

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

FORM 10-K

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

For the fiscal year ended December 31, 2017

OR

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

Commission File No. 0-25837

**HEIDRICK & STRUGGLES
INTERNATIONAL, INC.**
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

233 South Wacker Drive, Suite 4900, 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
Common Stock, \$.01 par value

Name of Each Exchange On Which Registered
The Nasdaq Stock 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

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

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

Indicate by check mark 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. Yes No

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-Accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant's Common Stock held by non-affiliates (excludes shares held by executive officers, directors and beneficial owners of 10% or more of the registrant's outstanding Common Stock) on June 30, 2017 was approximately \$408,475,592 based upon the closing market price of \$21.75 on that date of a share of Common Stock as reported on the Nasdaq Global Stock Market. As of March 9, 2018, there were 18,813,585 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 24, 2018, are incorporated by reference into Part III of this Form 10-K.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

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PART I

ITEM 1. BUSINESS

Overview

Heidrick & Struggles International, Inc. (“Heidrick & Struggles”) is a leadership advisory firm providing executive search, leadership consulting and culture shaping services to businesses and business leaders worldwide. When we use the terms “Heidrick & Struggles,” “The Company,” “we,” “us” and “our,” in this Form 10-K, we mean Heidrick & Struggles International, Inc. a Delaware corporation, and its consolidated subsidiaries. We provide our services to a broad range of clients through the expertise of over 380 consultants located in major cities around the world. Heidrick & Struggles and its predecessors have been a leadership advisor for more than 60 years. Heidrick & Struggles was formed as a Delaware corporation in 1999 when two of our predecessors merged to form Heidrick & Struggles.

Our service offerings include the following:

Executive Search. We partner with respected organizations globally to build and sustain the best leadership teams in the world, with a specialized focus on the placement of top-level senior executives. We believe focusing on top-level senior executives provides the opportunity for several advantages including access to and influence with key decision makers, increased potential for recurring search and consulting engagements, higher fees per search, enhanced brand visibility, and a leveraged global footprint. Working at the top of client organizations also facilitates the attraction and retention of high-caliber consultants who desire to serve top industry executives and their leadership needs. Our executive search services derive revenue through the fees generated for each search engagement, which generally are based on the annual compensation for the placed executive. We provide our executive search services primarily on a retained basis, recruiting senior executives whose first year base salary and bonus averaged approximately \$361,000 in 2017 on a worldwide basis.

The executive search industry is highly fragmented, consisting of several thousand executive search firms worldwide. Executive search firms are generally separated into two broad categories: retained search and contingency search. 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. Typically, retained executive search firms are paid a retainer for their services equal to approximately one-third of the estimated first year compensation for the position to be filled. In addition, if the actual compensation of a placed candidate exceeds the estimated compensation, executive search firms often are authorized to bill the client for one-third of the excess. 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:

- Analyzing the client’s business needs in order to understand its organizational structure, relationships, and culture; advising the client as to the required set of skills and experiences for the position; and identifying with the client the other characteristics desired of the successful candidate
- Selecting, contacting, interviewing and evaluating candidates on the basis of experience and potential cultural fit with the client organization
- Presenting confidential written reports on the candidates who potentially fit the position specification
- Scheduling a mutually convenient meeting between the client and each candidate
- Completing references on the final candidate selected by the client
- Assisting the client in structuring compensation packages and supporting the successful candidate’s integration into the client team

Leadership Consulting. Our leadership consulting services include succession planning, executive assessment and top team and board effectiveness. Our leadership consulting services generate revenue primarily through the professional fees generated for each engagement which are generally based on the size of the project and scope of services. Leadership Consulting is currently less than 10% of our net revenue.

Culture Shaping. Our culture shaping business uses its proprietary technology to analyze and interpret organizational cultures and drivers, and partner with clients to administer methods that develop alignment on leadership teams and desired organizational outcomes. Chief executive officers seek our guidance through our culture shaping services to create thriving organizational cultures in a variety of business situations, including:

- Shaping the culture to support new strategies and structures
- Aligning executive teams when there are new leaders and/or new roles
- Integrating cultures following mergers and acquisitions
- Helping minimize cultural barriers to change when implementing major organizational systems or processes
- Creating greater organizational agility to meet the challenges of a changing marketplace.

Our culture shaping services generate revenue through a combination of professional service and license fees related to the engagement. Culture Shaping is currently less than 10% of our net revenue.

We have announced the combination of our Leadership Consulting and Culture Shaping businesses to create Heidrick Consulting, a comprehensive offering of the firm's advisory services. We anticipate that our Leadership Consulting and Culture Shaping reportable segments will be combined into one reportable segment, Heidrick Consulting, during the first quarter of 2018.

