HEIDRICK & STRUGGLES INTERNATIONAL INC
Form 10-K
March 01, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File No. 0-25837

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**36-2681268**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**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)

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	The Nasdaq Global Market

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

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

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

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

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

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

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

Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨ Smaller Reporting Company ¨

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

The aggregate market value of the registrant s Common Stock held by non-affiliates of the registrant on June 30, 2009 was approximately $308,113,600 based upon the closing market price of $18.25 on that date of a share of Common Stock as reported on the Nasdaq Global Stock Market. As of February 22, 2010, there were 17,075,266 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 27, 2010, are incorporated by reference into Part III of this Form 10-K.

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

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PART I

ITEM 1. BUSINESS

Overview

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

In addition to executive search, we provide a range of leadership consulting services to clients. These services include succession planning, executive assessment, talent retention management, executive development, transition consulting for newly appointed executives, and M&A human capital integration consulting.

Heidrick & Struggles has been a leadership advisor for more than 56 years. We provide our services to a broad range of clients through the expertise of 359 consultants located in 40 countries throughout the world as of December 31, 2009. For many of our clients, our global access to and knowledge of regional and functional markets and candidate talent is an important differentiator of our business. We provide our executive search services on a retained basis, recruiting senior executives whose first year base salary and bonus averaged approximately $300,000 in 2009 on a worldwide basis. Our clients include the following:

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

The executive search industry is highly fragmented, consisting of several thousand executive search firms worldwide. Executive search firms are generally separated into two broad categories: retained and contingency. Retained executive search firms fulfill their clients senior leadership needs by identifying potentially qualified candidates and assisting clients in evaluating and assessing these candidates. Retained executive search firms generally are compensated for their services regardless of whether the client employs a candidate identified by the search firm and are generally retained on an exclusive basis. Retained executive search firms normally charge a fee for their services equal to approximately one-third of the first year s total compensation for the position being filled. In contrast, contingency search firms are compensated only upon successfully placing a recommended candidate.

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

- Analyze the client s business needs in order to understand its organizational structure, relationships, and culture; determine the required set of skills for the position; define the required experience; and identify the other characteristics desired of the successful candidate

- Select, contact, interview and evaluate candidates on the basis of experience and potential cultural fit with the client organization

- Present confidential written reports on the candidates who potentially fit the position specification

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Schedule a mutually convenient meeting between the client and each candidate

Complete references on the final candidate selected by the client

Assist the client in structuring the compensation package and supporting the successful candidate s integration into the client team

Available Information

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

Organization

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

Geographic Structure. We provide senior-level executive search and leadership consulting services to our clients worldwide through a network of more than 70 offices in 40 countries. Major locations are staffed with consultants, research associates, administrative assistants and other support staff. Administrative functions are centralized where possible, although certain support and research functions are situated regionally because of variations in local requirements.

Our worldwide network includes affiliate relationships in Finland, South Africa, Turkey and Portugal. We have no financial investment in these affiliates but receive licensing fees from them for the use of our name and our databases. Licensing fees are less than 1% of our net revenue.

Industry Practices. We report and operate our executive search business in seven broad industry groups: Financial Services, Consumer, Industrial, Technology, Life Sciences, Business and Professional Services and Education and Social Enterprise. These industry categories and their relative sizes, as measured by net revenue for 2009 are as follows:

Industry Categories	Percentage of Net Revenue
Financial Services	27%
Industrial	23%
Consumer	19%
Technology	12%

Life Sciences	10%
Business and Professional Services	5%
Education and Social Enterprise	4%
	100%

Within each broad industry group are a number of industry sub sectors. Consultants often specialize in one or more sub sectors to provide clients with market intelligence and candidate knowledge specific to their industry. For example, within the Financial Services sector our business is diversified among a number of industry sub sectors including Asset & Wealth Management, Consumer Financial Services, Investment Banking and Capital Markets, Insurance, Private Equity/Venture Capital, and Real Estate.

