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

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): July 29, 2014

HEIDRICK & STRUGGLES INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of Incorporation)

0-25837
(Commission
File Number)

36-2681268
(IRS Employer
Identification No.)

233 South Wacker Drive, Suite 4200, Chicago, IL
(Address of principal executive offices)

60606-6303
(Zip Code)

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

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4 (c))
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Item 2.02. Results of Operations and Financial Condition.

On July 29, 2014, Heidrick & Struggles International, Inc. (“Heidrick & Struggles” or the “Company”) reported its earnings for the second quarter ended June 30, 2014. A copy of the Company’s press release containing this information is being furnished as Exhibit 99.1 to this Report on Form 8-K and is incorporated herein by reference.

The information furnished pursuant to this Item 2.02, including Exhibit 99.1, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act) or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of Heidrick & Struggles under the Securities Act of 1933 or the Exchange Act.

Item 9.01 Financial Statements and Exhibits.**(d) Exhibits.**

The following exhibit is being furnished as part of this Report on Form 8-K:

99.1 Heidrick & Struggles International, Inc. Press Release dated July 29, 2014

SIGNATURES

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

Heidrick & Struggles International, Inc.

(Registrant)

Date: July 29, 2014

/s/ Stephen W. Beard

Executive Vice President, General Counsel, Chief Administrative
Officer & Secretary

Heidrick & Struggles Reports Second Quarter 2014 Financial Results

CHICAGO (July 29, 2014) — Heidrick & Struggles International, Inc. (Nasdaq: HSII), a premier professional services firm focused on serving the leadership needs of top organizations globally, today announced financial results for its second quarter ended June 30, 2014.

Consolidated net revenue (revenue before reimbursements) increased 11.5 percent, or \$14.0 million, to \$136.1 million from \$122.0 million in the 2013 second quarter.

Executive Search and Leadership Consulting net revenue increased 8.7 percent year over year, or \$10.1 million, to \$126.7 million. The increase was driven by a 34.0 percent increase in Europe (approximately 25 percent on a constant currency basis), and a 3.4 percent increase in the Americas. Revenue from Asia Pacific in the 2014 second quarter was essentially unchanged compared to the prior year quarter (increased approximately 2 percent on a constant currency basis). From a global practices perspective, the Consumer Markets, Financial Services and Global Technology & Services industry practices, three of the firm's four largest, were the primary drivers of year-over-year growth.

Net revenue from Culture Shaping services increased 71.9 percent, or \$3.9 million, to \$9.4 million from \$5.4 million in the 2013 second quarter. Exchange rate fluctuations positively impacted net revenue by \$0.1 million, or about 2 percent. Reported results in the 2013 second quarter excluded \$1.5 million of pre-acquisition deferred revenue that the company was unable to recognize related to Senn Delaney as a result of purchase accounting.

The company ended the second quarter with 311 Executive Search and Leadership Consulting consultants compared to 303 at March 31, 2014 and 315 at June 30, 2013. Productivity, as measured by annualized net revenue per consultant, increased to \$1.6 million compared to \$1.5 million in the 2013 second quarter. Specific to Executive Search, the company's primary business, the number of confirmed searches increased 3.5 percent compared to the 2013 second quarter and the average revenue per executive search grew to \$117,400 from \$108,800 in the 2013 second quarter.

"Our second quarter results reflect year-over-year and sequential improvements in almost all of our operating segments and key metrics," said Tracy R. Wolstencroft, Heidrick & Struggles' President and Chief Executive Officer. "We are encouraged by the progress and by the continued growth in our consultant base since the beginning of the year. At the same time, we recognize there is still much work to be done to deliver a fully integrated service platform to our clients and to improve our financial performance."

Salaries and employee benefits expense in the second quarter increased 10.9 percent, or \$9.1 million, to \$92.1 million from \$83.1 million in the 2013 second quarter. Variable compensation expense increased \$9.5 million, primarily related to improved consultant performance reflected in higher net revenue, and fixed compensation expense decreased \$0.5 million. Salaries and employee benefits expense was 67.7 percent of net revenue for the quarter, compared to 68.1 percent in the 2013 second quarter.

General and administrative expenses declined 5.4 percent, or \$1.8 million, to \$31.4 million from \$33.2 million in the 2013 second quarter. The decrease was primarily driven by lower professional services fees. As a percentage of net revenue, general and administrative expenses were 23.1 percent compared to 27.2 percent in the 2013 second quarter.