Client base. 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. Our clients generally fall into one of the following categories:

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

Available Information

We maintain an Internet website at <http://www.heidrick.com>. We make available free of charge through the investor relations section of our website, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934 (Exchange Act), as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Also posted on our website, and available in print upon request of any shareholder to our Investor Relations Officer, are our certificate of incorporation and by-laws, charters for our Audit and Finance Committee, Human Resources and Compensation Committee, and Nominating and Board Governance Committee, our Policy Regarding Director Independence Determinations, our Policy on Reporting of Concerns Regarding Accounting and Other Matters, our Corporate Governance Guidelines and our Code of Business Conduct and Ethics governing our directors, officers and employees. Within the time period required by the SEC, we will post on our website any amendment to the Code of Business Conduct and Ethics and any waiver applicable to any executive officer, director or senior financial officer.

In addition, our website includes information concerning purchases and sales of our equity securities by our executive officers and directors, as well as disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast or by similar means from time to time.

Our Investor Relations Officer can be contacted at Heidrick & Struggles International, Inc., 233 South Wacker Drive, Suite 4900, Chicago, Illinois, 60606, Attn: Investor Relations Officer, telephone: 312-496-1200, e-mail: InvestorRelations@heidrick.com.

Organization

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

Geographic Structure. We provide senior-level executive search, leadership consulting and culture shaping services to our clients worldwide through a network of 52 offices in 27 countries. Each office size varies; however, 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. We face risks associated with political instability, legal requirements and currency fluctuations in our international operations. Examples of such risks include difficulties in managing global operations, social and political instability, regulations and potential adverse tax consequences. For a more complete description of the risks associated with our business please see the Section in this Form 10-K entitled "Risk Factors".

Our worldwide network includes affiliate relationships in Finland, South Africa and Turkey. 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.

Information by Geography. We operate our Executive Search services in three geographic regions: the Americas (which includes the countries in North and South America); Europe (which includes the continents of Europe and Africa); and Asia Pacific (which includes Asia and the region generally known as the Middle East). Our Leadership Consulting segment operates globally and our Culture Shaping segment operates in the Americas and Europe.

Americas Executive Search. As of December 31, 2017, we had 163 consultants in our Americas segment. The largest offices in this segment, as defined by net revenue, are located in New York, Chicago and Boston.

Europe Executive Search. As of December 31, 2017, we had 103 consultants in our European segment. The largest countries in this segment, as defined by net revenue, are the United Kingdom, Germany and France.

Asia Pacific Executive Search. As of December 31, 2017, we had 80 consultants in our Asia Pacific segment. The largest countries in this segment, as defined by net revenue, are China (including Hong Kong), Australia and Japan.

Leadership Consulting. As of December 31, 2017, we had 19 consultants in our Leadership Consulting segment. The largest countries in this segment, as defined by net revenue, are the United Kingdom, United States and Singapore.

Culture Shaping. As of December 31, 2017, we had 17 consultants in our Culture Shaping segment. The culture shaping consultants are primarily based in Huntington Beach, CA and approximately 81% of the net revenue is generated in the United States.

The relative percentages of net revenue attributable to each segment were as follows:

	Year Ended December 31,		
	2017	2016	2015
Executive Search			
Americas	55%	53%	55%
Europe	20%	19%	17%
Asia Pacific	14%	15%	17%
Leadership Consulting	7%	7%	4%
Culture Shaping	4%	6%	7%

For financial information relating to each segment, see Note 17, *Segment Information*, in the Notes to Consolidated Financial Statements.

Global Industry Practices. Our executive search and leadership consulting businesses operate in six broad industry groups listed below. These industry categories and their relative sizes, as measured by billings for 2017, 2016 and 2015, are as follows:

	Percentage of Billings		
	2017	2016	2015
Global Industry Practices			
Financial Services	27%	28%	27%
Global Technology & Services	22	21	22
Industrial	18	21	21
Consumer Markets	17	17	16
Healthcare & Life Sciences	12	11	10
Education, Non-Profit & Social Enterprise	4	2	4
	<u>100%</u>	<u>100%</u>	<u>100%</u>

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 amongst a number of industry sub sectors including Asset & Wealth Management, Consumer & Commercial Finance, Commodities, Corporate and Transaction Banking, Global Markets, Hedge Fund, Infrastructure, Investment Banking, Insurance, Private Equity Investment Professionals and Real Estate.

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

Global 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.

Our Global Functional Practices include Chief Executive Officer & Board of Directors; Human Resources Officers; Financial Officers; Information and Technology Officers; Legal, Risk, Compliance & Government Affairs; Marketing, Sales and Strategy Officers and Supply Chain and Operations.

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.

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 and business cycles can impact our quarterly revenue and operating income.

Clients and Marketing

Our consultants market the firm’s executive search, leadership consulting and culture shaping 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.