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We service our clients through unified global executive search teams who specialize in industry practices. This go-to-market strategy allows us to better leverage our global diversity and market intelligence to provide better client service. Each client is served by one global account team, which we believe is a key differentiator from our competition.

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

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

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

Information by Geographic Segment

Americas. As of December 31, 2009, we had 166 executive search consultants in our Americas segment, which includes the United States, Canada, Mexico and Latin America. Our Americas segment generated approximately 51% of our worldwide net revenue in 2009. The largest offices in this region, as defined by net revenue, are located in New York, Chicago and San Francisco.

Europe. As of December 31, 2009, we had 116 executive search consultants in our European segment, which includes the Middle East and Africa. Our European segment generated approximately 30% of our worldwide net revenue in 2009. Our offices in the United Kingdom, Germany and France produced the highest levels of net revenue in this segment.

Asia Pacific. As of December 31, 2009, we had 77 executive search consultants in the Asia Pacific segment. This segment generated approximately 19% of our worldwide net revenue in 2009. Australia, China (including Hong Kong), and Singapore produced the highest levels of net revenue in this segment.

For financial information relating to each geographic segment, see Note 20, *Segment Information*, in the Notes to Consolidated Financial Statements.

Seasonality

There is no discernible seasonality in our business, although as a percentage of total annual net revenue, the first quarter is typically the lowest. Revenue and operating income have historically varied by quarter and are hard to predict from quarter to quarter. In addition, the volatility in the global economy impacts our quarterly revenue and operating income. On average, the variance between the highest and lowest amount of quarterly net revenue, as expressed as a percentage of annual net revenue, is approximately 5 percentage points.

Clients and Marketing

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

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

No single client accounted for more than 2% of our net revenue in 2009, 2008 or 2007. Our top ten clients in 2009, 2008 and 2007 in aggregate accounted for less than 9% of total net revenue.

Information Management Systems

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

Professional Staff and Employees

Our professionals are generally categorized either as consultants or associates. Associates assist consultants by providing research support, coordinating candidate contact and performing other engagement-related functions. As of December 31, 2009, we had 1,400 full-time equivalent employees, of whom 359 were executive search consultants, 349 were associates and 692 were other search, support and corporate staff.

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

Competition

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

Overall, the search industry has relatively few barriers to entry. Higher barriers exist, however, for global retained executive search firms like ours that focus primarily on conducting searches for senior-level positions

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that can provide leadership consulting services at the senior level. 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 the leadership consulting services markets in which we operate are highly fragmented, with no universally recognized market leaders.

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EXECUTIVE OFFICERS

Our executive officers as of March 1, 2010 are as follows:

Name	Age	Position With Company
L. Kevin Kelly	44	President and Chief Executive Officer; Director
K. Steven Blake	45	Executive Vice President, General Counsel and Secretary
Richard J. Caldera	52	Executive Vice President and Chief Human Resources Officer
Charles G. Davis	52	Managing Partner, Global Practices
Scott J. Krenz	57	Executive Vice President, 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, 2010:

L. Kevin Kelly was elected Chief Executive Officer and a Director in September 2006. He was elected President in May 2007. Previously, Mr. Kelly was President, Europe, Middle East, Africa and Asia Pacific from March 2005 to September 2006; Regional Managing Partner, Asia Pacific from September 2002 to March 2005; and Office Managing Partner, Tokyo from February 2002 to September 2002. He joined us in 1997.

K. Steven Blake joined us in July 2005, when he was elected General Counsel and Secretary. He was elected Executive Vice President in January 2007. Previously, Mr. Blake was General Counsel of Aquion Partners, LP from 2001 to 2005; and Associate General Counsel for General Electric Capital Corporation from 1998 to 2001.

Richard J. Caldera joined us in May 2008, when he was elected Executive Vice President and Chief Human Resources Officer. Previously, Mr. Caldera was Senior Vice President, Human Resources, Mergers and Acquisitions, for the Healthcare Sector at Royal Philips Electronics N.V. from 2004 to 2008; Senior Vice President, Human Resources, at Skanska AB from 2002 to 2004; and Vice President and Senior Human Resources Officer, Global Operations at CNA Financial Corporation from 1998 to 2002.

