignment for the benefit of creditors or

(vi) take any action for the purpose of effecting any of the foregoing;

(j) the Borrower or any Subsidiary shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage) in excess of \$5,000,000 shall be rendered against the Borrower, any Subsidiary or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any Subsidiary to enforce any such judgment;

(l) an ERIS A Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect; or

(m) a Change in Control shall occur;

then, and in every such event (other than an event with respect to the Borrower described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times:

(i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and

(ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder and the other Loan Documents, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any event with respect to the Borrower described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

#### ARTICLE VIII

##### The Administrative Agent

Each of the Lenders and the Issuing Bank hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and on the behalf of the Holders of Secured Obligations and to exercise such powers as are delegated to the Administrative Agent by the terms hereof, together with such actions and powers as are reasonably incidental thereto.

The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein. Without limiting the generality of the foregoing,

(a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing,

(b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby that the Administrative Agent is required to exercise in writing as directed by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and

(c) except as expressly set forth herein, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information

relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into

- (i) any statement, warranty or representation made in or in connection with this Agreement,
- (ii) the contents of any certificate, report or other document delivered hereunder or in connection herewith,
- (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein,
- (iv) the validity, enforceability, effectiveness or genuineness of this Agreement or any other agreement, instrument or document,
- (v) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent, or
- (vi) the perfection or priority of any of the Liens on any of the Collateral.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all of its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Bank and the Borrower. Upon any such resignation, the Required Lenders shall have the right, with the written consent of the Borrower so long as no Event of Default exists (which consent shall not be unreasonably withheld or delayed), to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuing Bank, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as (and without duplication of) those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any related agreement or any document furnished hereunder or thereunder.

Each Lender authorizes the Administrative Agent to enter into each of the Collateral Documents to which the Administrative Agent is from time to time a party and to take all action contemplated by such documents. Each Lender agrees that no Holder of Secured Obligations (other than the Administrative Agent) shall have the right individually to seek to realize upon the security granted by any Collateral Document, it being understood and agreed that such rights and remedies may be exercised solely by the Administrative Agent for the benefit of the Holders of Secured Obligations upon the terms of the Collateral Documents.

In the event that any Collateral is hereafter pledged by any Person as collateral security for the Obligations, the Administrative Agent is hereby authorized, and granted a power of attorney, to execute and deliver on behalf of the Holders of Secured Obligations any Loan Documents necessary or appropriate to grant and perfect a Lien on such Collateral in favor of the Administrative Agent on behalf of the Holders of Secured Obligations.

The Lenders hereby authorize the Administrative Agent, at its option and in its discretion, to release any Lien granted to or held by the Administrative Agent upon any Collateral (i) upon termination of the Commitments and payment and satisfaction of all of the Obligations at any time arising under or in respect of this Agreement or the Loan Documents or

the transactions contemplated hereby or thereby; (ii) as permitted by, but only in accordance with, the terms of the applicable Loan Document; or (iii) if approved, authorized or ratified in writing by the Required Lenders, unless such release is required to be approved by all of the Lenders hereunder. In addition, the Administrative Agent shall, and the Lenders hereby authorize the Administrative Agent, to promptly release any Subsidiary Guarantor which becomes an Affected Foreign Subsidiary from the Subsidiary Guaranty; provided that (i) nothing contained in this sentence shall relieve the Borrower or any Subsidiary from its obligations under Sections 5.09 or 5.10 and (ii) the Borrower and each applicable Subsidiary shall comply with Section 5.10. Upon request by the Administrative Agent at any time, the Lenders will confirm in writing the Administrative Agent's authority to release particular types or items of Collateral pursuant to this Article VIII.

Upon any sale or transfer of assets constituting Collateral which is expressly permitted pursuant to the terms of any Loan Document, or consented to in writing by the Required Lenders or all of the Lenders, as applicable, and upon at least five (5) Business Days' prior written request by the Borrower, the Administrative Agent shall (and is hereby irrevocably authorized by the Lenders to) execute such documents as may be necessary to evidence the release of the Liens granted to the Administrative Agent for the benefit of the Holders of Secured Obligations herein or pursuant hereto upon the Collateral that was sold or transferred; provided, however, that (i) the Administrative Agent shall not be required to execute any such document on terms which, in the Administrative Agent's opinion, would expose the Administrative Agent to liability or create any obligation or entail any consequence other than the release of such Liens without recourse or warranty, and (ii) such release shall not in any manner discharge, affect or impair the Secured Obligations or any Liens upon (or obligations of the Borrower or any Subsidiary in respect of) all interests retained by the Borrower or any Subsidiary, including (without limitation) the proceeds of the sale, all of which shall continue to constitute part of the Collateral.

## ARTICLE IX

### Miscellaneous

SECTION 9.01. Notices. (a) Except in the case of notices and other communications expressly permitted to be given by telephone (and subject to paragraph (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(i) if to the Borrower, to it at Sears Tower – Suite 4200, 233 South Wacker Drive, Chicago, Illinois 60606, Attention of the Treasurer (Telecopy No. (312) 496-1686, Email address: kashley@heidrick.com);

(ii) if to the Administrative Agent, to JPMorgan Chase Bank, Loan and Agency Services, 1111 Fannin, 10th Floor, Houston, Texas 77002, Attention of Debbie Meche (Telecopy No. (713) 750-2938; Email address: Debbie.Meche@jpmorgan.com), with copies to (a) JPMorgan Chase Bank, 1411 Broadway, New York, New York 10018,

Attention of Beth Grossman (Telecopy No. (212) 391-6251, Email address: Beth.Grossman@jpmorgan.com) and (b) J.P. Morgan Chase & Co., Chicago Office, 227 West Monroe Street, Chicago, Illinois 60606, Attention of Lindsey J. Whyte (Telecopy No. (312) 541-3451, Email address: Lindsey.J.Whyte@jpmorgan.com);

(iii) if to the Issuing Bank, to it at SBLC Department, 10420 Highland Manor Drive, Tampa, Florida 33610, Attention of Joseph M. Borello (Telecopy No. (813) 432-5161, Email address: Joseph.M.Borello@chase.com); and

(iv) if to any other Lender, to it at its address (or telecopy number or Email address) set forth on its signature page hereto or the applicable Assignment and Assumption.

(b) Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communications pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices pursuant to Article II unless otherwise set forth therein or agreed by the Administrative Agent and the applicable Lender. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

(c) Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

#### SECTION 9.02. Waivers; Amendments.

(a) No failure or delay by the Administrative Agent, the Issuing Bank or any Lender in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Bank and the Lenders hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders or by the Borrower and the Administrative Agent with the consent of the Required Lenders; provided that no such agreement shall

- (i) increase the Commitment of any Lender without the written consent of such Lender,
- (ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby,
- (iii) postpone the scheduled date of payment of the principal amount of any Loan or LC Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby,
- (iv) change Section 2.18(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender,
- (v) change any of the provisions of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or the Issuing Bank hereunder without the prior written consent of the Administrative Agent or the Issuing Bank, as the case may be, or
- (vi) other than pursuant to a transaction permitted by the terms of this Agreement or any other Loan Document, release all or substantially all of the Collateral which is subject to the Loan Documents.

SECTION 9.03. Expenses; Indemnity; Damage Waiver.

(a) The Borrower shall pay

- (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of this Agreement or any amendments, modifications or waivers of the provisions hereof (whether or not the transactions contemplated hereby or thereby shall be consummated),
- (ii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and
- (iii) all reasonable out-of-pocket expenses incurred by the Administrative Agent, the Issuing Bank or any Lender, including the reasonable fees, charges and disbursements of any counsel for the Administrative Agent, the Issuing Bank or any Lender, (x) in connection with the enforcement or protection of its rights in connection with this Agreement, including its rights under this Section, or (y) in connection with the

Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) The Borrower shall indemnify the Administrative Agent, the Issuing Bank and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of

(i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the Transactions or any other transactions contemplated hereby,

(ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit),

(iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or

(iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent, the Issuing Bank under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent, the Issuing Bank, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent, the Issuing Bank in its capacity as such.

(d) To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.



(e) All amounts due under this Section shall be payable promptly not later than fifteen days after written demand therefor.

SECTION 9.04. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), Participants (to the extent provided in paragraph (c) of this Section) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Bank and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b)(i) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld) of:

(A) the Borrower, provided that no consent of the Borrower shall be required for an assignment to a Lender, an Affiliate of a Lender, an Approved Fund or, if an Event of Default under clause (a), (b), (h) or (i) of Article VII has occurred and is continuing, any other assignee; and

(B) the Administrative Agent, provided that no consent of the Administrative Agent shall be required for an assignment of any Commitment to an assignee that is a Lender with a Commitment immediately prior to giving effect to such assignment.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment or Loans of any Class, the amount of the Commitment or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$5,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, provided that no such consent of the Borrower shall be required if an Event of Default under clause (a), (b), (h) or (i) of Article VII has occurred and is continuing;

(B) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement, provided that this clause shall not be construed to prohibit the assignment of a proportionate part of all the assigning Lender's rights and obligations in respect of one Class of Commitments or Loans;

(C) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500; and

(D) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

For the purposes of this Section 9.04(b), the term "Approved Fund" has the following meaning:

"Approved Fund" means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(iv) of this Section, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17 and 9.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 9.04 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c) of this Section.

(iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent, the Issuing Bank and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Bank and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c)(i) Any Lender may, without the consent of the Borrower, the Administrative Agent or the Issuing Bank, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided that (A) such Lender's obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (C) the Borrower, the Administrative Agent, the Issuing Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 9.02(b) that affects such Participant. Subject to paragraph (c)(ii) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.18(c) as though it were a Lender.

(ii) A Participant shall not be entitled to receive any greater payment under Section 2.15 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.17 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.17(e) as though it were a Lender.

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including without limitation any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

SECTION 9.05. Survival. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.15, 2.16, 2.17 and 9.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

SECTION 9.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 9.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmaturred. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 9.09. Governing Law; Jurisdiction; Consent to Service of Process.

(a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement against the Borrower or its properties in the courts of any jurisdiction.

(c) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.12. Confidentiality. Each of the Administrative Agent, the Issuing Bank and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed

(a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential),

(b) to the extent requested by any regulatory authority,

(c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process,

(d) to any other party to this Agreement,

(e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder,

(f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations,

(g) with the written consent of the Borrower, or

(h) to the extent such Information

(i) becomes publicly available other than as a result of a breach of this Section or

(ii) becomes available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis from a source other than the Borrower.

For the purposes of this Section, "Information" means all information received from the Borrower relating to the Borrower or its business, other than any such information that is available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis prior to disclosure by the Borrower; provided that, (x) in the case of information received from the Borrower after the date hereof, such information is clearly identified at the time of delivery as confidential and (y) notwithstanding anything herein to the contrary, "Information" shall not include, and the Administrative Agent and each Lender may disclose to any and all Persons, without limitation of any kind, any information with respect to the U.S. federal income tax treatment and U.S. federal income tax structure of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to the Administrative Agent or such Lender relating to such tax treatment and tax structure.

Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 9.13. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

[Signature Pages Follow]





By /s/ MARY LOU BARTLETT

---

Name: **Mary Lou Bartlett**  
Title: **Senior Vice President and Division Head**

Address:  
135 South LaSalle St., Ste. 829  
Chicago, IL 60603

Telephone: (312) 904-0433  
Facsimile: (312) 904-9046  
Email:  
mary.lou.bartlett@abnamro.com.



**SCHEDULE 2.01**

**COMMITMENTS**

<b><u>LENDER</u></b>	<b><u>COMMITMENT</u></b>
JPMORGAN CHASE BANK	\$ 20,000,000
LASALLE BANK NATIONAL ASSOCIATION	\$ 20,000,000
BANK OF AMERICA, N.A.	\$ 20,000,000
<b>AGGREGATE COMMITMENTS</b>	<b>\$ 60,000,000</b>

[FORM OF]

ASSIGNMENT AND ASSUMPTION

Reference is made to the Credit Agreement dated as of December 22, 2003 (as amended and in effect on the date hereof, the "Credit Agreement"), among Heidrick & Struggles International, Inc., the Lenders named therein and JPMorgan Chase Bank, as Administrative Agent for the Lenders. Terms defined in the Credit Agreement are used herein with the same meanings.