Adjusted EBITDA⁽¹⁾ in the 2014 second quarter improved to \$18.9 million compared to \$11.9 million in the 2013 second quarter. The Adjusted EBITDA margin in the 2014 second quarter was 13.9 percent compared 9.7 percent in the 2013 second quarter. The year-over-year improvements mostly reflect the increase in net revenue and a decline in general and administrative expenses, partially offset by the increase in salaries and employee benefits expense.

Operating income in the second quarter increased by \$6.8 million to \$12.5 million and operating margin (operating income as a percentage of net revenue) improved to 9.2 percent, compared to operating income of \$5.7 million and operating margin of 4.7 percent in the 2013 second quarter.

Net income in the 2014 second quarter was \$3.8 million and diluted earnings per share were \$0.21, based on an effective tax rate of 70.3 percent in the quarter and a full-year projected tax rate of approximately 73 percent. The second quarter tax rate partially reflects a valuation allowance established in Asia Pacific as well as the current forecasted mix of income by country. Net income in the 2013 second quarter was \$1.9 million and diluted earnings per share were \$0.11, based on an effective quarterly tax rate of 61.7 percent. In addition to the valuation allowance established in the 2014 second quarter, the effective tax rates in both years are higher than the statutory rate because of losses incurred that could not be benefitted for tax purposes due to valuation allowances in certain jurisdictions.

Net cash provided by operating activities in the 2014 second quarter was \$29.6 million, compared to \$20.6 million in the 2013 second quarter. Cash and cash equivalents at June 30, 2014 were \$123.4 million (\$90.9 million net of debt), compared to \$99.7 million at June 30, 2013 (\$61.2 million net of debt), and \$101.4 million at March 31, 2014 (\$67.4 million net of debt).

- (1) Adjusted EBITDA refers to earnings before interest, taxes, depreciation, intangible amortization, stock-based compensation expense, compensation expense associated with Senn Delaney retention awards, earnout accretion expense related to acquisitions, restructuring charges, and other non-operating income (expense). Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures which the company believes are useful to management and meaningful to investors because they provide insight into the ongoing operating results of the company's core business. A reconciliation to the most directly comparable GAAP measures are provided on the last page of the financial statements in this release.

Six Months Results

For the six months ended June 30, 2014 consolidated net revenue of \$247.2 million increased 9.9 percent from \$225.0 million in the first six months of 2013.

Executive Search and Leadership Consulting net revenue increased 8.1 percent year over year, or \$17.3 million, to \$231.3 million, driven by a 37.8 percent increase in Europe (approximately 30 percent on a constant currency basis). Revenue in the Americas increased 0.5 percent and revenue in Asia Pacific increased 2.0 percent (approximately 6 percent on a constant currency basis). From a global practices perspective, the Consumer Markets, Financial Services and Global Technology & Services industry groups were the primary drivers of year-over-year growth.

Net revenue from Culture Shaping services increased 44.0 percent, or \$4.9 million, to \$15.9 million from \$11.0 million in the first six months of 2013. Exchange rate fluctuations positively impacted net revenue by \$0.1 million, or about 1 percent. Reported results in the first six months of 2013 excluded \$3.6 million of pre-acquisition deferred revenue that the company was unable to recognize related to Senn Delaney as a result of purchase accounting.

Productivity, as measured by annualized Executive Search and Leadership Consulting net revenue per consultant, was \$1.5 million for the first six months of 2014 compared to \$1.3 million for the same period of 2013. The number of executive searches confirmed in the first six months of 2014 increased 6.0 percent and the average revenue per executive search was \$109,500 compared to \$106,000 for the same period in 2013.

Adjusted EBITDA⁽¹⁾ for the first six months of 2014 improved to \$24.8 million and Adjusted EBITDA margin was 10.1 percent, compared to Adjusted EBITDA of \$18.5 million and Adjusted EBITDA margin of 8.2 percent for the same period of 2013. Operating income for the first six months of 2014 improved to \$13.3 million and operating margin was 5.4 percent compared to operating income of \$6.1 million and operating margin of 2.7 percent for the first six months of 2013.