Charles G. Davis was elected Managing Partner, Global Practices in December 2008. Previously, Mr. Davis was Regional Managing Partner, Asia Pacific from September 2006 to April 2009; Office Managing Partner, Sydney, Australia, since January 2006; and Managing Partner of the Chief Information Officer Practice in Asia Pacific since October 2002. Previously, Mr. Davis was Managing Partner of the Technology and Business and Professional Services Practices in Asia Pacific from April 1999 to December 2005. He joined us in 1998.

Scott J. Krenz joined us in August 2008, when he was elected Executive Vice President and Chief Financial Officer. Previously, Mr. Krenz was Executive Vice President and Chief Financial Officer at Navigant Consulting from 2007 to 2008; Chief Financial Officer at Sapient Corporation from 2004 to 2006; and held senior finance positions of increasing responsibility at Electronic Data Systems Corporation (EDS) from 1985 to 2004.

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ITEM 1A. RISK FACTORS

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

We depend on attracting and retaining qualified consultants.

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

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

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

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

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

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

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

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

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We face aggressive competition.

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

We rely heavily on information management systems.

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

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

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

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

We generate substantial revenue outside the United States. We offer our services through offices in 40 countries around the world. We are exposed to the risk of changes in social, political, legal and economic conditions inherent in international operations, which could have a significant impact on our business, financial condition and results of operations. In particular, we conduct business in countries where the legal systems, local laws and trade practices are unsettled and evolving. Commercial laws in these countries are sometimes vague, arbitrary and inconsistently applied. Under these circumstances, it is difficult for us to determine at all times the exact requirements of such local laws. If we fail to comply with local laws, our business, financial condition and results of operations could suffer. In addition, the global nature of our operations poses challenges to our management, and financial and accounting systems. Failure to meet these challenges could seriously harm our business, financial condition and results of operations.

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A significant currency fluctuation between the U.S. dollar and other currencies could adversely impact our operating income.

With our operations in the Americas, Europe and Asia Pacific, we conduct business using various currencies. As we typically transact business in the local currency of our subsidiaries, our profitability may be impacted by the translation of foreign currency financial statements into U.S. dollars. Significant long-term fluctuations in relative currency values, in particular an increase in the value of the U.S. dollar against foreign currencies, could have an adverse effect on our profitability and financial condition.

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

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

Our net revenue may be affected by adverse economic conditions.

Periods of slowed economic activity, such as that currently being experienced, can adversely affect our net revenue. In particular, current volatility in the capital markets can affect our net revenue in the Financial Services industry group. If economic conditions fail to improve, our business, financial condition and results of operations could suffer.

The global financial crisis could adversely affect the financial position of our clients.

The ongoing financial crisis has tightened credit markets and lowered liquidity levels. Some of our clients may experience serious financial problems due to reduced access to credit and lower revenues resulting in their inability to meet their payment obligation to us.

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

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

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

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

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

Periodically, we perform assessments of the carrying value of our goodwill and other intangible assets. In performing these assessments, we must make assumptions regarding the estimated fair value of our goodwill and other intangible assets. These assumptions include estimates of future market growth and trends, forecasted revenue and costs, capital investments, discount rates, and other variables. If the current weakened economic conditions continue to negatively impact our financial performance, we may fail to achieve our projected operating results and may need to record an impairment charge related to goodwill or other indefinite-lived intangible assets.

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Any resulting impairment loss could have an adverse impact on our business, financial condition and results of operations.

We have anti-takeover provisions that make an acquisition of us difficult and expensive.

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

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

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

Our ability to access additional credit could be limited.