The Assignor named on the reverse hereof hereby sells and assigns, without recourse, to the Assignee named on the reverse hereof, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Assignment Date set forth on the reverse hereof, the interests set forth on the reverse hereof (the "Assigned Interest") in the Assignor's rights and obligations under the Credit Agreement, including, without limitation, the interests set forth on the reverse hereof in the Commitment of the Assignor on the Assignment Date and Revolving Loans owing to the Assignor which are outstanding on the Assignment Date, together with the participations in Letters of Credit and LC Disbursements held by the Assignor on the Assignment Date, but excluding accrued interest and fees to and excluding the Assignment Date. The Assignee hereby acknowledges receipt of a copy of the Credit Agreement. From and after the Assignment Date (i) the Assignee shall be a party to and be bound by the provisions of the Credit Agreement and, to the extent of the Assigned Interest, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent of the Assigned Interest, relinquish its rights and be released from its obligations under the Credit Agreement.

This Assignment and Assumption is being delivered to the Administrative Agent together with (i) if the Assignee is a Foreign Lender, any documentation required to be delivered by the Assignee pursuant to Section 2.17(e) of the Credit Agreement, duly completed and executed by the Assignee, and (ii) if the Assignee is not already a Lender under the Credit Agreement, an Administrative Questionnaire in the form supplied by the Administrative Agent, duly completed by the Assignee. The [Assignee/Assignor] shall pay the fee payable to the Administrative Agent pursuant to Section 9.04(b) of the Credit Agreement.

This Assignment and Assumption shall be governed by and construed in accordance with the laws of the State of New York.

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

Effective Date of Assignment  
("Assignment Date"):

<u>Facility</u>	<u>Principal Amount Assigned</u>	<u>Percentage Assigned of Facility/Commitment (set forth, to at least 8 decimals, as a percentage of the Facility and the Aggregate Commitment of all Lenders thereunder)</u>
Commitment Assigned:	\$	%
Revolving Loans:		

The terms set forth above and on the reverse side hereof are hereby agreed to:

[Name of Assignor], as Assignor

By: \_\_\_\_\_

Name:

Title:

[Name of Assignee], as Assignee

By: \_\_\_\_\_

Name:

Title:

The undersigned hereby consent to the within assignment:<sup>1</sup>

[Heidrick & Struggles International, Inc.]

JPMorgan Chase Bank, as Administrative Agent,

By: \_\_\_\_\_

By: \_\_\_\_\_

Name:

Name:

Title:

Title:

<sup>1</sup> Consents to be included to the extent required by Section 9.04(b) of the Credit Agreement.

## FORM OF OPINION OF CHIEF LEGAL OFFICER OF THE BORROWER

[Effective Date]

To the Lenders and the Administrative  
Agent Referred to Below  
c/o JPMorgan Chase Bank, as  
Administrative Agent  
1111 Fannin, 10<sup>th</sup> Floor  
Houston, Texas 77002

Dear Sirs:

[I/We] have acted as counsel for (i) Heidrick & Struggles International, Inc., a Delaware corporation (the "Borrower"), in connection with the Credit Agreement dated as of December 22, 2003 (the "Credit Agreement"), among the Borrower, the banks and other financial institutions identified therein as Lenders, and JPMorgan Chase Bank, as Administrative Agent and (ii) the Subsidiaries listed on Annex A hereto (the "Subsidiary Guarantors"; the Borrower and the Subsidiary Guarantors being hereinafter referred to collectively as the "Loan Parties" and individually as a "Loan Party") in connection with the Guaranty dated as of December 22, 2003 among the Subsidiary Guarantors and the Administrative Agent (the "Subsidiary Guaranty"; the Credit Agreement and the Subsidiary Guaranty being hereinafter referred to collectively as the "Loan Documents" and individually as a "Loan Document"). Terms defined in the Credit Agreement are used herein with the same meanings.

[I, or individuals under my direction,/We] have examined originals or copies, certified or otherwise identified to [my/our] satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such other investigations of fact and law as [I/we] have deemed necessary or advisable for purposes of this opinion.

Upon the basis of the foregoing, [I am/we are] of the opinion that:

1. Each Loan Party (a) is [a corporation] duly organized, validly existing and in good standing under the laws of its organization, (b) has all requisite power and authority to carry on its business as now conducted and (c) except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.
2. The Transactions are within each Loan Party's [corporate] powers and have been duly authorized by all necessary [corporate] and, if required, stockholder action. Each Loan Document has been duly executed and delivered by each Loan Party party thereto.
3. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect, (b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of any Loan Party or any of

its Subsidiaries or any order of any Governmental Authority, (c) will not violate or result in a default under any indenture, agreement or other instrument binding upon any Loan Party or any of its Subsidiaries or its assets, or give rise to a right thereunder to require any payment to be made by any Loan Party or any of its Subsidiaries, and (d) will not result in the creation or imposition of any Lien on any asset of any Loan Party or any of its Subsidiaries.

4. There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to [my/our] knowledge, threatened against or affecting any Loan Party or any of its Subsidiaries (a) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect (other than the Disclosed Matters) or (b) that involve any Loan Document or the Transactions.

5. None of the Loan Parties nor any of their Subsidiaries are (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

[I am a member/we are members] of the bar of the State of Illinois and the foregoing opinion is limited to the laws of the State of Illinois, the General Corporation Law of the State of Delaware and the Federal laws of the United States of America. This opinion is rendered solely to you in connection with the above matter. This opinion may not be relied upon by you for any other purpose or relied upon by any other Person (other than your successors and assigns as Lenders and Persons that acquire participations in your Loans) without our prior written consent.

Very truly yours,



FORM OF OPINION OF MAYER, BROWN, ROWE & MAW LLP

See Attached.

## FORM OF SUBSIDIARY GUARANTY

## GUARANTY

THIS GUARANTY (this "Guaranty") is made as of the 22nd day of December, 2003, by and among each of the undersigned (the "Initial Guarantors" and along with any additional Subsidiaries of the Borrower which become parties to this Guaranty by executing a supplement hereto in the form attached as Annex I, the "Guarantors") in favor of the Administrative Agent, for the ratable benefit of the Holders of Secured Obligations, under the Credit Agreement referred to below.

WITNESSETH:

WHEREAS, HEIDRICK & STRUGGLES INTERNATIONAL, INC., a Delaware corporation (the "Borrower"), the institutions from time to time parties hereto as Lenders, and JPMORGAN CHASE BANK, in its capacity as contractual representative (the "Administrative Agent") for itself and the other Lenders, have entered into a certain Credit Agreement dated as of December 22, 2003 (as the same may be amended, modified, supplemented and/or restated, and as in effect from time to time, the "Credit Agreement"), providing, subject to the terms and conditions thereof, for extensions of credit and other financial accommodations to be made by the Lenders to the Borrower;

WHEREAS, it is a condition precedent to the initial extensions of credit by the Lenders under the Credit Agreement that each of the Guarantors (constituting all of the Subsidiaries of the Borrower required to execute this Guaranty pursuant to Section 5.09 of the Credit Agreement) execute and deliver this Guaranty, whereby each of the Guarantors shall guarantee the payment when due of all principal, interest, letter of credit reimbursement obligations, fees, expenses, indemnities and other obligations and amounts (collectively, the "Obligations") that shall be at any time payable by the Borrower under the Credit Agreement, the other Loan Documents, and any Swap Agreement to which any Lender or affiliate of any Lender shall be a party (each a "Designated Financial Contract"); and

WHEREAS, in consideration of the direct and indirect financial and other support that the Borrower has provided, and such direct and indirect financial and other support as the Borrower may in the future provide, to the Guarantors, and in order to induce the Lenders and the Administrative Agent to enter into the Credit Agreement, each of the Guarantors is willing to guarantee the obligations of the Borrower under the Credit Agreement, any Designated Financial Contract and the other Loan Documents;

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions. Terms defined in the Credit Agreement and not otherwise defined herein have, as used herein, the respective meanings provided for therein.

SECTION 2. Representations, Warranties and Covenants. Each of the Guarantors represents and warrants (which representations and warranties shall be deemed to have been renewed at the time of the making of any Loan or issuance of any Letter of Credit) that:

(A) It is a corporation, partnership or limited liability company duly and properly incorporated or organized, as the case may be, validly existing and (to the extent such concept applies to such entity) in good standing under the laws of its jurisdiction of incorporation or organization and has all requisite authority to conduct its business in each jurisdiction in which its business is conducted, except to the extent that the failure to have such authority could not reasonably be expected to have a Material Adverse Effect.

(B) It (to the extent applicable) has the power and authority and legal right to execute and deliver this Guaranty and to perform its obligations hereunder. The execution and delivery by each Guarantor of this Guaranty and the performance by each of its obligations hereunder have been duly authorized by proper proceedings, and this Guaranty constitutes a legal, valid and binding obligation of each Guarantor, respectively, enforceable against such Guarantor, respectively, in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and subject to general principles of equity whether considered in a proceeding in equity or at law.

(C) Neither the execution and delivery by it of this Guaranty, nor the consummation of the transactions herein contemplated, nor compliance with the provisions hereof will (i) violate any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on it or its articles or certificate of incorporation, limited liability company or partnership agreement, certificate of partnership, articles or certificate of organization, by-laws, or operating agreement or other management agreement, as the case may be, or the provisions of any indenture, instrument or agreement to which the Borrower or any of its Subsidiaries is a party or is subject, or by which it, or its property, is bound, or (ii) conflict with, or constitute a default under, or result in, or require, the creation or imposition of any Lien in, of or on its property pursuant to the terms of, any such indenture, instrument or agreement (other than any Loan Document). No order, consent, adjudication, approval, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of any governmental or public body or authority, or any subdivision thereof, which has not been obtained by it, is required to be obtained by it in connection with the execution, delivery and performance by it of, or the legality, validity, binding effect or enforceability against it of, this Guaranty.

In addition to the foregoing, each of the Guarantors covenants that, so long as any Lender has any Commitment outstanding under the Credit Agreement or any amount payable under the Credit Agreement or any other Guaranteed Obligations (other than contingent indemnity obligations) shall remain unpaid, it will, and, if necessary, will

enable the Borrower to, fully comply with those covenants and agreements of the Borrower applicable to such Guarantor set forth in the Credit Agreement.

SECTION 3. The Guaranty. Each of the Guarantors hereby unconditionally guarantees, jointly with the other Guarantors and severally, the full and punctual payment when due (whether at stated maturity, upon acceleration or otherwise) of the Obligations, including, without limitation, (i) the principal of and interest on each Loan made to the Borrower pursuant to the Credit Agreement, (ii) any obligations of the Borrower to reimburse LC Disbursements ("Reimbursement Obligations"), (iii) all obligations of the Borrower owing to any Lender or any affiliate of any Lender under any Designated Financial Contract, and (iv) all other amounts payable by the Borrower or any of its Subsidiaries under the Credit Agreement, any Designated Financial Contract and the other Loan Documents (all of the foregoing being referred to collectively as the "Guaranteed Obligations"); provided that the liability of any Guarantor hereunder shall not exceed the maximum amount of the claim which could then be recovered from such Guarantor under this Guaranty without rendering such claim voidable or avoidable under Section 548 of Chapter 11 of the Bankruptcy Code or under any applicable state Uniform Fraudulent Transfer Act, Uniform Fraudulent Conveyance Act or similar statute or common law. Upon failure by the Borrower or any of its Affiliates, as applicable, to pay punctually any such amount, each of the Guarantors agrees that it shall forthwith on demand pay such amount at the place and in the manner specified in the Credit Agreement, any Designated Financial Contract or the relevant Loan Document, as the case may be. Each of the Guarantors hereby agrees that this Guaranty is an absolute, irrevocable and unconditional guaranty of payment and is not a guaranty of collection.