In support of client calling and networking, the practice teams as well as individual consultants also author and publish articles and white papers on a variety of leadership and talent topics and trends around the world. Our consultants often present research findings and talent insights at notable conferences and events as well. Our insights are sometimes acknowledged by major media outlets and trade journalists. These efforts aid in the marketing of our services as well.

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

No single client accounted for more than 3% of our net revenue in 2017, 2016 or 2015. As a percentage of total revenue, our top ten clients in aggregate accounted for approximately 7% in 2017, 2016 and 2015.

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, industry reference sources, and Leadership Signature, an internally developed assessment tool. 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.

Our culture shaping business' proprietary Web-based system, SD Connect™ is integral to the culture-shaping process. This technology platform enables our consultants to administer, analyze and interpret online Corporate Culture Profiles™ (CCP) surveys to develop clarity around team and organizational need and desired outcomes. In addition, we gather data using our online Culture Impact Survey™ (CIS) to determine which culture-shaping concepts are being utilized by individuals and the team as a whole.

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, 2017, we had head count of 1,635, consisting of 382 consultants with 346 consultants related to Executive Search, 19 consultants related to Leadership Consulting and 17 consultants related to Culture Shaping, 495 associates and 758 other search, support and Global Operations Support staff.

We promote our associates to consultants during the annual consultant promotion process and 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 whom we train in our techniques and methodologies. Our Culture Shaping consultants are recruited for their executive business experience as well as their skills in consulting and leadership advisory and often are former clients who are familiar with our culture shaping methodology. We are not a party to any U.S. based 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 firms that specialize in certain regional markets or industry segments and Internet-based firms. Each firm with which we compete is also a competitor in the marketplace for effective search consultants.

Overall, the search industry has relatively few barriers to entry; however, there are higher barriers to entry to compete with global retained executive search firms that can provide leadership consulting services at the senior executive 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 and culture shaping markets in which we operate is highly fragmented, with no universally recognized market leaders.

Regulation

We are subject to the U.S. securities laws and general corporate and commercial laws and regulations of the locations which we serve. These include regulations regarding anti-bribery, privacy and data protection, intellectual property, data security, data retention, personal information, economic or other trade prohibitions or sanctions. In particular, we are subject to federal, state, and foreign laws regarding privacy and protection of people's data. Foreign data protection, privacy, and other laws and regulations can be more restrictive than those in the United States. U.S. federal and state and foreign laws and regulations, which in some cases can be enforced by private parties in addition to government entities, are constantly evolving and can be subject to change.

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 material impact on our business, operating results, cash flows and financial condition. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business.

We depend on attracting, integrating, managing, and retaining qualified consultants and senior leaders.

Our success depends upon our ability to attract, develop, manage and retain quality consultants with the skills and experience necessary to fulfill our clients' needs and achieve our operational and financial goals. Our ability to hire and retain qualified consultants could be impaired by any diminution of our reputation, disparity in compensation relative to our competitors, modifications to our total compensation philosophy or competitor hiring programs. If we cannot attract, hire, develop and retain qualified consultants, our business, financial condition and results of operations may suffer. Our future success also depends upon our ability to complete the integration of newly-hired consultants successfully into our operations and to manage the performance of our consultants. Failure to successfully integrate newly-hired consultants or to manage the performance of our consultants could affect our profitability by causing operating inefficiencies that could increase operating expenses and reduce operating income. There is also a risk that unanticipated turnover in senior leadership coupled with an inadequate succession plan stalls company activity, interrupts strategic vision or lowers productive output which may adversely impact our financial condition and results of operations.

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. If we fail to retain important client relationships when a consultant departs our firm, 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, including poor performance, hurts our reputation 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.

Our net revenue may be affected by adverse economic conditions.

Demand for our services is affected by global economic conditions and the general level of economic activity in the geographic regions in which we operate. During periods of slowed economic activity many companies hire fewer permanent

employees, and our financial condition and results of operations can be adversely affected. If unfavorable changes in economic conditions occur, our business, financial condition and results of operations could suffer.

Because our clients may restrict us from recruiting their employees, we may be unable to fill or obtain new 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.

Client restrictions on recruiting their employees could hinder us from fulfilling executive searches. Additionally, 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. As a result, our business, financial condition and results of operations may suffer.

We face aggressive competition.

The global executive search industry is highly competitive and fragmented. We compete with other large global executive search firms, smaller specialty firms, and more recently with Internet-based firms and social media. 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, or be willing to reduce their fees or agree to alternative pricing practices in order to attract clients and increase market share. Our competitors may be further along in the development and design of technological solutions to meet client requirements.