In the current economic environment, banks can be expected to strictly enforce the terms of our credit agreement. Although we are currently in compliance with the financial covenants of our revolving credit facility, a further deterioration of economic conditions may negatively impact our business resulting in our failure to comply with these covenants in the future, which could limit our ability to borrow funds under our credit facility. In such circumstances, we may not be able to secure alternative financing or may only be able to do so at significantly higher costs.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Chicago, Illinois. We have offices in major metropolitan areas in 40 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 758,000 as of December 31, 2009. These office leases call for future minimum lease payments of approximately $203.6 million and have terms that expire between 2010 and 2024, exclusive of renewal options that we can exercise. Approximately 111,000 square feet of office space has been sublet to third parties.

ITEM 3. LEGAL PROCEEDINGS

We have contingent liabilities from various pending claims and litigation matters arising in the ordinary course of our business, some of which involve claims for damages that may be 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.

Contingencies

During the fourth quarter of 2005, a European country commenced a tax audit for the years 2001 through 2004, including an examination of our arrangement with professional service companies that provide consulting services to us. On November 24, 2006, the examining tax authority issued a final assessment in the amount for

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4.3 million (equivalent to $6.1 million at December 31, 2009), consisting of unpaid withholding tax, plus unpaid Value Added Tax (VAT). No penalty was included in this assessment. We appealed this final assessment, and the enforcement of the assessment was suspended until a final determination of all appeals. We provided a bank guarantee to the tax authority in the amount of the final assessment plus post-assessment interest as required by local law. See Note 5, *Restricted Cash* and Note 21, *Guarantees*.

On March 4, 2009, we received notification that our appeal with respect to the withholding tax portion of the assessment had been decided in our favor, thereby canceling that assessment. On September 8, 2009, we were notified that the March 4, 2009 ruling was definitive and final. We have recovered approximately 4.1 million of the original 5.7 million bank guarantee related to the withholding tax appeal, and we are seeking to recover appeal-related expenses from the tax authority. On November 24, 2009, we received notification that our appeal with respect to the VAT portion of the assessment had been decided in our favor, thereby canceling that assessment. We are still waiting for the Court to notify us that the VAT ruling is definitive and final. The balance of the guarantee related to the VAT appeal (estimated at approximately 1.5 million) will remain in place pending receipt of the definitive and final ruling.

UK Employee Benefits Trust

On January 27, 2010, HM Revenue & Customs (HMRC) in the United Kingdom notified us that it was challenging the tax treatment of certain of our contributions in the United Kingdom to an Employee Benefits Trust (EBT) between 2002 and 2008. HMRC alleges that these contributions should have been subject to Pay As You Earn (PAYE) tax and Class 1 National Insurance Contributions (NIC) in the United Kingdom; and HMRC is proposing an adjustment to our payroll tax liability for the affected years. The aggregate amount of HMRC s proposed adjustment is approximately £3.9 million (equivalent to $6.3 million at December 31, 2009). We have appealed the proposed adjustment. At this time, we believe that the likelihood of an unfavorable outcome with respect to the proposed adjustment is not probable and the potential amount of any loss cannot be reasonably estimated. We also believe that the amount of any final adjustment, if any, would not be material to our financial condition.

ITEM 4. RESERVED

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Registrant s Common Equity

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

Year Ended December 31, 2009	High	Low
First Quarter	$ 22.29	$ 13.52
Second Quarter	23.51	16.50
Third Quarter	26.46	15.65
Fourth Quarter	31.65	21.76
Year Ended December 31, 2008		
First Quarter	$ 37.65	$ 23.56
Second Quarter	37.98	26.44
Third Quarter	34.99	24.50
Fourth Quarter	30.20	17.86

As of February 22, 2010, the last reported price on the Nasdaq Global Stock Market for our common stock was $29.09 per share, and there were 125 stockholders of record of the common stock.

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Performance Graph

We have presented below a graph which compares the cumulative total stockholder return on our common shares with the cumulative total stockholder return of the Standard & Poor s SmallCap 600 Index and the Standard & Poor s Composite 1500 Human Resource and Employment Services Index. Cumulative total return for each of the periods shown in the performance graph is measured assuming an initial investment of $100 on December 31, 2004.