SECTION 4. Guaranty Unconditional. The obligations of each of the Guarantors hereunder shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by:

(A) any extension, renewal, settlement, indulgence, compromise, waiver or release of or with respect to the Guaranteed Obligations or any part thereof or any agreement relating thereto, or with respect to any obligation of any other guarantor of any of the Guaranteed Obligations, whether (in any such case) by operation of law or otherwise, or any failure or omission to enforce any right, power or remedy with respect to the Guaranteed Obligations or any part thereof or any agreement relating thereto, or with respect to any obligation of any other guarantor of any of the Guaranteed Obligations;

(B) any modification or amendment of or supplement to the Credit Agreement, any Designated Financial Contract or any other Loan Document, including, without limitation, any such amendment which may increase the amount of, or the interest rates applicable to, any of the Obligations guaranteed hereby;

(C) any release, surrender, compromise, settlement, waiver, subordination or modification, with or without consideration, of any other guaranties with respect to the Guaranteed Obligations or any part thereof, or any other obligation of any person or entity with respect to the Guaranteed Obligations or any part thereof, or any

nonperfection or invalidity of any direct or indirect security for the Guaranteed Obligations;

(D) any change in the corporate, partnership or other existence, structure or ownership of the Borrower or any other guarantor of any of the Guaranteed Obligations, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting the Borrower or any other guarantor of the Guaranteed Obligations, or any of their respective assets or any resulting release or discharge of any obligation of the Borrower or any other guarantor of any of the Guaranteed Obligations;

(E) the existence of any claim, setoff or other rights which the Guarantors may have at any time against the Borrower, any other guarantor of any of the Guaranteed Obligations, the Administrative Agent, any Holder of Secured Obligations or any other Person, whether in connection herewith or in connection with any unrelated transactions, provided that nothing herein shall prevent the assertion of any such claim by separate suit or compulsory counterclaim;

(F) the enforceability or validity of the Guaranteed Obligations or any part thereof or the genuineness, enforceability or validity of any agreement relating thereto or with respect to any collateral securing the Guaranteed Obligations or any part thereof, or any other invalidity or unenforceability relating to or against the Borrower or any other guarantor of any of the Guaranteed Obligations, for any reason related to the Credit Agreement, any Designated Financial Contract, any other Loan Document, or any provision of applicable law or regulation purporting to prohibit the payment by the Borrower or any other guarantor of the Guaranteed Obligations, of any of the Guaranteed Obligations;

(G) the failure of the Administrative Agent to take any steps to perfect and maintain any security interest in, or to preserve any rights to, any security or collateral for the Guaranteed Obligations, if any;

(H) the election by, or on behalf of, any one or more of the Holders of Secured Obligations, in any proceeding instituted under Chapter 11 of Title 11 of the United States Code (11 U.S.C. 101 et seq.) (the "Bankruptcy Code"), of the application of Section 1111(b)(2) of the Bankruptcy Code;

(I) any borrowing or grant of a security interest by the Borrower, as debtor-in-possession, under Section 364 of the Bankruptcy Code;

(J) the disallowance, under Section 502 of the Bankruptcy Code, of all or any portion of the claims of any of the Holders of Secured Obligations or the Administrative Agent for repayment of all or any part of the Guaranteed Obligations;

(K) the failure of any other Guarantor to sign or become party to this Guaranty or any amendment, change, or reaffirmation hereof; or

(L) any other act or omission to act or delay of any kind by the Borrower, any other guarantor of the Guaranteed Obligations, the Administrative Agent, any Holder of

Secured Obligations or any other Person or any other circumstance whatsoever which might, but for the provisions of this Section 4, constitute a legal or equitable discharge of any Guarantor's obligations hereunder.

SECTION 5. Discharge Only Upon Payment In Full; Reinstatement In Certain Circumstances. Each of the Guarantors' obligations hereunder shall remain in full force and effect until all Guaranteed Obligations (other than contingent indemnity obligations) shall have been paid in full in cash and the Commitments and all Letters of Credit issued under the Credit Agreement shall have terminated or expired. If at any time any payment of the principal of or interest on any Loan, any Reimbursement Obligation or any other amount payable by the Borrower or any other party under the Credit Agreement, any Designated Financial Contract or any other Loan Document is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, each of the Guarantors' obligations hereunder with respect to such payment shall be reinstated as though such payment had been due but not made at such time. The parties hereto acknowledge and agree that each of the Guaranteed Obligations shall be due and payable in the same currency as such Guaranteed Obligation is denominated but if currency control or exchange regulations are imposed in the country which issues such currency with the result such currency (the "Original Currency") no longer exists or the relevant Guarantor is no able to make payment in such Original Currency, then all payments to be made by such Guarantor hereunder in such currency shall instead be made when due in Dollars in an amount equal to the Dollar Amount (as of the date of payment) of such payment due, it being the intention of the parties hereto that each Guarantor takes all risks of the imposition of any such currency control or exchange regulations.

SECTION 6. General Waivers. Each of the Guarantors irrevocably waives acceptance hereof, presentment, demand or action on delinquency, protest, the benefit of any statutes of limitations and, to the fullest extent permitted by law, any notice not provided for herein, as well as any requirement that at any time any action be taken by any Person against the Borrower, any other guarantor of the Guaranteed Obligations, or any other Person.

SECTION 7. Subordination of Subrogation; Subordination of Intercompany Indebtedness.

(A) Subordination of Subrogation. Until the Guaranteed Obligations (other than contingent indemnity obligations) have been indefeasibly paid in full in cash, the Guarantors (i) shall have no right of subrogation with respect to such Guaranteed Obligations and (ii) waive any right to enforce any remedy which the Holders of Secured Obligations now have or may hereafter have against the Borrower, any endorser or any guarantor of all or any part of the Guaranteed Obligations or any other Person, and the Guarantors waive any benefit of, and any right to participate in, any security or collateral given to the Holders of Secured Obligations to secure the payment or performance of all or any part of the Guaranteed Obligations or any other liability of the Borrower to the Holders of Secured Obligations. Should any Guarantor have the right, notwithstanding the foregoing, to exercise its subrogation rights, each Guarantor hereby expressly and irrevocably (A) subordinates any and all rights at law or in equity to subrogation, reimbursement, exoneration, contribution, indemnification or set off that such Guarantor may have to the indefeasible payment in full in cash of the Guaranteed Obligations (other

than contingent indemnity obligations) and (B) waives any and all defenses available to a surety, guarantor or accommodation co-obligor until the Guaranteed Obligations (other than contingent indemnity obligations) are indefeasibly paid in full in cash. Each Guarantor acknowledges and agrees that this subordination is intended to benefit the Administrative Agent and the other Holders of Secured Obligations and shall not limit or otherwise affect such Guarantor's liability hereunder or the enforceability of this Guaranty, and that the Administrative Agent, the other Holders of Secured Obligations and their respective successors and assigns are intended third party beneficiaries of the waivers and agreements set forth in this Section 7(a).

(B) Subordination of Intercompany Indebtedness. Each Guarantor agrees that any and all claims of such Guarantor against the Borrower or any other Guarantor hereunder (each an "Obligor") with respect to any "Intercompany Indebtedness" (as hereinafter defined), any endorser, obligor or any other guarantor of all or any part of the Guaranteed Obligations, or against any of its properties shall be subordinate and, during the existence of an Event of Default, subject in right of payment to the prior payment, in full and in cash, of all Guaranteed Obligations. Notwithstanding any right of any Guarantor to ask, demand, sue for, take or receive any payment from any Obligor, all rights, liens and security interests of such Guarantor, whether now or hereafter arising and howsoever existing, in any assets of any other Obligor shall be and are subordinated to the rights of the Holders of Secured Obligations and the Administrative Agent in those assets. No Guarantor shall have any right to possession of any such asset or to foreclose upon any such asset, whether by judicial action or otherwise, unless and until all of the Guaranteed Obligations (other than contingent indemnity obligations) shall have been fully paid and satisfied (in cash) and all financing arrangements pursuant to any Loan Document or any Designated Financial Contract have been terminated. If all or any part of the assets of any Obligor, or the proceeds thereof, are subject to any distribution, division or application to the creditors of such Obligor, whether partial or complete, voluntary or involuntary, and whether by reason of liquidation, bankruptcy, arrangement, receivership, assignment for the benefit of creditors or any other action or proceeding, or if the business of any such Obligor is dissolved or if substantially all of the assets of any such Obligor are sold, then, and in any such event (such events being herein referred to as an "Insolvency Event"), any payment or distribution of any kind or character, either in cash, securities or other property, which shall be payable or deliverable upon or with respect to any indebtedness of any Obligor to any Guarantor ("Intercompany Indebtedness") shall be paid or delivered directly to the Administrative Agent for application on any of the Guaranteed Obligations, due or to become due, until such Guaranteed Obligations (other than contingent indemnity obligations) shall have first been fully paid and satisfied (in cash). Should any payment, distribution, security or instrument or proceeds thereof be received by the applicable Guarantor upon or with respect to the Intercompany Indebtedness after any Insolvency Event and prior to the satisfaction of all of the Guaranteed Obligations (other than contingent indemnity obligations) and the termination of all financing arrangements pursuant to any Loan Document among the Borrower and the Holders of Secured Obligations, such Guarantor shall receive and hold the same in trust, as trustee, for the benefit of the Holders of Secured Obligations and shall forthwith deliver the same to the Administrative Agent, for the benefit of the Holders of Secured Obligations, in precisely the form received (except

for the endorsement or assignment of the Guarantor where necessary), for application to any of the Guaranteed Obligations, due or not due, and, until so delivered, the same shall be held in trust by the Guarantor as the property of the Holders of Secured Obligations. If any such Guarantor fails to make any such endorsement or assignment to the Administrative Agent, the Administrative Agent or any of its officers or employees is irrevocably authorized to make the same. Each Guarantor agrees that until the Guaranteed Obligations (other than the contingent indemnity obligations) have been paid in full (in cash) and satisfied and all financing arrangements pursuant to any Loan Document among the Borrower and the Holders of Secured Obligations have been terminated, no Guarantor will assign or transfer to any Person (other than the Administrative Agent) any claim any such Guarantor has or may have against any Obligor.

**SECTION 8. Contribution with Respect to Guaranteed Obligations.**

(A) To the extent that any Guarantor shall make a payment under this Guaranty (a "Guarantor Payment") which, taking into account all other Guarantor Payments then previously or concurrently made by any other Guarantor, exceeds the amount which otherwise would have been paid by or attributable to such Guarantor if each Guarantor had paid the aggregate Guaranteed Obligations satisfied by such Guarantor Payment in the same proportion as such Guarantor's "Allocable Amount" (as defined below) (as determined immediately prior to such Guarantor Payment) bore to the aggregate Allocable Amounts of each of the Guarantors as determined immediately prior to the making of such Guarantor Payment, then, following indefeasible payment in full in cash of the Guaranteed Obligations (other than contingent indemnity obligations) and termination of the Credit Agreement and the Designated Financial Contracts, such Guarantor shall be entitled to receive contribution and indemnification payments from, and be reimbursed by, each other Guarantor for the amount of such excess, pro rata based upon their respective Allocable Amounts in effect immediately prior to such Guarantor Payment.

(B) As of any date of determination, the "Allocable Amount" of any Guarantor shall be equal to the maximum amount of the claim which could then be recovered from such Guarantor under this Guaranty without rendering such claim voidable or avoidable under Section 548 of Chapter 11 of the Bankruptcy Code or under any applicable state Uniform Fraudulent Transfer Act, Uniform Fraudulent Conveyance Act or similar statute or common law.

(C) This Section 8 is intended only to define the relative rights of the Guarantors, and nothing set forth in this Section 8 is intended to or shall impair the obligations of the Guarantors, jointly and severally, to pay any amounts as and when the same shall become due and payable in accordance with the terms of this Guaranty.

(D) The parties hereto acknowledge that the rights of contribution and indemnification hereunder shall constitute assets of the Guarantor to which such contribution and indemnification is owing.



(E) The rights of the indemnifying Guarantors against other Guarantors under this Section 8 shall be exercisable upon the full and indefeasible payment of the Guaranteed Obligations (other than contingent indemnity obligations) in cash and the termination of the Credit Agreement and the Designated Financial Contracts.

SECTION 9. Stay of Acceleration. If acceleration of the time for payment of any amount payable by the Borrower under the Credit Agreement, any Designated Financial Contract or any other Loan Document is stayed upon the insolvency, bankruptcy or reorganization of the Borrower, all such amounts otherwise subject to acceleration under the terms of the Credit Agreement, any Designated Financial Contract or any other Loan Document shall nonetheless be payable by each of the Guarantors hereunder forthwith on demand by the Administrative Agent.