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. Also, as Internet-based firms continue to evolve, they may develop offerings similar to or more expansive than ours, thereby increasing competition for our services or more broadly causing market disruption in the executive search industry. We may not be able to continue to compete effectively with existing or potential competitors and we may not be able to implement our leadership strategy effectively. 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. Problems or issues with our proprietary search system or other factors may result in interruptions or loss in our information processing capabilities which may cause our business, financial condition and results of operations to 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 culture shaping and 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.

Data security, data privacy and data protection laws such as the E.U. General Data Protection Regulation, and other evolving regulations and cross-border data transfer restrictions, may limit the use of our services and adversely affect our business.

We are or may become subject to a variety of laws and regulations in the European Union (including the E.U. General Data Protection Act), United States and abroad regarding data privacy, protection and security. As these laws continue to evolve, we may be required to make changes to our services, solutions and/or products so as to enable the Company and/or our clients to meet the new legal requirements, including by taking on more onerous obligations in our contracts, limiting our storage, transfer and processing of data and, in some cases, limiting our service and/or solution offerings in certain locations. Changes in these laws may also increase our potential exposure through significantly higher potential penalties for non-compliance. The costs of compliance with, and other burdens imposed by, such laws and regulations and client demands in this area may limit the use of, or demand for, our services, solutions and/or products, make it more difficult and costly to meet client expectations, or lead to significant fines, penalties or liabilities for noncompliance, any of which could harm our business.

In addition, due to the uncertainty and potentially conflicting interpretations of these laws, it is possible that such laws and regulations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Any failure or perceived failure by us to comply with applicable laws or satisfactorily protect personal information could result in governmental enforcement actions, litigation, or negative publicity, any of which could inhibit sales of our services, solutions and/or products.

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

We generate substantial revenue outside the United States. We offer our services through a network of offices in 27 countries around the world. Our ability to effectively serve our clients is dependent upon our ability to successfully leverage our operating model across all of these and any future locations, maintain effective management controls over all of our locations to ensure, among other things, compliance with applicable laws, rules and regulations, and instill our core values in all of our personnel at each of these and any future locations. We are exposed to the risk of changes in social, political, legal and economic conditions inherent in our operations, which could have a significant impact on our business, financial condition and results of operations. In addition, 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.

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. In 2017, approximately 42% of our net revenue was generated outside the United States. 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.

Unfavorable tax law changes and tax authority rulings may adversely affect results.

We are subject to income taxes in the United States and in various foreign jurisdictions. Domestic and international tax liabilities are subject to the allocation of income among various tax jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings among countries with differing statutory tax rates, or changes in the valuation allowance of deferred tax assets or tax laws. The amount of income taxes and other taxes are subject to ongoing audits by U.S. federal, state and local tax authorities and by non-U.S. authorities. If these audits result in assessments different from amounts recorded, future financial results may include unfavorable tax adjustments.

On December 22, 2017, the "Tax Cuts and Jobs Act" was enacted in the United States. The Company has included the impact of this tax law change in its consolidated financial statements for the year ended December 31, 2017. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes

in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the Tax Reform Act. The accounting is expected to be complete when the 2017 U.S. corporate income tax return is filed in 2018.

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 our ability to realize deferred tax assets as facts and circumstances dictate. If after future assessments of our ability to realize 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. The uncertainty surrounding the future realization of our net deferred tax assets could adversely impact our results of operations.

We may experience impairment of our goodwill, other intangible assets and other long-lived assets.

In accordance with generally accepted accounting principles, we perform assessments of the carrying value of our goodwill at least annually and we review our goodwill, other intangible assets and other long-lived assets for impairment whenever events occur or circumstances indicate that a carrying amount of these assets may not be recoverable. These events and circumstances include a significant change in business climate, attrition of key personnel, changes in financial condition or results of operations, a prolonged decline in our stock price and market capitalization, competition, and other factors. 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 fair market value of one of our reporting units or other long term assets is less than the carrying amount of the related assets, we would be required to record an impairment charge. Due to continual changes in market and general business conditions, we cannot predict whether, and to what extent, our goodwill and long-lived intangible assets may be impaired in future periods. Any resulting impairment loss could have an adverse impact on our business, financial condition and results of operations.

Our ability to execute and integrate future acquisitions, if any, could negatively affect our business and profitability.

Our future success may depend in part on our ability to complete the integration of acquisition targets successfully into our operations. The process of executing and integrating an acquired business may subject us to a number of risks, including:

- diversion of management attention;
- failure to successfully further develop the acquired business;
- amortization of intangible assets, adversely affecting our reported results of operations;
- inability to retain and/or integrate the management, key personnel and other employees of the acquired business;
- inability to properly integrate businesses resulting in operating inefficiencies;
- inability to establish uniform standards, disclosure controls and procedures, internal control over financial reporting and other systems, procedures and policies in a timely manner;
- inability to retain the acquired company's clients;
- exposure to legal claims for activities of the acquired business prior to acquisition; and
- inability to generate revenues to offset any new liabilities assumed and expenses associated with an acquired business.