The stock price performance depicted in this graph is not necessarily indicative of future price performance. This graph will not be deemed to be filed as part of this Form 10-K and will not be deemed to be incorporated by reference by any general statement incorporating this Form 10-K into any filing by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate this information by reference.

Comparison of Five-Year Cumulative Total Return*

Comparison is among Heidrick & Struggles, the S&P SmallCap 600 Index and the S&P Composite 1500 Human Resource & Employment Services Index. The S&P Composite 1500 Human Resource & Employment Services Index includes 13 companies in related businesses, including Heidrick & Struggles.

Dividends

Since September 2007, we have paid a quarterly cash dividend of $0.13 per share as approved by our Board of Directors. In 2009, the total cash dividend paid was $0.52 per share.

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The following table outlines the record date, payment date and amount of quarterly cash dividends paid during 2008 and 2009:

Quarter	Record Date	Payment Date	Dividends (in 000,000s)
Q4 2007	February 1, 2008	February 15, 2008	$2.2
Q1 2008	May 2, 2008	May 16, 2008	2.2
Q2 2008	August 1, 2008	August 15, 2008	2.1
Q3 2008	November 7, 2008	November 21, 2008	2.1
Q4 2008	February 6, 2009	February 20, 2009	2.1
Q1 2009	May 1, 2009	May 15, 2009	2.2
Q2 2009	August 7, 2009	August 21, 2009	2.2
Q3 2009	November 6, 2009	November 20, 2009	2.2

Cash dividends payable of $2.2 million related to the fourth quarter 2009 cash dividend, which was paid in the first quarter of 2010, and cash dividends payable of $2.1 million related to the fourth quarter 2008 cash dividend, which was paid in the first quarter of 2009, are accrued in the Consolidated Balance Sheets as of December 31, 2009 and 2008, respectively.

In connection with the quarterly cash dividend, we also pay a dividend equivalent on outstanding restricted stock units. The amounts related to the dividend equivalent payments for restricted stock units are accrued over the vesting period and paid upon vesting. In 2009 and 2008, we paid $0.6 million and $0.2 million, respectively, in dividend equivalent payments.

Issuer Purchases of Equity Securities

The following table provides information related to our purchase of common shares for the quarter ended December 31, 2009. For further information of our share repurchase activity, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs
Oct. 1, 2009 Oct. 31, 2009		$		$ 22,788,650
Nov. 1, 2009 Nov. 30, 2009				22,788,650
Dec. 1, 2009 Dec. 31, 2009				22,788,650
Total				

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

On May 24, 2007, our Board of Directors authorized management to repurchase shares of our common stock with an aggregate purchase price up to $50 million. We purchased 1,403,738 shares of our common stock for $50 million under the May 2007 authorization, which was completed during the first quarter of 2008.

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On February 8, 2008, our Board of Directors authorized management to repurchase shares of our common stock with an aggregate purchase price up to $50 million. We intend from time to time and as business conditions warrant, to purchase shares of our common stock on the open market or in negotiated or block trades. No time limit has been set for completion of this program. As of December 31, 2008, we purchased 951,160 shares of our common stock under the February 2008 authorization for a total of $27.2 million. As of December 31, 2009 and 2008, $22.8 million remains available under this authorization.