SECTION 10. Notices. All notices, requests and other communications to any party hereunder shall be given in the manner prescribed in Article IX of the Credit Agreement with respect to the Administrative Agent at its notice address therein and with respect to any Guarantor at the address set forth below or such other address or teletcopy number as such party may hereafter specify for such purpose by notice to the Administrative Agent in accordance with the provisions of such Article IX.

Notice Address for Guarantors:

c/o Heidrick & Struggles International, Inc.  
Sears Tower – Suite 4200  
233 South Wacker Drive  
Chicago, Illinois 60606  
Attention: Treasurer  
Phone: (312) 496-1383  
Fax: (312) 496-1686

SECTION 11. No Waivers. No failure or delay by the Administrative Agent or any other Holder of Secured Obligations in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided in this Guaranty, the Credit Agreement, any Designated Financial Contract and the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 12. Successors and Assigns. This Guaranty is for the benefit of the Administrative Agent and the other Holders of Secured Obligations and their respective successors and permitted assigns, provided, that no Guarantor shall have any right to assign its rights or obligations hereunder without the consent of all of the Lenders, and any such assignment in violation of this Section 12 shall be null and void; and in the event of an assignment of any amounts payable under the Credit Agreement, any Designated Financial Contract or the other Loan Documents in accordance with the respective terms thereof, the rights hereunder, to the extent applicable to the indebtedness so assigned, may be transferred with such indebtedness. This Guaranty shall be binding upon each of the Guarantors and their respective successors and assigns.

SECTION 13. Changes in Writing. Other than in connection with the addition of additional Subsidiaries, which become parties hereto by executing a supplement hereto in the form attached as Annex I, neither this Guaranty nor any provision hereof may be changed, waived, discharged or terminated orally, but only in writing signed by each of the Guarantors and the Administrative Agent with the consent of the Required Lenders under the Credit Agreement.

SECTION 14. GOVERNING LAW. THIS GUARANTY SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

SECTION 15. CONSENT TO JURISDICTION; SERVICE OF PROCESS; JURY TRIAL.

(A) CONSENT TO JURISDICTION. EACH GUARANTOR HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR NEW YORK STATE COURT SITTING IN NEW YORK COUNTY IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTY AND EACH GUARANTOR HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE ADMINISTRATIVE AGENT, THE ISSUING BANK OR ANY LENDER TO BRING PROCEEDINGS AGAINST ANY GUARANTOR IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY ANY GUARANTOR AGAINST THE ADMINISTRATIVE AGENT, THE ISSUING BANK OR ANY LENDER OR ANY AFFILIATE OF THE ADMINISTRATIVE AGENT, THE ISSUING BANK OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS GUARANTY OR ANY OTHER LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN NEW YORK COUNTY OR THE CITY IN WHICH THE PRINCIPAL OFFICE OF THE ADMINISTRATIVE AGENT, LENDER OR AFFILIATE, AS THE CASE MAY BE, IS LOCATED.

(B) WAIVER OF JURY TRIAL. EACH GUARANTOR (AND, BY ACCEPTING THE BENEFITS HEREOF, EACH HOLDER OF SECURED OBLIGATIONS) HEREBY WAIVES TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS GUARANTY OR ANY OTHER LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

SECTION 16. No Strict Construction. The parties hereto have participated jointly in the negotiation and drafting of this Guaranty. In the event an ambiguity or question of

intent or interpretation arises, this Guaranty shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Guaranty.

SECTION 17. Taxes, Expenses of Enforcement, etc.

(A) Taxes.

(i) All payments by any Guarantor to or for the account of any Lender, the Issuing Bank, the Administrative Agent or any other Holder of Secured Obligations hereunder shall be made free and clear of and without deduction for any and all Taxes. If any Guarantor shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to any Lender, the Issuing Bank, the Administrative Agent or any other Holder of Secured Obligations, (a) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 17(A)) such Lender, the Issuing Bank, the Administrative Agent or any other Holder of Secured Obligations (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (b) such Guarantor shall make such deductions, (c) such Guarantor shall pay the full amount deducted to the relevant authority in accordance with applicable law and (d) such Guarantor shall furnish to the Administrative Agent the original copy of a receipt evidencing payment thereof within thirty (30) days after such payment is made.

(ii) In addition, the Guarantors hereby agree to pay any present or future stamp or documentary taxes and any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution or delivery of, or otherwise with respect to, this Guaranty or any promissory note ("Other Taxes").

(iii) The Guarantors hereby agree to indemnify the Administrative Agent, the Issuing Bank, each Lender and any other Holder of Secured Obligations for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed on amounts payable under this Section 17(A)) paid by the Administrative Agent, the Issuing Bank, such Lender or such other Holder of Secured Obligations and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. Payments due under this indemnification shall be made within thirty (30) days of the date the Administrative Agent, the Issuing Bank, such Lender or such other Holder of Secured Obligations makes demand therefor.

(iv) By accepting the benefits hereof, each Foreign Lender agrees that it will comply with Section 2.17(e) of the Credit Agreement.

(B) Expenses of Enforcement, Etc. Subject to the terms of the Credit Agreement, after the occurrence of an Event of Default under the Credit Agreement, the Lenders shall have the right at any time to direct the Administrative Agent to commence enforcement proceedings with respect to the Guaranteed Obligations. The Guarantors agree to reimburse the Administrative Agent and the other Holders of Secured Obligations for any reasonable costs and out-of-pocket expenses (including reasonable attorneys' fees and

time charges of attorneys for the Administrative Agent and the other Holders of Secured Obligations, which attorneys may be employees of the Administrative Agent or the other Holders of Secured Obligations) paid or incurred by the Administrative Agent or any other Holders of Obligation in connection with the collection and enforcement of amounts due under the Loan Documents, including without limitation this Guaranty. The Administrative Agent agrees to promptly distribute payments received from any of the Guarantors hereunder to the other Holders of Secured Obligations on a pro rata basis for application in accordance with the terms of the Credit Agreement.

SECTION 18. Setoff. At any time after all or any part of the Guaranteed Obligations have become due and payable (by acceleration or otherwise), each Holder of Secured Obligations (including the Administrative Agent) may, without notice to any Guarantor and regardless of the acceptance of any security or collateral for the payment hereof, appropriate and apply in accordance with the terms of the Credit Agreement toward the payment of all or any part of the Guaranteed Obligations (i) any indebtedness due or to become due from such Holder of Secured Obligations or the Administrative Agent to any Guarantor, and (ii) any moneys, credits or other property belonging to any Guarantor, at any time held by or coming into the possession of such Holder of Secured Obligations (including the Administrative Agent) or any of their respective affiliates.

SECTION 19. German Guarantors. Each of the Lenders, by its acceptance of the benefits hereof, agrees to release (or to instruct the Administrative Agent to release) proceeds from the enforcement of this Guaranty if and to the extent that the application of proceeds towards the Obligations would otherwise lead to the situation that, if a Guarantor is organized as a GmbH & Co. KG. (a "German Guarantor") under the laws of the Federal Republic of Germany, its general partner does not have sufficient assets to maintain its stated share capital (Stammkapital) provided that for the purposes of the calculation of the amount to be released (if any) the following balance sheet items shall be adjusted as follows:

(A) the amount of any increase of stated share capital after the date hereof that has been effected without the prior written consent of the Administrative Agent (acting on behalf of the Lenders) shall be deducted from the stated share capital; and

(B) loans provided to the such German Guarantor by the Borrower or any of its subsidiaries as far as such loans are subordinated or qualified under § 32a GmbHG (German Limited Liability Companies Act) shall be disregarded.

SECTION 20. Financial Information. Each Guarantor hereby assumes responsibility for keeping itself informed of the financial condition of the Borrower and any and all endorsers and/or other Guarantors of all or any part of the Guaranteed Obligations, and of all other circumstances bearing upon the risk of nonpayment of the Guaranteed Obligations, or any part thereof, that diligent inquiry would reveal, and each Guarantor hereby agrees that none of the Holders of Secured Obligations (including the Administrative Agent) shall have any duty to advise such Guarantor of information known to any of them regarding such condition or any such circumstances. In the event any Holder of Secured Obligations (including the Administrative Agent), in its sole discretion, undertakes at any time or from time to time to provide any such information to a Guarantor, such Holder of Secured Obligations (including the

Administrative Agent) shall be under no obligation (i) to undertake any investigation not a part of its regular business routine, (ii) to disclose any information which such Holder of Secured Obligations (including the Administrative Agent), pursuant to accepted or reasonable commercial finance or banking practices, wishes to maintain confidential or (iii) to make any other or future disclosures of such information or any other information to such Guarantor.

SECTION 21. Severability. Wherever possible, each provision of this Guaranty shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Guaranty shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Guaranty.

SECTION 22. Merger. This Guaranty represents the final agreement of each of the Guarantors with respect to the matters contained herein and may not be contradicted by evidence of prior or contemporaneous agreements, or subsequent oral agreements, between the Guarantor and any Holder of Secured Obligations (including the Administrative Agent).

SECTION 23. Headings. Section headings in this Guaranty are for convenience of reference only and shall not govern the interpretation of any provision of this Guaranty.

SECTION 24. Judgment Currency. If for the purposes of obtaining judgment in any court it is necessary to convert a sum due from any Guarantor hereunder in the currency expressed to be payable herein (the "specified currency") into another currency, the parties hereto agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Administrative Agent could purchase the specified currency with such other currency at the Administrative Agent's main New York City office on the Business Day preceding that on which final, non-appealable judgment is given. The obligations of each Guarantor in respect of any sum due hereunder shall, notwithstanding any judgment in a currency other than the specified currency, be discharged only to the extent that on the Business Day following receipt by any Holder of Secured Obligations (including the Administrative Agent), as the case may be, of any sum adjudged to be so due in such other currency such Holder of Secured Obligations (including the Administrative Agent), as the case may be, may in accordance with normal, reasonable banking procedures purchase the specified currency with such other currency. If the amount of the specified currency so purchased is less than the sum originally due to such Holder of Secured Obligations (including the Administrative Agent), as the case may be, in the specified currency, each Guarantor agrees, to the fullest extent that it may effectively do so, as a separate obligation and notwithstanding any such judgment, to indemnify such Holder of Secured Obligations (including the Administrative Agent), as the case may be, against such loss, and if the amount of the specified currency so purchased exceeds (a) the sum originally due to any Holder of Secured Obligations (including the Administrative Agent), as the case may be, in the specified currency and (b) amounts shared with other Holders of Secured Obligations as a result of allocations of such excess as a disproportionate payment to such other Holder of Secured Obligations under Section 2.18 of the Credit Agreement, such Holder of Secured Obligations (including the Administrative Agent), as the case may be, agrees, by accepting the benefits hereof, to remit such excess to such Guarantor.



IN WITNESS WHEREOF, each of the Initial Guarantors has caused this Guaranty to be duly executed by its authorized officer as of the day and year first above written.

---

By: \_\_\_\_\_

Its: \_\_\_\_\_

---

By: \_\_\_\_\_

Its: \_\_\_\_\_

---

By: \_\_\_\_\_

Its: \_\_\_\_\_

---

By: \_\_\_\_\_

Its: \_\_\_\_\_

SIGNATURE PAGE TO GUARANTY

ANNEX I TO GUARANTY

Reference is hereby made to the Guaranty (the "Guaranty") made as of the 22nd day of December, 2003, by and among \_\_\_\_\_, a \_\_\_\_\_, \_\_\_\_\_, a \_\_\_\_\_, \_\_\_\_\_, a \_\_\_\_\_ and \_\_\_\_\_, a \_\_\_\_\_ (the "Initial Guarantors" and along with any additional Subsidiaries of Heidrick & Struggles International, Inc., which become parties thereto and together with the undersigned, the "Guarantors") in favor of the Administrative Agent, for the ratable benefit of the Holders of Secured Obligations, under the Credit Agreement. Capitalized terms used herein and not defined herein shall have the meanings given to them in the Guaranty. By its execution below, the undersigned [NAME OF NEW GUARANTOR], a [corporation] [partnership] [limited liability company], agrees to become, and does hereby become, a Guarantor under the Guaranty and agrees to be bound by such Guaranty as if originally a party thereto. By its execution below, the undersigned represents and warrants as to itself that all of the representations and warranties contained in Section 2 of the Guaranty are true and correct in all respects as of the date hereof.