Net income for the first six months of 2014 was \$3.0 million and diluted earnings per share were \$0.17, reflecting an effective tax rate of 77.0 percent. Net income for the first six months of 2013 was \$0.7 million and diluted earnings per share were \$0.04, reflecting an effective tax rate of 86.0 percent. In addition to the valuation allowance established in the 2014 second quarter, the effective tax rates in both years are higher than the statutory rate because of losses incurred that could not be benefitted for tax purposes due to valuation allowances in certain jurisdictions.

2014 Third Quarter Outlook

The company is forecasting 2014 third quarter consolidated net revenue of between \$123 million and \$133 million. Among other factors, this forecast reflects assumptions for the anticipated volume of new Executive Search confirmations, Leadership Consulting assignments, expectations for Culture Shaping services, the current backlog, consultant productivity, consultant retention, the seasonality of its business, the global economic climate and for no change in future currency rates.

Wolstencroft added, “Our year-to-date results provide a stable foundation to pursue our growth strategy as a fully integrated leadership solutions provider. We are committed to investing in our people and in our client relationships in order to grow revenue and enhance shareholder value.”

Quarterly Conference Call

Executives of Heidrick & Struggles will host a conference call to review the 2014 second quarter results today, July 29, at 9 a.m. Central Time. Participants may access the company’s call and supporting slides through the internet at www.heidrick.com. For those unable to participate on the live call, a webcast and copy of the slides will be archived at www.heidrick.com and available for up to 30 days following the investor call.

About Heidrick & Struggles International, Inc.

Heidrick & Struggles International, Inc. (Nasdaq:HSII) is a premier provider of senior-level Executive Search, Culture Shaping and Leadership Consulting services. For more than 60 years, we have helped our clients build strong leadership teams through quality service, deep insights and our relationships with talented individuals worldwide. Today, Heidrick & Struggles' leadership experts operate from principal business centers in North America, Latin America, Europe, Asia Pacific, Africa and the Middle East. For more information about Heidrick & Struggles, please visit www.heidrick.com.

Non-GAAP Financial Measures

This earnings release contains certain non-GAAP financial measures. A "non-GAAP financial measure" is defined as a numerical measure of a company's financial performance that excludes or includes amounts different than the most directly comparable measure calculated and presented in accordance with GAAP in the statements of comprehensive income/(loss), balance sheets or statements of cash flow of the company. Pursuant to the requirements of Regulation G, this earnings release contains the most directly comparable GAAP financial measure to the non-GAAP financial measure.

The non-GAAP financial measures used within this earnings release are Adjusted EBITDA and Adjusted EBITDA margin. Adjusted EBITDA refers to earnings before interest, taxes, depreciation, intangible amortization, stock-based compensation expense, compensation expense associated with Senn Delaney retention awards, earnout accretion expense related to acquisitions, restructuring charges, and other non-operating income (expense). Adjusted EBITDA margin refers to Adjusted EBITDA (as explained above) as a percentage of net revenue in the same period. A reconciliation of Adjusted EBITDA to Net Income is provided on the last page of this release.

These measures are presented because management uses this information to monitor and evaluate financial results and trends. Management believes this information is also useful for investors.

Safe Harbor Statement

This press release contains forward-looking statements. The forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate and management's beliefs and assumptions. Forward-looking statements may be identified by the use of words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "projects," "forecasts," and similar expressions. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, forecasted or implied in the forward-looking statements. Factors that may affect the outcome of the forward-looking statements include, among other things, our ability to attract, integrate, manage and retain qualified executive search consultants; our ability to develop and maintain strong, long-term relationships with our clients; declines in the global economy and our ability to execute successfully through business cycles; the timing, speed or robustness of any future economic recovery; social or political instability in markets where we operate, the impact of foreign currency exchange rate fluctuations; unfavorable tax law changes and tax authority rulings; price competition; the ability to forecast, on a quarterly basis, variable compensation accruals that ultimately are determined based on the achievement of annual results; our ability to realize our tax losses; the timing of the establishment or reversal of valuation allowance on deferred tax assets; the mix of profit and loss by country; our reliance on information management systems; any impairment of our goodwill and other intangible assets; and the ability to align our cost structure and headcount with net revenue. For more information on the factors that could affect the outcome of forward-looking statements, refer to our Annual Report on Form 10-K for the year ended December 31, 2013, under Risk Factors in Item 1A and our quarterly filings with the SEC. 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.