If our acquisitions are not successfully executed and integrated, our business, financial condition and results of operations, as well as our professional reputation, could be adversely affected.

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:

- 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.

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 deterioration of economic conditions may negatively impact our business resulting in our failure to comply with these covenants, which could limit our ability to borrow funds under our credit facility or from other borrowing facilities in the future. In such circumstances, we may not be able to secure alternative financing or may only be able to do so at significantly higher costs.

Increased cybersecurity requirements, vulnerabilities, threats and more sophisticated and targeted cyber-related attacks could pose a risk to our systems, networks, solutions, services and data.

Increased global cybersecurity vulnerabilities, threats and more sophisticated and targeted cyber-related attacks pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data. We have a program in place to detect and respond to data security incidents. However, we remain potentially vulnerable to additional known or unknown threats. We also have access to sensitive, confidential or personal data or information that is subject to privacy and security laws, regulations and client-imposed controls. Despite our efforts to protect sensitive, confidential or personal data or information, we may be vulnerable to security breaches, theft, lost data, employee errors and/or malfeasance that could potentially lead to the compromising of sensitive, confidential or personal data or information, improper use of our systems or networks, unauthorized access, use, disclosure, modification or destruction of information. In addition, a cyber-related attack could result in other negative consequences, including damage to our reputation or competitiveness, remediation or increased protection costs, litigation or regulatory action which could result in a negative impact to our results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Chicago, Illinois. We have leased office space in 49 cities in 24 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 482,236 as of December 31, 2017. Our office leases call for future minimum lease payments of approximately \$145.1 million and have terms that expire between 2018 and 2026, exclusive of renewal options that we can exercise. Approximately 7,306 square feet of office space has been sublet to third parties.

In 2017, the Company gave notice to the lessors for three of its leased office spaces of its intention to vacate the offices in early 2018. The total square footage of these offices approximated 24,174 square feet. These offices were fully vacated by February 28, 2018.

Our office space by geographic segment as of December 31, 2017 is as follows:

Americas	262,883
Asia Pacific	108,669
Europe	110,684
Total	<u>482,236</u>

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. 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.

UK Employee Benefits Trust

On March 31, 2017, the Company reached a settlement with Her Majesty's Revenue and Customs ("HMRC") in the United Kingdom regarding HMRC's challenge of the tax treatment of certain of the Company's contributions in the United Kingdom to an Employee Benefits Trust between 2002 and 2008. HMRC alleged that the contributions should have been subject to Pay As You Earn tax and Class 1 National Insurance Contributions in the United Kingdom. In connection with the settlement, the Company agreed to pay approximately £5.4 million (equivalent to \$6.8 million on the settlement date) related to Pay as You Earn tax, Class 1 National Insurance Contributions, inheritance tax and interest. Concurrently with the HMRC settlement, the Company also reached an agreement with the beneficiaries under the Employee Benefits Trust for the reimbursement of approximately £2.3 million (equivalent to \$2.9 million on the settlement date) beneficiary-owed Pay as You Earn tax and Class 1 National Insurance Contributions.

The Company has recorded \$1.5 million related to the Pay as You Earn tax and Class 1 National Insurance Contributions and the respective beneficiary reimbursements as a component of *Salaries and employee benefits* in the Condensed Consolidated Statement of Comprehensive Income. Inheritance tax and interest expense of \$2.4 million incurred as a result of the settlement is recorded as a component of *Other, net* in the Condensed Consolidated Statement of Comprehensive Income.

The Company made payments of approximately £5.4 million (equivalent to \$6.9 million on the payment date) related to the Pay as You Earn tax, and received reimbursement of £2.0 million (equivalent to \$2.6 million on the reimbursement date) from the beneficiaries under the Employee Benefits Trust. Approximately £0.3 million (equivalent to \$0.4 million) of reimbursements related to beneficiary-owed Pay as You Earn tax is outstanding at December 31, 2017.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market for Registrant’s Common Equity