IN WITNESS WHEREOF, [NAME OF NEW GUARANTOR], a [corporation] [partnership] [limited liability company] has executed and delivered this Annex I counterpart to the Guaranty as of this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_.

[NAME OF NEW GUARANTOR]

By: \_\_\_\_\_

Its: \_\_\_\_\_



## FORM OF COMMITMENT AND ACCEPTANCE

Dated [\_\_\_\_\_]

Reference is made to the Credit Agreement dated as of December 22, 2003 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement") among Heidrick & Struggles International, Inc. (the "Borrower"), the financial institutions party thereto (the "Lenders"), and JPMorgan Chase Bank in its capacity as contractual representative for the Lenders (the "Agent"). Terms defined in the Credit Agreement are used herein with the same meaning.

Pursuant to Section 2.23 of the Credit Agreement, the Borrower has requested an increase in the Aggregate Commitment from \$\_\_\_\_\_ to \$\_\_\_\_\_. Such increase in the Aggregate Commitment is to become effective on the date (the "Effective Date") which is the later of (i) \_\_\_\_\_, \_\_\_\_\_ and (ii) the date on which the conditions precedent set forth in Section 2.23 in respect of such increase have been satisfied. In connection with such requested increase in the Aggregate Commitment, the Borrower, the Administrative Agent and \_\_\_\_\_ (the "Accepting Bank") hereby agree as follows:

1. Effective as of the Effective Date, [the Accepting Bank shall become a party to the Credit Agreement as a Lender and shall have all of the rights and obligations of a Lender thereunder and shall thereupon have a Commitment under and for purposes of the Credit Agreement in an amount equal to the] [the Commitment of the Accepting Bank under the Credit Agreement shall be increased from \$\_\_\_\_\_ to the] amount set forth opposite the Accepting Bank's name on the signature page hereof.

[2. The Accepting Bank hereby (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Commitment and Acceptance Agreement; (ii) agrees that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) appoints and authorizes the Administrative Agent to take such action as contractual representative on its behalf and to exercise such powers under the Credit Agreement and the other Loan Documents as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto; and (iv) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement are required to be performed by it as a Lender]

3. The Borrower hereby represents and warrants that as of the date hereof and as of the Effective Date, (a) all representations and warranties shall be true and

correct in all material respects as though made on such date and (b) no event shall have occurred and then be continuing which constitutes a Default or an Event of Default.

**4. THIS COMMITMENT AND ACCEPTANCE AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.**

5. This Commitment and Acceptance Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Commitment and Acceptance Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

JPMORGAN CHASE BANK, as Administrative Agent

By: \_\_\_\_\_

Title: \_\_\_\_\_

COMMITMENT

\$

ACCEPTING BANK

[BANK]

By: \_\_\_\_\_

Title: \_\_\_\_\_

Reaffirmations of Subsidiary Guarantors

Each of the undersigned hereby acknowledges receipt of the foregoing Commitment and Acceptance. Capitalized terms used in this Reaffirmation and not defined herein shall have the meanings given to them in the Credit Agreement referred to in the foregoing Commitment and Acceptance. Without in any way establishing a course of dealing by the Administrative Agent or any Lender, the undersigned reaffirms the terms and conditions of the Guaranty dated as of December 22, 2003 executed by it and acknowledges and agrees that such Guaranty and each and every other Loan Document executed by the undersigned in connection with the Credit Agreement remain in full force and effect and are hereby ratified, reaffirmed and confirmed. All references to the Credit Agreement contained in the above-referenced documents shall be references to the Credit Agreement as so amended by the Commitment and Acceptance and as the same may from time to time hereafter be amended, modified or restated. The failure of any Subsidiary Guarantor to sign this Reaffirmation shall not release, discharge or otherwise affect the obligations of any of the other such Subsidiary Guarantors.

[SUBSIDIARY GUARANTORS]

By: \_\_\_\_\_

Its: \_\_\_\_\_

**Heidrick and Struggles, Inc.**  
Consultants in Executive Search

Richard D. Nelson  
Partner  
Chief Financial and  
Administrative Officer  
Counsel

June 4, 1990

Mr. Gerard R. Roche  
111 Paulding Drive  
Chappaqua, NY 10514

Dear Gerry:

In 1989 you and the company mutually agreed that your base and bonus compensation for 1989 would be \$1.0 million. In early 1990 you and the company agreed (and the Executive Committee approved) to extend your \$1.0 million compensation for an additional four (4) years (i.e., through December 31, 1993) in accordance with the terms set forth in the attachment to (which is a part of) this letter.

The purpose of this letter is to document the above agreement between you and the company.

Please initial the attachments to and sign the two original copies of this letter agreement as provided below, indicating your acceptance and approval. Retain one fully signed original for your files and return one fully signed original to me for the company files.

Best regards.

Very truly yours,

/s/ Richard D. Nelson

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Richard D. Nelson

RDN: ec  
Attachment

Accepted and approved this 6<sup>th</sup> day of June 1990.

/s/ Gerard R. Roche

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Gerard R. Roche

125 South Wacker Drive Suite 2800 Chicago, IL 60606-4590 Phone: 312/372-8811 FAX: 312/372-1698  
Offices in Principal Cities of the World

## TERMS OF EMPLOYMENT

1. Compensation.

Base and bonus compensation shall be at the rate of one million dollars (\$1,000,000.00) per year. During 1990 you have been and will be paid as follows: \$50,000 per month for the month of January and February and \$90,000 per month for the months of March through December. Commencing January 1, 1991, and continuing through the term of this agreement, you will be paid \$83,833.34 per month. Your compensation will be paid in accordance with company policy, which is currently monthly on the last business day of each month, and will be subject to applicable withholding taxes.

2. Title. Chairman.

3. Term.

January 1, 1990, through December 31, 1993, unless earlier terminated due to disability or death.

4. Activities.

You will continue as a full-time employee and may continue your outside activities in accordance with current practice. Although your Fee/SOB status will continue to be kept, these numbers will not have any impact on your compensation.

5. Fringe Benefits.

Your current fringe benefits: business clubs, group insurance, etc. will continue in accordance with overall company policy.

6. Staff.

Your current staff support will continue and will be subject to change in accordance with your professional needs.

7. Other Contracts/Amendments.

This agreement supplements (and does not supercede) your June 21, 1973, Employment Agreement, as amended, with the company. This agreement may be amended as mutually agreed in writing signed by you and the company.

Mr. Gerard R. Roche  
111 Paulding Drive  
Chappaqua, New York 10514

Dear Gerry:

This letter will serve as an amendment to the June 4, 1990 employment letter agreement between you and the Company, as amended ("Letter Agreement").

It is agreed that Section 3 of the "Terms of Employment" attachment to the Letter Agreement is amended to read as follows:

3. Term and Non-Solicitation:

January 1, 2002, and continuing thereafter until terminated upon at least 30 days written notice by you or the Company to the other, unless earlier terminated due to permanent disability or death. Upon termination of your employment by the Company (other than due to termination of your employment for Cause or to your permanent disability or death) or by you for "Good Reason" (see below) you will continue to receive your \$83,833.33 base monthly salary for a period of 12 months following the effective date of your termination of employment.

You may terminate your employment hereunder for Good Reason (and such termination shall be treated as if it were a termination by the Company without Cause, and not a voluntary termination by you). "Good Reason" shall mean the occurrence of any of the following events during the term of your employment hereunder (i) a diminution of the amount of your base salary or benefits or level of eligibility for incentive programs, except in connection with the termination of your employment by the Company for Cause or due to permanent disability or death; (ii) the assignment to you of any duties materially inconsistent with, or the reduction of

Sears Tower 233 South Wacker Drive Suite 4200 Chicago, IL 60606-6303 Phone: 312/496-1200 FAX: 312/496-1290  
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responsibilities or functions associated with, your position and status with the Company, except in connection with the termination of your employment by the Company for Cause or due to permanent disability or death; (iii) the failure by the Company to pay you any portion of your current compensation, or any portion of your compensation deferred under any plan, agreement or arrangement of or with the Company within seven (7) days of the date such compensation is due; or (iv) a change of the location of your principal place of employment more than 50 miles in radius from its initial location or a change in your current staff and/or office suite unless part of the move of the entire office, without your approval. Notwithstanding the foregoing, an isolated and inadvertent action taken in good faith and which is remedied by the Company within 30 days after receipt of written notice thereof given by you shall not constitute Good Reason.

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

During your employment and for a period of twelve months after the termination of your employment by the Company without Cause or by you for Good Reason, you shall not (i) provide services of the types provided to clients generally by the Company at the time of termination of employment for the account of any client of the Company and its affiliates with whom you had a direct relationship or as to which you had a significant supervisory responsibility or otherwise were significantly involved at the time during the two years prior to such termination; or (ii) hire, solicit for hire, or assist any other person in soliciting or hiring, any employment candidate with whom you have had contact while at the Company during the two years prior to such termination; or (iii) directly or indirectly solicit or hire, or assist any other person in soliciting or hiring, any employee of the Company and its affiliates of at least partner rank (as of your termination of employment) or any person expected to have such rank who, as of such date, was in the process of being recruited by the Company and its affiliates, or induce any such employee to terminate his or her employment with the Company and its affiliates. Your failure

**HEIDRICK & STRUGGLES**

Consultants in Executive Search



Mr. Gerard R. Roche  
12 December 2002  
Page 3

at any time to comply with the requirements of this paragraph will result in the payments detailed in the first paragraph of this Section 3, to the extent not then paid, being terminated with immediate effect, and all of your and the Company's obligations under this paragraph shall thereupon terminate.

Except as amended above, the Letter Agreement shall remain in full force and effect without change.

Please sign both originals of this Letter Agreement as provided below, indicating your acceptance and approval. Retain one fully signed original for your files and return one fully signed original to me for the Company's files.

Best Regards.

Very truly yours,  
Heidrick & Struggles, Inc.

By: /s/ Piers Marmion

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Piers Marmion  
President

Accepted and approved this 13 day of Dec, 2002

/s/ Gerard R. Roche

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Gerard R. Roche

**HEIDRICK & STRUGGLES**  
Consultants in Executive Search

**The attached exhibit sets forth the currently operative portions of Joie A. Gregor's employment agreement.**

**HEIDRICK & STRUGGLES**  
Consultants in Executive Search

May 4, 1993

**Michael T. Christy**  
Partner

Ms. Joie A Gregor  
702 Gates Road  
Gates Mill, Ohio 44040

Dear Joie:

I am pleased to confirm Heidrick & Struggles, Inc.'s offer of employment to you.

We are looking forward to your arrival and want to set forth our understanding:

1. You will join our Tyson's Corner (Vienna, Virginia) Office with the title of Partner at a monthly base salary of \$12,500.00 (which is \$150,000.00 annually), commencing on your first day of employment, which shall be June 1, 1993. Currently, salaries are reviewed annually in March, so that your first salary review will be in March 1994. A copy of our Partner/Consultant Cash Compensation Policy is enclosed for your information.
2. You will first be eligible for a discretionary bonus for the year ending on December 31, 1993. You understand that, except for the minimum bonuses referred to below, 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 dates. As we discussed, you will be eligible to receive a minimum bonus for 1993 as follows:

1993 Minimum Bonus. Subject to the following conditions, you will receive a \$182,000 minimum bonus for the calendar year ending December 31, 1993, payable as follows:

- (1) \$35,000 payable on June 30, 1993;
- (2) \$25,000 payable on September 30, 1993;
- (3) \$122,000 payable at the time 1993 bonuses are paid in March 1994;

provided, however, that the foregoing 1993 minimum bonus will be reduced by \$.50 for each \$1.00 that the sum of your June 1-December 31, 1993 fee and SOB credits is less than \$773,000. You expect to achieve at least

8000 Towers Crescent Drive Suite 555 Vienna, VA 22182 Phone: 703/761-4830 FAX: 703/761-4831

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\$292,000 in fee credits and \$481,000 in SOB credits between June 1, 1993, and December 31, 1993. [For example, if your 1993 fee credits equal \$300,000 and your SOB credits equal \$450,000—the sum of these credits is \$750,000—\$23,000 less than \$773,000, so the minimum bonus payable in March 1994 would be reduced by \$11,500.]