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Heidrick & Struggles International, Inc.
Condensed Consolidated Statements of Comprehensive Income
(In thousands, except per share data)
(Unaudited)

| | Three Months Ended | | \$ Change | % Change |
|---|--------------------|----------------|-----------|----------|
| | June 30, | | | |
| | 2014 | 2013 | | |
| Revenue: | | | | |
| Revenue before reimbursements (net revenue) | \$136,080 | \$122,033 | \$14,047 | 11.5% |
| Reimbursements | 4,878 | 5,295 | (417) | -7.9% |
| Total revenue | <u>140,958</u> | <u>127,328</u> | 13,630 | 10.7% |
| Operating expenses: | | | | |
| Salaries and employee benefits | 92,128 | 83,066 | 9,062 | 10.9% |
| General and administrative expenses | 31,440 | 33,225 | (1,785) | -5.4% |
| Reimbursed expenses | 4,878 | 5,295 | (417) | -7.9% |
| Total operating expenses | <u>128,446</u> | <u>121,586</u> | 6,860 | 5.6% |
| Operating income | 12,512 | 5,742 | 6,770 | 117.9% |
| Non-operating income (expense): | | | | |
| Interest, net | (110) | (106) | | |
| Other, net | 342 | (584) | | |
| Net non-operating income (expense) | <u>232</u> | <u>(690)</u> | | |
| Income before income taxes | 12,744 | 5,052 | | |
| Provision for income taxes | 8,957 | 3,115 | | |
| Net income | 3,787 | 1,937 | | |
| Other comprehensive income (loss), net of tax | 591 | (1,346) | | |
| Comprehensive income | <u>\$ 4,378</u> | <u>\$ 591</u> | | |
| Basic weighted average common shares outstanding | 18,215 | 18,076 | | |
| Dilutive common shares | 169 | 148 | | |
| Diluted weighted average common shares outstanding | <u>18,384</u> | <u>18,224</u> | | |
| Basic net income per common share | \$ 0.21 | \$ 0.11 | | |
| Diluted net income per common share | \$ 0.21 | \$ 0.11 | | |
| Salaries and employee benefits as a percentage of net revenue | 67.7% | 68.1% | | |
| General and administrative expense as a percentage of net revenue | 23.1% | 27.2% | | |
| Operating income as a percentage of net revenue | 9.2% | 4.7% | | |

Heidrick & Struggles International, Inc.

Segment Information

(In thousands)

(Unaudited)

| | Three Months Ended June 30, | | | | 2014 | 2013 |
|--|-----------------------------|-------------------|------------------|----------|----------|----------|
| | 2014 | 2013 | \$ Change | % Change | Margin * | Margin * |
| Revenue: | | | | | | |
| Executive Search and Leadership Consulting | | | | | | |
| Americas | \$ 70,466 | \$ 68,176 | \$ 2,290 | 3.4% | | |
| Europe | 31,201 | 23,284 | 7,917 | 34.0% | | |
| Asia Pacific | 25,062 | 25,133 | (71) | -0.3% | | |
| Total Executive Search and Leadership Consulting | 126,729 | 116,593 | 10,136 | 8.7% | | |
| Culture Shaping | 9,351 | 5,440 | 3,911 | 71.9% | | |
| Revenue before reimbursements (net revenue) | 136,080 | 122,033 | 14,047 | 11.5% | | |
| Reimbursements | 4,878 | 5,295 | (417) | -7.9% | | |
| Total revenue | <u>\$ 140,958</u> | <u>\$ 127,328</u> | <u>\$ 13,630</u> | 10.7% | | |
| Operating income (loss): | | | | | | |
| Executive Search and Leadership Consulting | | | | | | |
| Americas | \$ 19,190 | \$ 19,121 | \$ 69 | 0.4% | 27.2% | 28.0% |
| Europe | 1,736 | (2,332) | 4,068 | 174.4% | 5.6% | -10.0% |
| Asia Pacific | 2,921 | 2,944 | (23) | -0.8% | 11.7% | 11.7% |
| Total Executive Search and Leadership Consulting | 23,847 | 19,733 | 4,114 | 20.8% | 18.8% | 16.9% |
| Culture Shaping | 1,299 | (1,208) | 2,507 | 207.5% | 13.9% | -22.2% |
| Total segments | 25,146 | 18,525 | 6,621 | 35.7% | 18.5% | 15.2% |
| Global Operations Support | (12,634) | (12,783) | 149 | 1.2% | -9.3% | -10.5% |
| Operating income | <u>\$ 12,512</u> | <u>\$ 5,742</u> | <u>\$ 6,770</u> | 117.9% | 9.2% | 4.7% |

* Margin based on revenue before reimbursements (net revenue).