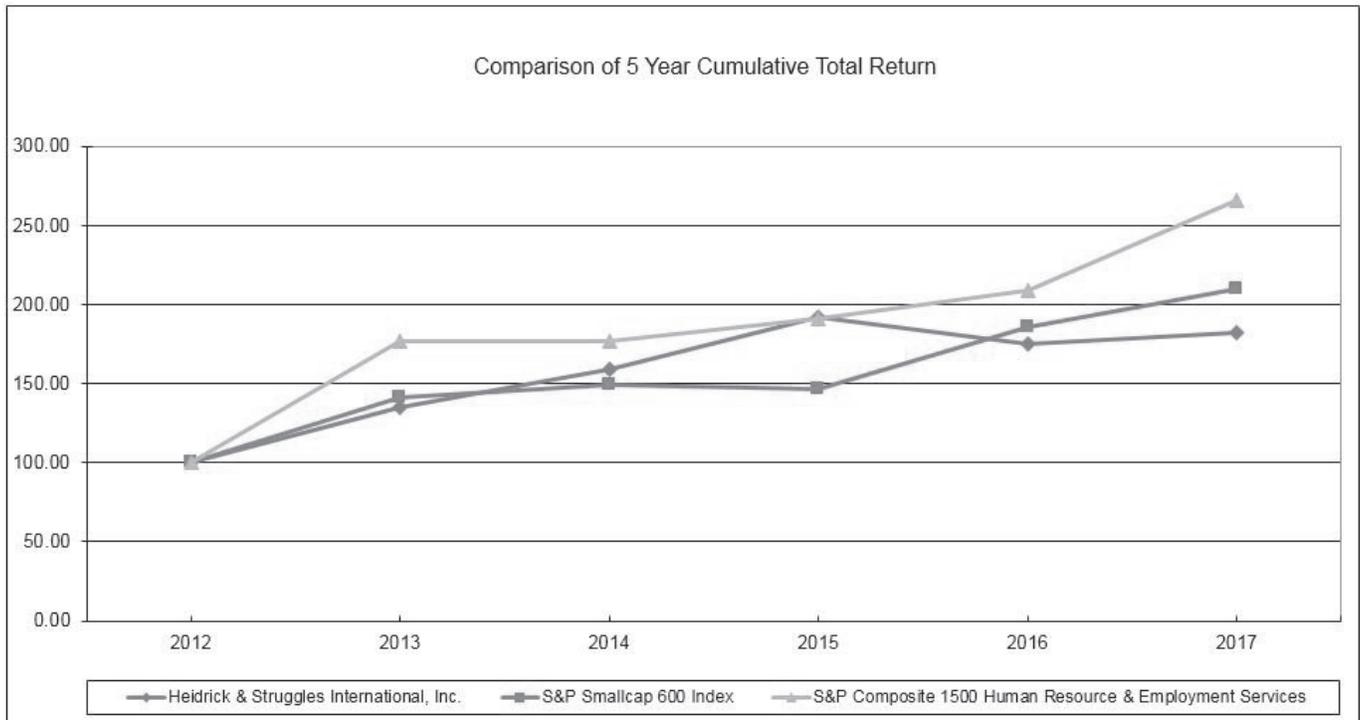
Our common stock is listed on the Nasdaq Global Stock Market under the symbol “HSII.” The following table sets forth the high and low stock price per share of the common stock for the periods indicated, as reported on the Nasdaq Global Stock Market.

<u>Year Ended December 31, 2017</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 26.50	\$ 20.95
Second Quarter	27.10	19.90
Third Quarter	22.60	17.90
Fourth Quarter	26.82	20.55
<u>Year Ended December 31, 2016</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 26.91	\$ 22.22
Second Quarter	24.69	16.36
Third Quarter	21.15	16.73
Fourth Quarter	24.50	17.55

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. The S&P Composite 1500 Human Resource & Employment Services Index includes 11 companies in related businesses, including Heidrick & Struggles. Cumulative total return for each of the periods shown in the performance graph is measured assuming an initial investment of \$100 on December 31, 2012.

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.



* Assuming \$100 invested on 12/31/12 in HSII or index, including reinvestment of dividends.

Prepared by: Zacks Investment Research, Inc.

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Dividends

Since September 2007, we have paid a quarterly cash dividend of \$0.13 per share as approved by our Board of Directors. In 2017, the total cash dividend paid was \$0.52 per share.

The following table outlines the record date, payment date and amount of quarterly cash dividends paid during 2017 and 2016:

Quarter	Record Date	Payment Date	Dividends (in millions)
Q1 2016	February 5, 2016	February 19, 2016	\$2.4
Q2 2016	May 6, 2016	May 20, 2016	\$2.4
Q3 2016	August 5, 2016	August 19, 2016	\$2.4
Q4 2016	November 4, 2016	November 18, 2016	\$2.4
Q1 2017	February 3, 2017	February 17, 2017	\$2.4
Q2 2017	May 5, 2017	May 19, 2017	\$2.4
Q3 2017	August 4, 2017	August 18, 2017	\$2.4
Q4 2017	November 3, 2017	November 17, 2017	\$2.4

In December 2017, our Board of Directors approved a quarterly dividend of \$0.13 per share on our common stock which was paid on February 16, 2018 to shareholders of record as of February 2, 2018. Cash dividends payable of \$2.4 million related to the fourth quarter 2017 cash dividend, which was paid in the first quarter of 2018, is accrued in the Consolidated Balance Sheets as of December 31, 2017. Cash dividends payable of \$2.4 million related to the fourth quarter 2016 cash dividend, was paid in the first quarter of 2017.