Notwithstanding anything in this section 2 to the contrary, at our option, we may prepay in 1993 all or part of your bonus that would otherwise be payable in March 1994, provided that any such prepayment shall be supported by fee and SOB credits which have actually been collected.

3. We will also pay you a special bonus of \$21,000 on November 30, 1993, and a special bonus of \$21,000 on February 28, 1994. This special bonus will not be part of your discretionary bonus, if any, under our compensation guidelines.
4. We will pay the initiation fee and regular monthly dues at a downtown business club approved by your Office Managing Partner in accordance with our business club policy, a copy of which is enclosed.
5. You will be eligible to participate in our fringe benefit programs in accordance with the programs' terms. Copies of the booklets and Summary Plan Descriptions describing our medical, dental, disability, life insurance, Flexible Spending Account and 401(k) Profit-Sharing and Retirement Plan will be provided at a later date.
6. If you accept our offer of employment, you will become an "employee at will" unless or until we may otherwise agree in writing. This gives both of us the maximum flexibility and permits either of us to terminate employment and compensation at any time for any reason.
7. Two copies of an agreement relating to trade secrets, confidential information, clients, et cetera, are enclosed. We ask that all Consultants and Partners 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 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 agreement, which has been reviewed and approved by our CEO (who has authorized Michael T. Christy to sign this letter on behalf of the Office Managing Partner), contains our entire understanding and can be amended only in writing

Ms. Joie A. Gregor  
May 4, 1993  
Page Three

which is signed by you, your Office Managing Partner, and either the CEO or CFO of the company. No promises have been made to you which are not set forth in this letter.

To acknowledge your acceptance of our offer of employment, please sign and return to me the enclosed copy of this letter, together with the agreement referred to in Item 8 above.

Sincerely,

/s/ MICHAEL T. CHRISTY

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Michael T. Christy

Enclosures

cc: Robert E. Hallagan, CEO  
Richard D. Nelson, CFO

ACCEPTED:

/s/ MS. JOIE A. GREGOR

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Ms. Joie A. Gregor

5/5/93  
Date

**HEIDRICK & STRUGGLES**  
Consultants in Executive Search

May 10, 1993

**Michael T. Christy**  
Partner

Ms. Joie A. Gregor  
702 Gates Road  
Gates Mill, Ohio 44040

Dear Joie:

This letter will serve to amend the May 4, 1993 employment letter agreement between you and Heidrick & Struggles, Inc. ("the company") as follows:

1. Under point 1, your first day of employment will be May 4, 1993.

All other terms and conditions of the May 4, 1993, Heidrick & Struggles, Inc. offer of employment letter to you remain unchanged and in full force.

To acknowledge your acceptance of this amendment, please sign and return to me the enclosed copy of this letter.

Sincerely,

/s/ MICHAEL T. CHRISTY

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**Michael T. Christy**

ACCEPTED:

/s/ JOIE A. GREGOR

5-11-93  
Date

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**Joie A. Gregor**

APPROVED:

/s/ RICHARD D. NELSON

6-7-93  
Date

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**Richard D. Nelson**

8000 Towers Crescent Drive Suite 555 Vienna, VA 22182 Phone: 703/761-4830 FAX: 703/761-4831

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**HEIDRICK & STRUGGLES**  
Consultants in Executive Search

**David C. Anderson**  
North America Managing Partner

April 29, 1999

Ms. Joie A. Gregor  
10040 East Happy Valley Road, #2035  
Scottsdale, Arizona 85255

Dear Joie:

Now that your temporary assignment as the Office Managing Partner of our New York City, New York, office has concluded, it is appropriate to amend your employment letter agreement to reflect our current understandings.

This letter will serve, effective February 1, 1999, as a fifth amendment to the May 4, 1993, employment letter agreement as amended on May 10, 1993, August 26, 1993, October 20, 1993, and December 19, 1997, between you and Heidrick & Struggles, Inc. ("Agreement"). Your Agreement is amended as follows:

1. Your role as the Office Managing Partner of our New York City, New York, office will conclude as of February 1, 1999, and effective February 1, 1999, you will remain in our New York City, New York office with the title of "Partner" reporting to the New York Office Managing Partner. Your monthly base salary of \$29,166.67 (which is \$350,000.00 annually) will continue without change.
2. You will continue to be eligible for a discretionary bonus in accordance with our Partner/Principal Cash Compensation Policy.
3. Unless we otherwise agree in writing, the transportation costs reimbursement which is referred to in Section 3 of your December 19, 1997, amendment to your Agreement will no longer apply.
4. You have agreed to remain in the employ of the company for at least three years from the effective date of this amendment and not to compete, directly or indirectly, with our company or solicit to hire or hire any of our employees or provide executive search services to our clients for a period of 18 months in the U.S.A. following the date of termination of your employment with the company, for any reason; provided, however, that notwithstanding the foregoing you may compete with our firm after a period of 12 months following the date of termination of your employment with our firm, for any reason, provided that you are engaged in business on your own and are not directly or

2200 Ross Avenue Suite 4700E Dallas, TX 75201-2787 Phone: 214/220-2130 FAX: 214/220-1029

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indirectly part of or affiliated with another entity engaged in executive search (this would not prohibit you from hiring consultants and/or other staff to join a firm created by you). In consideration of the foregoing agreements by you, the company has agreed, subject to Board of Director approval, to vest all of your stock options and all other unvested equity on the date your employment with the company terminates (for any reason) provided that any termination initiated by you takes place at least three years after the effective date of this amendment.

5. This Agreement and its terms are confidential and you agree not to disclose the terms of this letter to anyone other than your spouse and your counsel.
6. Except as amended above, your Agreement, as amended, remains in full force and effective without change.

To acknowledge your acceptance of this amendment, please sign and return to me the enclosed copy of this letter.

Sincerely yours,

/s/ DAVID C. ANDERSON

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**David C. Anderson**  
**North America Managing Partner**

ACCEPTED:

/s/ JOIE A. GREGOR

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**Joie A. Gregor**

5-1-99  
Date

APPROVED:

/s/ PATRICK S. PITTARD

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**Patrick S. Pittard**

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Date



**HEIDRICK & STRUGGLES**  
Consultants in Executive Search

**Marvin B. Berenblum**  
Managing Partner

November 15, 1999

Ms. Joie A. Gregor  
10040 East Happy Valley Road, #2035  
Scottsdale, Arizona 85255

Dear Joie:

This letter will serve, effective September 1, 1999, as a sixth amendment to the May 4, 1993, employment letter agreement as amended on May 10, 1993, August 26, 1993, October 20, 1993, December 19, 1997, and April 29, 1999, between you and Heidrick & Struggles, Inc. ("Agreement"). Your Agreement is amended as follows:

1. You will be entitled to receive additional compensation of \$4,000.00 per month from September 1999 to December 2000 (inclusive) or until such time as you transfer from the Heidrick & Struggles, Inc. New York office, to assist in the payment of New York lodging expenses relating to your market development and recruitment efforts for the New York office.
2. Section 9 of the Agreement is hereby restated to read as follows:  
"This Agreement, which has been reviewed and approved by our CEO (who has authorized Michael T. Christy to sign this letter on behalf of the Office Managing Partner), contains our entire understanding and can be amended only in writing which is signed by you, your Office Managing Partner, and either the President, the Americas or the CAO of the company. No promises have been made to you which are not set forth in this letter."
3. Except as amended above, your Agreement, as amended, remains in full force and effective without change.

To acknowledge your acceptance of this amendment, please sign and return to me the enclosed copy of this letter.

Sincerely yours,

/s/ MARVIN B. BERENBLUM

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**Marvin B. Berenblum**  
Office Managing Partner

Enclosure

245 Park Avenue New York, NY 10167-0152 Phone: 212/867-9876 FAX: 212/370-9035

Heidrick & Struggles, Inc. Offices in Principal Cities of the World

ACCEPTED:

/s/ JOIE A. GREGOR

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11-17-99

**Joie A. Gregor**

Date

APPROVED:

/s/ DONALD M. KILINSKI

---

11-17-99

**Donald M. Kilinski**

Date

October 11, 2002

Mr. Fritz E. Freidinger  
1001 Glenwood Lane  
Glenview, Illinois 60025

Dear Fritz:

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

1. Start Date. You will commence employment on December 2, 2002.
2. Title. You will serve as General Counsel reporting to the Chief Executive Officer of Heidrick & Struggles International, Inc. (the "Company"), and you will be located in the Company's corporate offices in Chicago. At the request of the Chief Executive Officer, you will also serve as Secretary.
3. Base Salary. You will receive a monthly base salary of \$16,666.66, which is \$200,000.00 annually, subject to review on a 24-month basis.
4. Target Bonus. You will participate in the Company's Management Incentive Plan (Tier II); accordingly, your target bonus for 2003 will be \$125,000 to be paid in March 2004. Your bonus for 2002 will be 50% of base salary (prorated based on months of service in 2002) and will be paid when bonuses are paid to management in March 2003. Bonuses (other than your 2002 bonus) are discretionary and are not earned until approved by the Compensation Committee and/or Board of Directors of the Company and, subject to the provisions of the Change in Control Severance Plan, will be payable only if you are in the Company's employ on the regular bonus payment date. See attached for a description of the Management Incentive Plan.
5. 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 a Key Employee. In 2003, subject to the approval of the Compensation Committee of the Board of Directors, the

Company will grant you options to purchase 8,000 shares of the Company's common stock under the Management Stock Option Plan.

6. Sign-on Arrangements.

Cash. The Company will pay you a \$30,000 sign-on bonus, less necessary deductions and withholdings, within your first 30 days of employment. If you resign from the Company's employ within one (1) year of the receipt of your sign-on bonus, you will pay Heidrick & Struggles, Inc., on demand, the full amount of the sign-on bonus. If the Company terminates your employment for any other reason than Cause, or if you resign for "Good Reason" (see below), you will not be obligated to repay the sign-on bonus.

Options. The Company will grant to you an option to purchase 5,000 shares of Heidrick & Struggles International, Inc. common stock as soon as administratively feasible after you commence employment. The options will be granted at the closing price of the common stock as reported on NASDAQ on the day on which you commence employment or the first trading day thereafter, will vest at the rate of one-third on each of the first, second and third anniversaries of the date of grant and will have a term of 5 years from the date of grant.

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

The term "Good Reason" shall mean a change in the location of your principal place of employment more than 50 miles in radius from its initial location without your approval.

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

8. Expenses. You will also be eligible to participate in the Company's Physical Examination and Financial Planning Program. The Company will reimburse you for all of your business expenses in accordance with its policies.
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 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.
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" unless or until you and the Company otherwise agree in writing. The purpose of this arrangement is to permit either of us to terminate employment and compensation at any time with or without Cause or Good Reason, except for such period of notice as may be expressly provided in writing under written Company employment policies in effect at the time of such termination. Your initial and continuing employment will be subject to your having the ability to work legally in the United States.

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

This letter agreement contains our entire understanding and can be amended only in writing and signed by you and the Chief 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 New York, New York, 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 New York, New York 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.

Mr. Fritz E. Freidinger  
October 11, 2002  
Page 5

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

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

Yours sincerely,

/s/ Kevin J. Smith

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Kevin J. Smith  
Chief Financial Officer

Enclosures

Cc: Piers Marmion  
Knox Millar  
Kathy Jensen Watts

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

/s/ Fritz E. Freidinger

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Fritz E. Freidinger

10-21-2002

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Date

KEVIN J. SMITH  
SEPARATION AND SETTLEMENT AGREEMENT  
AND GENERAL RELEASE

This Separation and Settlement Agreement and General Release (this "Agreement") is made as of this 13th day of February 2004 (the "Effective Date"), by and between Kevin J. Smith (the "Employee") and Heidrick & Struggles International, Inc., and Heidrick & Struggles, Inc., both Delaware corporations (collectively, the "Company") concerning the Employee's termination of employment with the Company.