Heidrick & Struggles International, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(In thousands, except per share data)
(Unaudited)

| | Six Months Ended | | \$ Change | % Change |
|---|------------------|-----------------|-----------|----------|
| | June 30, | | | |
| | 2014 | 2013 | | |
| Revenue: | | | | |
| Revenue before reimbursements (net revenue) | \$247,201 | \$225,011 | \$22,190 | 9.9% |
| Reimbursements | 9,289 | 9,625 | (336) | -3.5% |
| Total revenue | 256,490 | 234,636 | 21,854 | 9.3% |
| Operating expenses: | | | | |
| Salaries and employee benefits | 168,043 | 154,545 | 13,498 | 8.7% |
| General and administrative expenses | 65,866 | 64,335 | 1,531 | 2.4% |
| Reimbursed expenses | 9,289 | 9,625 | (336) | -3.5% |
| Total operating expenses | 243,198 | 228,505 | 14,693 | 6.4% |
| Operating income | 13,292 | 6,131 | 7,161 | 116.8% |
| Non-operating income (expense): | | | | |
| Interest, net | (80) | (29) | | |
| Other, net | 44 | (966) | | |
| Net non-operating expense | (36) | (995) | | |
| Income before income taxes | 13,256 | 5,136 | | |
| Provision for income taxes | 10,213 | 4,415 | | |
| Net income | 3,043 | 721 | | |
| Other comprehensive income (loss), net of tax | 1,688 | (1,505) | | |
| Comprehensive income (loss) | <u>\$ 4,731</u> | <u>\$ (784)</u> | | |
| Basic weighted average common shares outstanding | 18,184 | 18,043 | | |
| Dilutive common shares | 178 | 157 | | |
| Diluted weighted average common shares outstanding | <u>18,362</u> | <u>18,200</u> | | |
| Basic net income per common share | \$ 0.17 | \$ 0.04 | | |
| Diluted net income per common share | \$ 0.17 | \$ 0.04 | | |
| Salaries and employee benefits as a percentage of net revenue | 68.0% | 68.7% | | |
| General and administrative expense as a percentage of net revenue | 26.6% | 28.6% | | |
| Operating income as a percentage of net revenue | 5.4% | 2.7% | | |

Heidrick & Struggles International, Inc.

Segment Information

(In thousands)

(Unaudited)

| | Six Months Ended June 30, | | | | 2014 | 2013 |
|--|---------------------------|-------------------|------------------|----------|----------|----------|
| | 2014 | 2013 | \$ Change | % Change | Margin * | Margin * |
| Revenue: | | | | | | |
| Executive Search and Leadership Consulting | | | | | | |
| Americas | \$ 128,052 | \$ 127,384 | \$ 668 | 0.5% | | |
| Europe | 57,425 | 41,676 | 15,749 | 37.8% | | |
| Asia Pacific | 45,857 | 44,936 | 921 | 2.0% | | |
| Total Executive Search and Leadership Consulting | 231,334 | 213,996 | 17,338 | 8.1% | | |
| Culture Shaping | 15,867 | 11,015 | 4,852 | 44.0% | | |
| Revenue before reimbursements (net revenue) | 247,201 | 225,011 | 22,190 | 9.9% | | |
| Reimbursements | 9,289 | 9,625 | (336) | -3.5% | | |
| Total revenue | <u>\$ 256,490</u> | <u>\$ 234,636</u> | <u>\$ 21,854</u> | 9.3% | | |
| Operating income (loss): | | | | | | |
| Executive Search and Leadership Consulting | | | | | | |
| Americas | \$ 33,280 | \$ 33,824 | \$ (544) | -1.6% | 26.0% | 26.6% |
| Europe | 2,614 | (5,466) | 8,080 | 147.8% | 4.6% | -13.1% |
| Asia Pacific | 3,953 | 3,692 | 261 | 7.1% | 8.6% | 8.2% |
| Total Executive Search and Leadership Consulting | 39,847 | 32,050 | 7,797 | 24.3% | 17.2% | 15.0% |
| Culture Shaping | 751 | (3,005) | 3,756 | 125.0% | 4.7% | -27.3% |
| Total segments | 40,598 | 29,045 | 11,553 | 39.8% | 16.4% | 12.9% |
| Global Operations Support | (27,306) | (22,914) | (4,392) | -19.2% | -11.0% | -10.2% |
| Operating income | <u>\$ 13,292</u> | <u>\$ 6,131</u> | <u>\$ 7,161</u> | 116.8% | 5.4% | 2.7% |

* Margin based on revenue before reimbursements (net revenue).