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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, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007 are derived from the audited current and historical consolidated financial statements, which are included elsewhere in this Form 10-K. The data as of December 31, 2007, 2006 and 2005 and for the years ended December 31, 2006 and 2005 are derived from audited historical consolidated financial statements, which are not included in this report. The data set forth is qualified in its 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,				
	2009	2008	2007	2006	2005
	(in thousands, except per share and other operating data)				
Statement of Operations Data:					
Revenue:					
Revenue before reimbursements (net revenue)	$ 395,651	$ 615,904	$ 619,654	$ 478,523	$ 412,297
Reimbursements	19,067	28,956	28,612	23,471	20,553
Total revenue	414,718	644,860	648,266	501,994	432,850
Operating expenses:					
Salaries and employee benefits	281,545	435,306	418,952	328,714	273,949
General and administrative expenses	115,758	125,061	121,198	99,352	94,369
Reimbursed expenses	19,067	28,956	28,612	23,471	20,553
Restructuring and impairment charges	26,720(1)			408	22,493(2)
Other operating income	(1,661)(3)				
Total operating expenses	441,429	589,323	568,762	451,945	411,364
Operating income (loss)	(26,711)	55,537	79,504	50,049	21,486
Non-operating income (expense):					
Interest income, net	1,201	5,103	8,035	6,257	5,572
Other, net	(4,189)	1,613	(404)	(1,040)	1,424
Net non-operating income (expense)	(2,988)	6,716	7,631	5,217	6,996
Income (loss) before income taxes	(29,699)	62,253	87,135	55,266	28,482
Provision for (benefit from) income taxes	(8,791)	23,179	30,672	21,023	(10,736)(4)
Net income (loss)	$ (20,908)	$ 39,074	$ 56,463	$ 34,243	$ 39,218
Basic earnings (loss) per common share	$ (1.24)	$ 2.33	$ 3.16	$ 1.91	$ 2.08
Basic weighted average common shares outstanding	16,901	16,747	17,854	17,925	18,898
Diluted earnings (loss) per common share	$ (1.24)	$ 2.20	$ 2.97	$ 1.81	$ 1.98
Diluted weighted average common shares outstanding	16,901	17,727	18,984	18,916	19,761
Dividends per common share	$ 0.52	$ 0.52	$ 0.26	$	$
Balance Sheet Data (at end of period):					
Working capital	$ 127,661	$ 140,139	$ 147,861	$ 135,880	$ 159,964
Total assets	474,847	590,303	616,884	513,309(5)	406,409(5)
Long-term debt, less current maturities					
Stockholders equity	290,852	306,304	309,800	263,705	237,485
Other Operating Data:					

Average number of consultants during the period	385	413	401	348	307

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Notes to Selected Financial Data:

(1) In 2009, we recorded restructuring charges of $22.9 million in connection with initiatives to reduce overall costs and improve operational efficiencies. These charges relate to severance and other employee-related costs associated with reductions in our workforce of 363 employees globally and included 75 executive search consultants. By segment, the restructuring charges recorded in 2009 were $9.5 million in the Americas, $9.5 million in Europe, $2.4 million in Asia Pacific and $1.5 million in Corporate. Additionally, during 2009 we recorded an adjustment of $0.3 million in Europe related to a previously restructured office. As a result of our workforce reductions in January and May 2009 and continued business and economic uncertainty, we performed an evaluation of the remaining client relationship intangible asset associated with our 2006 acquisition of Highland Partners. Based on this analysis, we recorded an impairment charge related to the Americas region of $3.8 million. Additionally, the deterioration in business performance from the consultants acquired in the Ray and Berndtson Sp. z o. o acquisition triggered a review of the client relationship intangible assets associated with this acquisition, resulting in an impairment charge in the European region of $0.2 million. See Note 10, *Goodwill and Other Intangible Assets.*

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

(3) In 2009, as a result of significantly lower than expected 2009 revenue production from consultants acquired in the Ray and Berndtson Sp. z o. o acquisition and uncertainty regarding their future performance, we performed a fair value assessment of the potential future earnout payments under the purchase agreement. This assessment resulted in a 1.1 million (equivalent to $1.7 million at December 31, 2009) reduction to the original earnout accrual. Under the purchase method of accounting for business combinations, we recognized the fair value adjustment as other operating income in the Consolidated Statement of Operations.

(4) In 2005, we determined that a reduction to the valuation allowance was required relating to certain deferred tax assets in the U.S. and recorded a reduction to the valuation allowance of $24.6 million.

(5) In 2007, the Company determined that the UK Employee Benefit Trust should not be consolidated and as a result reduced total assets and liabilities by $6.5 million and $4.5 million in 2006 and 2005, respectively.