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 2017 and 2016 we paid \$0.3 million, respectively, in dividend equivalent payments.

Issuer Purchases of Equity Securities

On February 11, 2008, we announced that 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. We did not repurchase any shares of our common stock in 2017. The most recent purchase of shares of common stock occurred during the year ended December 31, 2012. As of December 31, 2017 and December 31, 2016, we have purchased 1,038,670 shares of our common stock for a total of \$28.3 million and \$21.7 million remains available for future purchases under the authorization. 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.”

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below has been derived from our audited consolidated financial statements. The data as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 is derived from the audited current and historical consolidated financial statements, which are included elsewhere in this Form 10-K. Other than noted below, the data as of December 31, 2015, 2014 and 2013 and for the years ended December 31, 2014 and 2013 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,				
	2017	2016	2015	2014	2013
	(in thousands, except per share and other operating data)				
Statements of Operations Data:					
Revenue:					
Revenue before reimbursements (net revenue)	\$621,400	\$582,390	\$531,139	\$494,292	\$461,995
Reimbursements	18,656	18,516	17,172	18,947	18,998
Total revenue	<u>640,056</u>	<u>600,906</u>	<u>548,311</u>	<u>513,239</u>	<u>480,993</u>
Operating expenses:					
Salaries and employee benefits	434,219	400,070	369,385	337,448	319,499
General and administrative expenses	147,316	147,087	127,692	130,191	126,931
Impairment charges (1)	50,722	—	—	—	—
Restructuring charges (2)	15,666	—	—	—	—
Reimbursed expenses	18,656	18,516	17,172	18,947	18,998
Total operating expenses	<u>666,579</u>	<u>565,673</u>	<u>514,249</u>	<u>486,586</u>	<u>465,428</u>
Operating income	<u>(26,523)</u>	<u>35,233</u>	<u>34,062</u>	<u>26,653</u>	<u>15,565</u>
Non-operating (expense) income:					
Interest, net	385	244	(122)	(358)	(175)
Other, net	(3,280)	2,289	(2,386)	(2,108)	(2,002)
Net non-operating (expense) income	<u>(2,895)</u>	<u>2,533</u>	<u>(2,508)</u>	<u>(2,466)</u>	<u>(2,177)</u>
Income (loss) before income taxes	<u>(29,418)</u>	<u>37,766</u>	<u>31,554</u>	<u>24,187</u>	<u>13,388</u>
Provision for income taxes	<u>19,217</u>	<u>22,353</u>	<u>14,422</u>	<u>17,390</u>	<u>7,041</u>
Net income (loss)	<u>\$ (48,635)</u>	<u>\$ 15,413</u>	<u>\$ 17,132</u>	<u>\$ 6,797</u>	<u>\$ 6,347</u>
Basic weighted average common shares outstanding	18,735	18,540	18,334	18,210	18,077
Diluted weighted average common shares outstanding	18,735	18,939	18,715	18,432	18,232
Basic earnings (loss) per common share	\$ (2.60)	\$ 0.83	\$ 0.93	\$ 0.37	\$ 0.35
Diluted earnings (loss) per common share	\$ (2.60)	\$ 0.81	\$ 0.92	\$ 0.37	\$ 0.35
Cash dividends paid per share	\$ 0.52	\$ 0.52	\$ 0.52	\$ 0.52	\$ 0.39
Balance Sheet Data (at end of period):					
Working capital (3)	\$ 77,998	\$ 77,838	\$ 79,533	\$112,387	\$107,177
Total assets (3)	587,204	581,502	572,718	568,621	552,937
Long-term debt, less current maturities	—	—	—	23,500	29,500
Stockholders’ equity	212,705	258,590	254,802	244,664	247,873
Other Operating Data:					
Average number of consultants during the period	389	347	326	313	341

- (1) Includes impairment charges of \$39.2 million related to Culture Shaping and \$11.6 million related to Leadership Consulting in 2017.
- (2) Includes restructuring charges of \$15.7 million in 2017. These charges consist of \$13.1 million of employee-related costs associated with severance arrangements, \$2.3 million in professional fees and other expenses and \$0.3 million in real estate related expenses.
- (3) As adjusted for the adoption of ASU 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes*.

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. Forward-looking statements are not historical facts, but instead represent only our beliefs, assumptions, expectations, estimates, forecasts and projections regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These statements include statements other than historical information or statements of current condition and may relate to our future plans and objectives and results. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed under the Section heading "Risk Factors" in Part I, Item 1A of this Form 10-K.