WHEREAS, the Company and the Employee entered into that certain Employment Agreement dated as of March 20, 2002, (the "Employment Agreement");

WHEREAS, the Employee has tendered his resignation as Chief Financial Officer of the Company, to be effective on March 31, 2004 (the "Termination Date"), which the Company accepted on the terms set forth in this Agreement; and

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

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

1. Termination. The Employee's employment with the Company will terminate by mutual consent effective as of the close of business on the Termination Date and the Employee will continue to be paid his current monthly salary (at a rate of \$35,833.33 per month), expense reimbursements and employee benefits and will continue to vest in all incentive and other benefits through the Termination Date.

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

3. 2003 and 2004 Bonus Payments.

(a) The Employee shall receive a 2003 Bonus payment ("2003 Bonus") from the Company in the gross amount of TWO HUNDRED FIFTEEN THOUSAND DOLLARS (\$215,000.00) to be paid on the first business day following the date on which this Agreement becomes final and binding pursuant to paragraph 13 below (the "Initial Payment Date").



(b) The Employee shall receive a 2004 Bonus payment ("2004 Bonus") from the Company in the gross amount of FIFTY THREE THOUSAND DOLLARS (\$53,000.00) to be paid on the Initial Payment Date.

4. Other Payments. Employee shall receive a series of severance payments from the Company in the aggregate gross amount of EIGHT HUNDRED AND SIXTY THOUSAND DOLLARS (\$860,000.00), to be paid in twelve equal monthly installments in the gross amount of SEVENTY-ONE THOUSAND SIX HUNDRED SIXTY-SIX DOLLARS AND SIXTY-SIX CENTS (\$71,666.66) (the "Severance Payments") on the Initial Payment Date and then as of each one-month anniversary of the Termination Date. The Company's obligation to pay the Severance Payments is conditioned upon the execution of this Agreement, including the execution of the General Release and Waiver, provided in Exhibit B to this Agreement (the "Release") and the continued compliance by the Employee of all of the terms and conditions of this Agreement. The first Severance Payment shall be made on the Initial Payment Date; provided, however, that in the event that the cash payments to be made to the Employee as of the Initial Payment Date are not adequate to provide for the required tax withholding on such cash payments together with the withholding requirements associated with any non-cash benefits provided hereunder, the Company may accelerate a portion of the Severance Payment installments (starting with the earliest installments due) to the Initial Payment Date in order to satisfy such withholding obligations.

5. Sign-On Loan. The Company shall forgive the outstanding aggregate principal of the loan made to the Employee pursuant to the Employment Agreement, determined as of the Termination Date (projected to be in the amount of EIGHTY-THREE THOUSAND THREE HUNDRED AND THIRTY THREE DOLLARS and THIRTY-THREE CENTS (\$83,333.33), after giving effect to the forgiveness which occurred on January 8, 2004), with such forgiveness to be effective as of the Initial Payment Date. The Company shall continue to provide the Employee the gross-up payment regarding any imputed interest through the Initial Payment Date, in accordance with the terms of the Employment Agreement.

6. Restricted Stock Units. Effective as of the Termination Date, the Employee shall forfeit and/or relinquish any and all interests and rights in any unvested restricted stock units awarded under any plan or program maintained by the Company or any of its affiliates. Other than the awards set forth on Exhibit C hereto, the Employee acknowledges and agrees that he does not possess, nor is entitled to, any other restricted stock unit awards under any plan or program of the Company or any of its affiliates.

7. Stock Options. Effective as of the Termination Date, the Employee shall forfeit and/or relinquish any and all interests and rights in and under all unvested outstanding stock options awarded under any plan or program maintained by the Company or any of its affiliates. All outstanding options which are vested as of the Termination Date shall continue to be exercisable for a period of sixty (60) days following the Termination Date. Other than the awards set forth on Exhibit C hereto, the Employee acknowledges and agrees that he does not possess, nor is entitled to, any other stock option awards under any plan or program of the Company or any of its affiliates.

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

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

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

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

12. Other Payments. The Employee agrees and acknowledges that, other than as specifically provided for in this Agreement, no additional payments are due from the Company or any affiliate on any basis whatsoever other than reimbursements in accordance with the Company's policies for ordinary and reasonable expenses incurred on or before the Termination Date.

13. Releases. As part of this Agreement, and in consideration of the additional payments provided to Employee in accordance with this Agreement, the Employee is required to execute the Release and deliver the Release following the Termination Date. This Agreement (including all Exhibits to this Agreement), and the commitments and obligations of all parties hereunder:

(a) shall become final and binding on the Effective Date, subject only to Employee's execution and delivery of the Release to the Company on the Termination Date and the expiration of the Employee's right to revoke the execution of the Release in accordance with paragraph 3(d) of the Release, attached as Exhibit B; and

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

The Employee is aware that he may hereafter discover claims or facts in addition to or different from those he now knows or believes to be true with respect to the matters related herein.

Nevertheless, it is the intention of the Employee to fully, finally and forever settle such matters, and all claims, demands, and causes of action relative thereto, whether known or unknown, which may exist, or previously have existed, between Employee and the Company in connection with such matters, including, without limitation, the termination of Employee's employment with the Company. In furtherance of such intention, the Release given herein shall be and remain in effect as a full and complete release of all such matters, notwithstanding the discovery or existence of any additional or different claims or facts relative thereto.

(c) Within three business days following such time as the Employee delivers the above Release, the Company shall execute and deliver to Employee a Release in the form set forth in Exhibit B-2.

14. Assistance with Claims. The Employee agrees to cooperate with the Company or any affiliate in the defense, prosecution or evaluation of any pending or potential claims or proceedings involving or effecting the Company or any affiliate during the period of Employee's employment with the Company (the "Employment Period") or relating to any decisions in which Employee participated or any matter of which Employee had knowledge. Employee agrees, unless precluded by law, to promptly inform the Company if he is asked to participate (or otherwise become involved) in any claims that may be filed against the Company or any affiliate relating to the Employment Period. Employee also agrees, unless precluded by law, to promptly inform the Company if he is asked to assist in any investigation (whether governmental or private) of the Company or any affiliate (or their actions) relating to any matter occurring during the Employment Period, regardless of whether a lawsuit has then been filed against the Company or any affiliate with respect to such investigation. Specifically and without limitation, Employee will attend and participate in meetings and interviews conducted by Company personnel, and/or attorneys appointed by the Company and may be represented by counsel who may attend such meetings and interviews, and execute written affidavits confirming Employee's statements in such meetings in respect of any such matters; provided such meetings do not unreasonably interfere with Employees full-time employment or self-employment entered into after the Termination Date. Employee will make himself available for the foregoing at mutually convenient times during business hours from time to time as reasonably requested by the Company. Promptly upon the receipt of the Employee's written request, the Company agrees to reimburse the Employee for all reasonable out-of-pocket expenses associated with such cooperation, including, without limitation, meals, lodging, travel and ground transportation expenses; provided, however, that such reimbursement shall specifically exclude any fees for legal representation engaged by Employee, that is not otherwise reimbursable pursuant to the Company's policies in effect at such time or the Company's By-Laws. This paragraph 14 shall not preclude the Employee from responding to an inquiry in an honest manner.

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

breach of this Agreement and shall not require either party to make false statements or disclosures.

16. Restrictive Covenants. Except as may be modified by the following provisions of this paragraph 16, Employee expressly acknowledges and agrees that the Employee will continue to remain subject to the covenant provisions of the Employment Agreement (the paragraphs titled: Confidentiality and Non-Solicitation/Non-Competition) (the "Covenants"), and further agrees that obligations under such provisions are not limited in any way by this Agreement or termination from employment with the Company:

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

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

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

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



Or such other address as Employee duly notifies the Company.

with a copy to: William Bettman, Esq.  
Vedder, Price, Kaufman & Kammholz, P.C.  
222 North LaSalle Street  
Chicago, IL 60601

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

with a copy to: Donald L. Norman, Jr., Esq.  
Mayer, Brown, Rowe & Maw LLP  
190 S. LaSalle Street  
Chicago, IL 60603  
Fax: (312)706-9179

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

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

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

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

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

(j) Admissions. Nothing in this Agreement is intended to be, or will be deemed to be, an admission of liability by Employee or the Company to each other, or an admission that they or any of their agents, affiliates, or employees have violated any

state, federal or local statute, regulation or ordinance or any principle of common law of any jurisdiction, or that they have engaged in any wrongdoing towards each other.

(k) Indemnification. Employee shall continue to be eligible for indemnification by the Company to the extent provided to other former Executives of the Company, as provided in the Company by-laws as currently in effect or as may be required by Delaware law.

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

/s/ KEVIN J. SMITH

Date: 2-23-04

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**Kevin J. Smith**

Heidrick & Struggles International, Inc.

/s/ FRITZ E. FREIDINGER

Date: 2-13-04

By:  
Title:

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**Fritz E. Freidinger**  
**General Counsel and Corporate Secretary**



Exhibit A

LETTER OF RESIGNATION

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

Dear Sirs:

I hereby resign as Chief Financial Officer with Heidrick & Struggles International, Inc. (the "Company") to become effective as of March 31, 2004, and acknowledge acceptance thereof by the Company. Effective immediately, I hereby resign each other officer, director and other position with the Company and any of its related entities. My resignation is in accordance with the terms of the Separation and Severance Agreement, dated February 13, 2004, and I hereby confirm that I have no claim for compensation for loss of office, save as set out in that Agreement.

Very truly yours,

/s/ KEVIN J. SMITH

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**Kevin J. smith**

Resignation acknowledged and accepted:

Heidrick & Struggles International, Inc.

By: \_\_\_\_\_ /s/ Illegible

Its: \_\_\_\_\_ Secretary

**Exhibit B**

**EMPLOYEE RELEASE AND WAIVER**

1. This document is attached to, is incorporated into, and forms a part of, a Separation and Settlement Agreement and General Release, dated February 13, 2004 (the "Agreement") by and between Heidrick & Struggles International, Inc. (the "Company") and Kevin J. Smith (the "Employee"). Except for (i) a Claim based upon a breach of the Agreement, (ii) a Claim which is expressly preserved by the Agreement, or (iii) a Claim duly filed pursuant to the group welfare and retirement plans of the Company, the Employee, on behalf of himself and the other Employee Releasers, releases and forever discharges the Company and the other Company Releasees from any and all Claims which the Employee now has or claims, or might hereafter have or claim, whether known or unknown, suspected or unsuspected (or the other Employee Releasers may have, to the extent that it is derived from a Claim which the Employee may have), against the Company Releasees based upon or arising out of any matter or thing whatsoever, from the beginning of time to the date affixed beneath Employee's signature on this General Release and Waiver and shall include, without limitation, Claims (other than those specifically excepted above) arising out of or related to the Employment Agreement dated March 20, 2002 and Claims arising under (or alleged to have arisen under) (a) the Age Discrimination in Employment Act of 1967, as amended; (b) Title VII of the Civil Rights Act of 1964, as amended; (c) The Civil Rights Act of 1991; (d) Section 1981 through 1988 of Title 42 of the United States Code, as amended; (e) the Employee Retirement Income Security Act of 1974, as amended; (f) The Immigration Reform Control Act, as amended; (g) The Americans with Disabilities Act of 1990, as amended; (h) The National Labor Relations Act, as amended; (i) The Fair Labor Standards Act, as amended; (j) The Occupational Safety and Health Act, as amended; (k) The Family and Medical Leave Act of 1993; (l) any state antidiscrimination law; (m) any state wage and hour law; (n) any other local, state or federal law, regulation or ordinance; (o) any public policy, contract, tort, or common law; or (p) any allegation for costs, fees, or other expenses including attorneys' fees incurred in these matters. Employee further represents that he has not, and never will, institute against the Company or any of the Company Releasees any action or other proceeding in any court, administrative agency, or other tribunal of the United States, any State thereof or any foreign jurisdiction, with respect to any Claim or cause of action of any type, other than as provided under (i), (ii) or (iii) above, arising or which may have existed at any time prior to the effective date of the Agreement. If Employee does institute such a claim, he agrees to pay the reasonable costs incurred by the Company or any of the Company Releasees in defending such action, including reasonable attorneys' fees, experts' fees and costs.

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

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

(b) The term "Claims" shall include any and all rights, claims, demands, debts, dues, sums of money, accounts, attorneys' fees, experts' fees, complaints,

judgments, executions, actions and causes of action of any nature whatsoever, cognizable at law or equity.