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

Management s Discussion and Analysis of Financial Condition and Results of Operations as well as other sections of this annual report on Form 10-K contain forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. The forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate and management s beliefs and assumptions. Forward-looking statements may be identified by the use of words such as expects, anticipates, intends, plans, believes, seeks, estimates, projects, forecasts, and similar expressions. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, forecasted or implied in the forward-looking statements. Factors that may affect the outcome of the forward-looking statements include, among other things, our ability to attract and retain qualified executive search consultants; further declines in the global economy and our ability to execute successfully through business cycles; the timing, speed or robustness of any future economic recovery; increased collectibility risk due to financial performance of our clients; social or political instability in markets where we operate, the impact of foreign currency exchange rate fluctuations; price competition; the ability to forecast, on a quarterly basis, variable compensation accruals that ultimately are determined based on the achievement of annual results; our ability to realize our tax loss carryforwards; the timing of the establishment or reversal of valuation allowance on deferred tax assets; the mix of profit and loss by country; an impairment of our goodwill and other intangible assets; delays in the development and/or implementation of new technology and systems; and the ability to meet and achieve the expected savings resulting from cost-reduction initiatives and restructuring activities. For more information on the factors that could affect the outcome of forward-looking statements, see Risk Factors in Item 1A of this Form 10-K. We caution the reader that the list of factors may not be exhaustive. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Overview

Our Business

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

In addition to executive search, we provide a range of leadership consulting services to clients. These services include succession planning, executive assessment, talent retention management, executive development, transition consulting for newly appointed executives, and M&A human capital integration consulting.

We provide our services to a broad range of clients through the expertise of 359 consultants located in 40 countries throughout the world as of December 31, 2009. Our executive search services are provided on a retained basis. Revenue before reimbursements of out-of-pocket expenses (net revenue) consists of retainers and indirect expenses billed to clients. Typically, we are paid a retainer for our executive search services equal to approximately one-third of the estimated first year compensation for the position to be filled. In addition, if the actual compensation of a placed candidate exceeds the estimated compensation, we often are authorized to bill the client for one-third of the excess. Indirect expenses are calculated as a percentage of the retainer with certain dollar limits per search.

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Key Performance Indicators

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

Revenue growth is driven by a combination of an increase in executive search wins and leadership consulting projects, higher consultant productivity, higher average revenue per search or project and the hiring of additional consultants. With the exception of compensation expense, incremental increases in revenue do not necessarily result in proportional increases in costs, particularly operating and administrative expenses, thus potentially improving operating margins.

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

Our Compensation Model

At the consultant level, individuals are largely rewarded for their performance based on a system that directly ties a significant portion of their compensation to the amount of net revenue for which they are responsible. Credit towards the variable portion of a consultant s compensation is earned by generating net revenue for winning and executing work. Each quarter, we review and update the expected annual performance of all consultants and accrue variable compensation accordingly. The amount of variable compensation that is accrued for each consultant is based on a tiered payout model. The more net revenue that is generated by the consultant, the higher the percentage credited towards the consultant s variable compensation and thus accrued by our company as expense. The mix of individual consultants who generate the revenue can significantly affect the total amount of compensation expense recorded and thus operating margins. This bonus is discretionary and is based on company-wide profitability targets approved by the Human Resources and Compensation Committee of the Board of Directors. As a result, the variable portion of the compensation expense may fluctuate significantly from quarter to quarter.

In 2008, we changed the deferral arrangement of bonuses for consultants and management globally. The portion of the bonus previously deferred into restricted stock units was changed into deferred cash, which is paid ratably over a three-year period. A premium of 10% was applied to the bonus amount deferred in 2008. The portion of the bonus that is deferred varies between 10% and 15% depending on the employee s level or position. The compensation expense related to the amounts being deferred is recognized on a graded vesting attribution method over the requisite service period, which for 2008, began on January 1, 2008 and will continue through the final payment date in March 2012. For 2008, the deferral date was in the first quarter of 2009.