Heidrick & Struggles International, Inc.
Condensed Consolidated Balance Sheets
(In thousands)

| | <u>June 30, 2014</u> (Unaudited) | <u>December 31, 2013</u> |
|--|---|------------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 123,350 | \$ 181,646 |
| Restricted cash | 55 | 130 |
| Accounts receivable, net | 105,011 | 71,666 |
| Other receivables | 8,347 | 6,906 |
| Prepaid expenses | 16,587 | 14,786 |
| Other current assets | 1,698 | 1,807 |
| Income taxes recoverable | 7,187 | 5,772 |
| Deferred income taxes | 7,536 | 8,061 |
| Total current assets | <u>269,771</u> | <u>290,774</u> |
| Non-current assets: | | |
| Property and equipment, net | 32,109 | 34,961 |
| Restricted cash | 8,111 | 7,878 |
| Assets designated for retirement and pension plans | 22,618 | 22,685 |
| Investments | 14,739 | 13,848 |
| Other non-current assets | 7,184 | 5,693 |
| Goodwill | 123,970 | 123,274 |
| Other intangible assets, net | 24,007 | 26,637 |
| Deferred income taxes | 23,638 | 27,474 |
| Total non-current assets | <u>256,376</u> | <u>262,450</u> |
| Total assets | <u>\$ 526,147</u> | <u>\$ 553,224</u> |
| Current liabilities: | | |
| Short term borrowings | \$ 6,000 | \$ 6,000 |
| Accounts payable | 5,485 | 7,791 |
| Accrued salaries and employee benefits | 80,872 | 109,943 |
| Deferred revenue, net | 36,023 | 27,714 |
| Other current liabilities | 24,476 | 18,938 |
| Income taxes payable | 5,648 | 5,401 |
| Total current liabilities | <u>158,504</u> | <u>175,787</u> |
| Non-current liabilities: | | |
| Long term debt, less current maturities | 26,500 | 29,500 |
| Retirement and pension plans | 39,511 | 38,735 |
| Other non-current liabilities | 52,037 | 61,329 |
| Total non-current liabilities | <u>118,048</u> | <u>129,564</u> |
| Stockholders' equity | <u>249,595</u> | <u>247,873</u> |
| Total liabilities and stockholders' equity | <u>\$ 526,147</u> | <u>\$ 553,224</u> |

Heidrick & Struggles International, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

| | Three Months Ended | |
|---|---------------------------|------------------|
| | June 30, | |
| | 2014 | 2013 |
| Cash flows—operating activities: | | |
| Net income | \$ 3,787 | \$ 1,937 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,798 | 3,882 |
| Deferred income taxes | 4,163 | 335 |
| Stock-based compensation expense | 1,505 | 1,461 |
| Accretion expense | 476 | 516 |
| Cash paid for restructuring charges | (37) | (303) |
| Changes in assets and liabilities, net of effects of acquisitions: | | |
| Accounts and other receivables | (20,765) | (13,099) |
| Accounts payable | (2,680) | 248 |
| Accrued expenses | 37,356 | 21,079 |
| Income taxes recoverable, net | 3,509 | 2,291 |
| Retirement and pension assets and liabilities | (596) | 32 |
| Prepaid expenses | (64) | 240 |
| Other assets and liabilities, net | (585) | 1,941 |
| Net cash provided by operating activities | <u>29,867</u> | <u>20,560</u> |
| Cash flows—investing activities: | | |
| Restricted cash | (239) | — |
| Capital expenditures | (740) | (413) |
| Purchases of available for sale investments | (74) | (95) |
| Proceeds from sales of available for sale investments | 125 | 33 |
| Net cash used in investing activities | <u>(928)</u> | <u>(475)</u> |
| Cash flows—financing activities: | | |
| Debt repayment | (1,500) | (1,500) |
| Cash dividends paid | (2,377) | (2,412) |
| Payment of employee tax withholdings on equity transactions | (24) | (215) |
| Acquisition earnout payments | (3,390) | (357) |
| Net cash used in financing activities | <u>(7,291)</u> | <u>(4,484)</u> |
| Effect of exchange rate fluctuations on cash and cash equivalents | 297 | (1,566) |
| Net increase (decrease) in cash and cash equivalents | 21,945 | 14,035 |
| Cash and cash equivalents at beginning of period | 101,405 | 127,137 |
| Cash and cash equivalents at end of period | <u>\$123,350</u> | <u>\$141,172</u> |