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

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

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

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

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

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

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

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

(a) shall become final and binding immediately following the expiration of the Employee’s right to revoke the execution of the Agreement in accordance with paragraph 3(d) of this Exhibit B;

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

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

\* \* \* \* \*

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

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**Kevin J. Smith**

Date:

State of \_\_\_\_\_

County of \_\_\_\_\_

Subscribed Before Me This  
\_\_\_\_ Day of \_\_\_\_\_, 2004

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Notary Public

**Exhibit B-2**

**COMPANY GENERAL RELEASE AND WAIVER**

1. This document is attached to, is incorporated into, and forms a part of, a Separation and Settlement Agreement and General Release, date February 13, 2004 (the "Agreement") by and between Heidrick & Struggles International, Inc. (the "Company") and Kevin J. Smith (the "Employee"). Except for (i) a Claim based on a breach of the Agreement, (ii) a Claim which is expressly preserved by the Agreement, (iii) a Claim relating to or arising out of the Employee's fraud or criminal activity, or (iv) a Claim relating to or arising out of the Employee's willful or intentional misconduct in the performance of Employee's obligations under the Employment Agreement, the Company, on behalf of itself and the other Company Releasors, releases and forever discharges the Employee and the other Employee Releasees from any and all Claims which the Company now has or claims, or might hereafter have or claim, whether known or unknown (or the other Company Releasors may have, to the extent that it is derived from a Claim which the Company may have), against the Employee Releasees based upon or arising out of any matter or thing whatsoever, from the beginning of time to the date affixed beneath the Company's signature on this General Release and Waiver, and shall include, without limitation, Claims (other than those specifically excepted above) arising out of or related to the Employment Agreement dated March 20, 2002, and Claims arising under (or alleged to have arisen under) (a) any local, state, federal, regulation or ordinance; (b) any public policy, contract, tort, or common law; or (c) any allegation for costs, fees, or other expenses including attorneys' fees incurred in these matters. Company further represents that it has not, and never will, institute against the Employee or any of the Employee Releasees any action or other proceeding in any court, administrative agency, or other tribunal of the United States, any State thereof or any foreign jurisdiction, with respect to any Claim or cause of action of any type, other than as provided under (i), (ii), (iii) or (iv) above, arising or which may have existed at any time prior to the effective date of the Agreement. If Company does institute such a claim, it agrees to pay the reasonable costs incurred by the Employee or any of the Employee Releases in defending such action, including reasonable attorneys' fees, experts' fees and costs.

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

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

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

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

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

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

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

(a) shall become final and binding immediately following the expiration of the Employee's right to revoke the execution of the Agreement in accordance with paragraph 3(d) of Exhibit B to the Agreement;

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

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

\* \* \* \* \*

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

Heidrick & Struggles International, Inc.

\_\_\_\_\_  
By: **Fritz E. Freidinger**  
Title: **General Counsel and Corporate Secretary**  
Date: \_\_\_\_\_

State of \_\_\_\_\_

County of \_\_\_\_\_

Subscribed Before Me This  
\_\_\_\_ Day of \_\_\_\_\_, 2004

\_\_\_\_\_  
Notary Public]



**Exhibit C**

**Kevin J. Smith**

**NON QUALIFIED STOCK OPTIONS**

<u>Grant Date</u>	<u>Number of Shares</u>	<u>Option Exercise Price</u>	<u>Vested as of Termination Date</u>	<u>Forfeited as of Termination Date</u>	<u>Expiration of Vested Options</u>
01-08-02	10,000	\$17.73	10,000	0	60 days following Termination Date
03-06-02	40,000	\$18.40	26,666	13,334	60 days following Termination Date
03-06-03	50,000	\$11.90	16,666	33,334	60 days following Termination Date

**RESTRICTED STOCK UNITS**

<u>Grant Date</u>	<u>Number of Shares</u>	<u>Vested as of Termination Date</u>	<u>Forfeited as of Termination Date</u>
03-06-03	4,202.0	1,400	2,802

**THE ATTACHED EXHIBIT SETS FORTH THOSE SECTIONS OF THE HEIDRICK & STRUGGLES CODE OF BUSINESS CONDUCT AND ETHICS THAT COMPLY WITH THE REQUIREMENTS OF ITEM 406 OF REGULATION S-K PROMULGATED BY THE SECURITIES AND EXCHANGE COMMISSION.**

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## INTRODUCTION

This Code is designed to help you understand your responsibilities in conducting business on behalf of Heidrick & Struggles. It applies to all directors, officers and employees of the company, no matter where you work, so it is important that you read it and understand it. Most of what you read in this Code probably will not surprise you, as it is consistent with the behavior and expectations on which our firm has been built.

Violations of this Code will not be tolerated. Those who violate it will be subject to disciplinary action, up to and including termination of employment. All of us must take responsibility for the manner in which Heidrick & Struggles engages in business, and thus each employee must report to the General Counsel any action that appears to be in violation of this Code. Employees who legitimately honor the requirement to report potential non-compliance will not be retaliated against. We must also take reasonable steps to assure that any consultants, agents or representatives who we engage to represent or provide services to or for us comply with the standards required by this Code.

Our business must be conducted at all times in compliance with applicable laws. We will respect the law in the countries and communities in which we operate. Where laws are unclear or conflicting, we will obtain legal advice to ensure that we act in accordance with our standards. We will also act in compliance with all relevant professional standards and the highest ethical business standards.

This Code highlights laws with which we must comply. It also goes further, describing the ethical values we share at Heidrick & Struggles. We recognize that, in some instances, compliance with this Code may place us in a less competitive position. However, adherence to this Code is of greater long-term value to our firm and its clients, employees and shareholders than any benefit that may be gained by compromising our integrity.

Contact our General Counsel with any questions related to this Code. You must report to the General Counsel any violations, or possible violations, of this Code of which you become aware. Contact may be made directly or through our Reporting Hotline (1-877-462-5469).

*Effective October, 2003*

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**Public Company Reporting and Financial Records**

It is of critical importance that our filings with the Securities and Exchange Commission be accurate and timely. Depending on your position with our company, you may be called on to provide necessary information to assure that our public reports filed with the Securities and Exchange Commission or otherwise made to the public are full, fair, accurate, timely and understandable. We expect you to take this responsibility very seriously and to provide prompt, accurate answers to inquiries related to public disclosure requirements.

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## Conflicts of Interest

Directors, officers and employees may not compete with Heidrick & Struggles or let their dealings on behalf of Heidrick & Struggles be influenced, or appear to be influenced, by personal or family interests. Examples of conflicts of interest include, but are not limited to:

- Participating in a venture in which Heidrick & Struggles has, or might have, an interest.
- Receiving a gift, favor, loan, special service, payment or special treatment of any kind from any individual or organization that does, or seeks to do, business with Heidrick & Struggles, or that competes with Heidrick & Struggles, unless each of the following apply:
  - It would be consistent with good business practices.
  - It could not be construed as a business inducement.
  - It is of nominal value.
  - Public disclosure of the transaction would not embarrass Heidrick & Struggles or the recipient.
- Giving a gift, favor, loan, special service, payment or special treatment of any kind designed to improperly influence an individual, company or governmental official to act in a way that gives Heidrick & Struggles or the director, officer or employee an advantage.

Where there is a potential conflict of interest, it must be referred to the General Counsel.

**SUBSIDIARIES OF REGISTRANT**

HEIDRICK & STRUGGLES, INC., a Delaware corporation  
 HEIDRICK & STRUGGLES ASIA-PACIFIC, LTD., an Illinois corporation  
 HEIDRICK & STRUGGLES JAPAN, LTD., an Illinois corporation  
 HEIDRICK & STRUGGLES AUSTRALIA, LTD., an Illinois corporation  
 HEIDRICK & STRUGGLES HONG KONG LTD., an Illinois corporation  
 HEIDRICK & STRUGGLES SINGAPORE PTE LTD., a Singapore corporation  
 HEIDRICK & STRUGGLES (INDIA) PRIVATE LIMITED, an India corporation  
 HEIDRICK & STRUGGLES (KOREA), INC., a Korean corporation  
 HEIDRICK & STRUGGLES FAR EAST LIMITED (Hong Kong)  
 HEIDRICK & STRUGGLES TAIWAN LIMITED  
 HEIDRICK & STRUGGLES CANADA, INC., a Canadian corporation  
 HEIDRICK & STRUGGLES ARGENTINA, S.A., an Argentine corporation  
 HEIDRICK & STRUGGLES LATIN AMERICA, INC., an Illinois corporation  
 HEIDRICK & STRUGGLES DE CHILE LIMITADA, a Chilean Limitada  
 HEIDRICK & STRUGGLES HOLDINGS DO BRASIL LTDA, a Brazilian limitada  
 HEIDRICK & STRUGGLES DO BRASIL LTDA, a Brazilian limitada  
 HEIDRICK & STRUGGLES, S.A. de C.V., a Mexican corporation  
 HEIDRICK & STRUGGLES ESPANA, INC., an Illinois corporation  
 HEIDRICK & STRUGGLES AB, a Swedish corporation  
 HEIDRICK & STRUGGLES OY, a Finnish corporation  
 HEIDRICK & STRUGGLES INTERNATIONAL SRL, an Italian corporation  
 HEIDRICK & STRUGGLES Sp.zo.o, a Polish corporation  
 HEIDRICK & STRUGGLES AG, a Swiss corporation  
 HEIDRICK & STRUGGLES BV, a Netherlands corporation  
 HEIDRICK & STRUGGLES CONSULTORES de GESTAO Lda, a Portuguese corporation  
 HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG GmbH & Co. KG, a Germany  
 Limited Partnership  
 HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG VERWALTUNG, GmbH, a  
 Germany Limited Liability Company  
 HEIDRICK & STRUGGLES LTD., an Israeli corporation  
 HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG, GmbH, an Austrian corporation  
 HEIDRICK & STRUGGLES UK LIMITED, a UK corporation  
 H&S SOFTWARE DEVELOPMENT and KNOWLEDGE MANAGEMENT CENTRE  
 PRIVATE LIMITED, an India corporation  
 SHPA ESOP, LTD., a UK corporation  
 I.C. INTERCONSULT SRL, an Italy corporation  
 LEADERSONLINE, LIMITED, a Cayman Islands corporation  
 LEADERSONLINE EUROPE S.A.R.L, a Luxembourg corporation  
 LEADERSONLINE NETHERLANDS B.V., a Netherlands corporation  
 HEIDRICK & STRUGGLES, a Netherlands partnership (Do we include on this list?)  
 BEIJING HEIDRICK & STRUGGLES INTERNATIONAL MANAGEMENT CONSULTING  
 COMPANY LIMITED, a China Limited Partnership (Joint Venture 90% Ownership)  
 PROTEM GMBH, a Germany Limited Liability Company

**INDEPENDENT AUDITORS' CONSENT**

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

We consent to the incorporation by reference in the registration statements on Form S-8 (No. 333-82424, No. 333-58118, No. 333-32544, and No. 333-73443) of Heidrick & Struggles International, Inc. of our report dated February 18, 2004, with respect to the consolidated balance sheets of Heidrick & Struggles International, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the years then ended, and the related financial statement schedule, which report appears in the December 31, 2003 annual report on Form 10-K of Heidrick & Struggles International, Inc.

Our report refers to our audit of the disclosures added and the adjustments that were applied to revise the 2001 consolidated financial statements, as more fully described in Notes 1, 2 and 11 to the consolidated financial statements. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements other than with respect to such disclosures and adjustments.

/s/ KPMG LLP

Chicago, Illinois  
March 8, 2004

## CERTIFICATION

I, Thomas J. Friel, 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)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The 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 controls over financial reporting.

/s/ THOMAS J. FRIEL

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Chief Executive Officer

Dated: March 12, 2004



## CERTIFICATION

I, Kevin J. Smith, 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)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The 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 controls over financial reporting.

/s/ KEVIN J. SMITH

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Chief Financial Officer

Dated: March 12, 2004

**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, 2003 (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.

/s/ THOMAS J. FRIEL

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Chief Executive Officer

Dated: March 12, 2004

**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, 2003 (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.

/s/ KEVIN J. SMITH

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Chief Financial Officer

Dated: March 12, 2004