In 2009, we continued with the bonus cash deferral arrangement for consultants only but did not apply a premium to the amount deferred in 2009. The compensation expense related to the amounts being deferred is recognized on a graded vesting attribution method over the requisite service period, which for 2009, began on January 1, 2009 and will continue through the final payment date in March 2013. For 2009, the deferral date is in the first quarter of 2010. These amounts are recorded in accrued salaries and employee benefits and other non-current liabilities in the Consolidated Balance Sheets. We will continue to grant restricted stock units under other existing programs.

2009 Overview

Consolidated net revenue of $395.7 million decreased 35.8% or $220.3 million in 2009, compared to 2008. Net revenue declined 35.9% in the Americas, 40.7% in Europe and 25.3% in Asia Pacific. Consultant productivity measured by net revenue per consultant was $1.0 million for the year ended December 31, 2009 compared to $1.5 million for the year ended December 31, 2008. Average revenue per executive search was $101,000 for the year ended December 31, 2009 compared to $122,600 for the year ended December 31, 2008.

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Operating loss as a percentage of net revenue was 6.8% in 2009 compared to operating income as a percentage of net revenue of 9.0% in 2008 primarily as a result of a decrease in net revenue of 35.8% and restructuring and impairment charges of $26.7 million, offset by decreases in salaries and employee benefits expense of 35.3%, general and administrative expenses of 7.4% and other operating income of $1.7 million. Salaries and employee benefits expense as a percentage of net revenue increased from 70.7% in 2008 to 71.2% in 2009. General and administrative expenses as a percentage of net revenue increased from 20.3% in 2008 to 29.3% in 2009.

We ended the year with a combined cash and cash equivalents balance of $123.0 million, a decrease of $111.5 million compared to a combined cash and cash equivalents balance of $234.5 million at December 31, 2008. We pay the majority of bonuses in the first quarter following the year in which they were earned. Employee bonuses are accrued throughout the year and are based on the Company s performance and the performance of the individual employee. In early 2010, we expect to pay approximately $47 million related to the 2009 bonus accruals.

2010 Outlook

We are currently forecasting 2010 net revenue of between $440 million and $480 million and an operating margin of between 4 and 6 percent, for the year ending December 31, 2010. However, continued macroeconomic uncertainty and volatility in the capital markets necessarily mean that our current forecasts could change materially during 2010.

Results of Operations

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

	Year Ended December 31,		
	2009	**2008**	**2007**
Revenue:			
Revenue before reimbursements (net revenue)	$ 395,651	$ 615,904	$ 619,654
Reimbursements	19,067	28,956	28,612
Total revenue	414,718	644,860	648,266
Operating expenses:			
Salaries and employee benefits	281,545	435,306	418,952
General and administrative expenses	115,758	125,061	121,198
Reimbursed expenses	19,067	28,956	28,612
Restructuring and impairment charges	26,720		
Other operating income	(1,661)		
Total operating expenses	441,429	589,323	568,762
Operating income (loss)	(26,711)	55,537	79,504
Net non-operating income (expense)	(2,988)	6,716	7,631
Income (loss) before income taxes	(29,699)	62,253	87,135
Provision for (benefit from) income taxes	(8,791)	23,179	30,672

Net income (loss)	$ (20,908)	$ 39,074	$ 56,463

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

	Year Ended December 31, 2009	2008	2007
Revenue:			
Revenue before reimbursements (net revenue)	100.0%	100.0%	100.0%
Reimbursements	4.8	4.7	4.6
Total revenue	104.8	104.7	104.6
Operating expenses:			
Salaries and employee benefits	71.2	70.7	67.6
General and administrative expenses	29.3	20.3	19.6
Reimbursed expenses	4.8	4.7	4.6
Restructuring and impairment charges	6.8		
Other operating income	(0.4)		
Total operating expenses	111.6	95.7	91.8
Operating income (loss)	(6.8)	9.0	12.8
Net non-operating income (expense)	(0.8)	1.1	1.2
Income (loss) before income taxes	(7.5)	10.1	14.1
Provision for (benefit from) income taxes	(2.2)	3.8	4.9
Net income (loss)	(5.3)%	6.3%	9.1%

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