Heidrick & Struggles International, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

| | Six Months Ended | |
|---|------------------|------------------|
| | June 30, | |
| | 2014 | 2013 |
| Cash flows—operating activities: | | |
| Net income | \$ 3,043 | \$ 721 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 7,648 | 8,027 |
| Deferred income taxes | 4,562 | 1,426 |
| Stock-based compensation expense | 1,841 | 2,472 |
| Accretion expense related to earnout payments | 899 | 1,033 |
| Cash paid for restructuring charges | (73) | (616) |
| Changes in assets and liabilities, net of effects of acquisitions: | | |
| Accounts and other receivables | (34,023) | (24,041) |
| Accounts payable | (2,466) | (541) |
| Accrued expenses | (21,938) | (40,684) |
| Income taxes payable, net | (1,060) | 1,488 |
| Retirement and pension assets and liabilities | (170) | 540 |
| Prepaid expenses | (1,685) | (306) |
| Other assets and liabilities, net | (1,620) | 1,981 |
| Net cash used in operating activities | <u>(45,042)</u> | <u>(48,500)</u> |
| Cash flows—investing activities: | | |
| Restricted cash | (102) | (26) |
| Capital expenditures | (1,867) | (1,029) |
| Purchases of available for sale investments | (828) | (501) |
| Proceeds from sales of available for sale investments | 592 | 53 |
| Net cash used in investing activities | <u>(2,205)</u> | <u>(1,503)</u> |
| Cash flows—financing activities: | | |
| Proceeds from debt issuance | — | 40,000 |
| Debt repayment | (3,000) | — |
| Cash dividends paid | (4,849) | (2,519) |
| Payment of employee tax withholdings on equity transactions | (406) | (361) |
| Acquisition earnout payments | (3,390) | — |
| Net cash (used in) provided by financing activities | <u>(11,645)</u> | <u>37,120</u> |
| Effect of exchange rate fluctuations on cash and cash equivalents | 596 | (2,567) |
| Net increase (decrease) in cash and cash equivalents | (58,296) | (15,450) |
| Cash and cash equivalents at beginning of period | 181,646 | 117,605 |
| Cash and cash equivalents at end of period | <u>\$123,350</u> | <u>\$102,155</u> |

Heidrick & Struggles International, Inc.
Reconciliation of Net Income and Operating Income (GAAP) to
Adjusted EBITDA (Non-GAAP)

(In thousands)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Revenue before reimbursements (net revenue) | \$ 136,080 | \$ 122,033 | \$ 247,201 | \$ 225,011 |
| Net income | \$ 3,787 | \$ 1,937 | \$ 3,043 | \$ 721 |
| Interest, net | (110) | (106) | (80) | (29) |
| Other, net | 342 | (584) | 44 | (966) |
| Provision for income taxes | 8,957 | 3,115 | 10,213 | 4,415 |
| Operating income | 12,512 | 5,742 | 13,292 | 6,131 |
| Adjustments | | | | |
| Salaries and employee benefits | | | | |
| Stock-based compensation expense | 1,505 | 1,162 | 1,841 | 2,173 |
| Senn Delaney retention awards | 583 | 583 | 1,167 | 1,166 |
| General and administrative expenses | | | | |
| Depreciation | 2,414 | 2,432 | 4,884 | 5,122 |
| Intangible amortization | 1,384 | 1,450 | 2,764 | 2,905 |
| Senn Delaney earnout accretion | 476 | 517 | 899 | 1,034 |
| Total adjustments | 6,362 | 6,144 | 11,555 | 12,400 |
| Adjusted EBITDA | <u>\$ 18,874</u> | <u>\$ 11,886</u> | <u>\$ 24,847</u> | <u>\$ 18,531</u> |
| Adjusted EBITDA Margin | 13.9% | 9.7% | 10.1% | 8.2% |