Factors that may affect the outcome of the forward-looking statements include, among other things, leadership changes, our ability to attract, integrate, manage and retain qualified consultants and senior leaders; our ability to develop and maintain strong, long-term relationships with our clients; fluctuations in the global and local economies and our ability to execute successfully our strategies; social or political instability in markets where we operate, the impact of the U.K. referendum to leave the European Union (Brexit); 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 ability to integrate future acquisitions; our reliance on information management systems; any impairment of our goodwill, other intangible assets and other long-lived assets; and the ability to align our cost structure and headcount with net revenue. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Overview

Our Business

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

In addition to executive search, we provide leadership consulting expertise and culture shaping services including executive leadership assessment; leadership, team and board development; succession planning; talent strategy; people performance; inter-team collaboration; and organizational transformation.

We have announced the combination of our Leadership Consulting and Culture Shaping businesses to create Heidrick Consulting, a comprehensive offering of the firm's advisory services. We anticipate that our Leadership Consulting and Culture Shaping reportable segments will be combined into one reportable segment, Heidrick Consulting, during the first quarter of 2018.

We provide our services to a broad range of clients through the expertise of over 380 consultants located in major cities around the world. Our executive search services are provided on a retained basis. Revenue before reimbursements of out-of-pocket expenses ("net revenue") consists of retainers and indirect expenses billed to clients. Typically, we are paid a retainer for our executive search services equal to approximately one-third of the estimated first year compensation for the position to be filled. In addition, if the actual compensation of a placed candidate exceeds the estimated compensation, we often are authorized to bill the client for one-third of the excess. Indirect expenses are calculated as a percentage of the retainer with certain dollar limits per search.

Key Performance Indicators

We manage and assess Heidrick & Struggles' performance through various means, with the primary financial and operational measures including net revenue, operating income, operating margin, Adjusted EBITDA (non-GAAP), and Adjusted EBITDA margin (non-GAAP). Executive Search and Leadership Consulting performance is also measured using consultant headcount. Specific to Executive Search, confirmation trends, consultant productivity and average revenue per search are used to measure performance.

Revenue is driven by market conditions and a combination of the number of executive search engagements and leadership consulting and culture shaping projects and the average revenue per search or project. With the exception of compensation expense, incremental increases in revenue do not necessarily result in proportionate increases in costs, particularly operating and administrative expenses, thus potentially improving operating margins.

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

Our Compensation Model

At the Executive Search consultant level there are fixed and variable components of compensation. Individuals are rewarded for their performance based on a system that directly ties a portion of their compensation to the amount of net revenue for which they are responsible. A portion of the reward may be based upon individual performance against a series of non-financial measures. Credit towards the variable portion of an executive search consultant's compensation is earned by generating net revenue for winning and executing work. Each quarter, we review and update the expected annual performance of all Executive Search consultants and accrue variable compensation accordingly. The amount of variable compensation that is accrued for each Executive Search consultant is based on a tiered payout model. Overall Company performance determines the amount available for total variable compensation. The more net revenue that is generated by the consultant, the higher the percentage credited towards the consultant's variable compensation and thus accrued by our Company as expense. The mix of individual consultants who generate the revenue can significantly affect the total amount of compensation expense recorded, which directly impacts operating margin. As a result, the variable portion of the compensation expense may fluctuate significantly from quarter to quarter. The total variable compensation is discretionary and is based on Company-wide financial targets approved by the Human Resources and Compensation Committee of the Board of Directors.

A portion of our Executive Search consultants' and management cash bonuses is deferred and paid over a three-year vesting period. The compensation expense related to the amounts being deferred is recognized on a graded vesting attribution method over the requisite service period. This service period begins on January 1 of the respective fiscal year and continues through the deferral date, which coincides with our bonus payments in the first quarter of the following year, and for an additional three year vesting period. The deferrals are recorded in *Accrued salaries and employee benefits* in the Consolidated Balance Sheets.

2017 Overview

Consolidated net revenue was \$621.4 million for the year ended December 31, 2017, an increase of \$39.0 million or 6.7% compared to December 31, 2016. Specific to Executive Search, our largest business, consultant productivity measured by net executive search revenue per consultant was \$1.6 million for each of the years ended December 31, 2017 and 2016. Average revenue per executive search was \$120,300 for the year ended December 31, 2017 compared to \$117,700 for the year ended December 31, 2016.

Operating loss as a percentage of net revenue was 4.3% in 2017 compared to operating margin of 6.0% in 2016. The change in operating income was primarily due to an increase in net revenue of \$39.0 million, which was offset by an increase in salaries and employee benefits expense of \$34.1 million, an increase in general and administrative expenses of \$0.2 million, impairment charges of \$50.7 million and restructuring charges of \$15.7 million. Salaries and employee benefits expense as a percentage of net revenue was 69.9% in 2017 and 68.7% in 2016. General and administrative expense as a percentage of net revenue was 23.7% in 2017 and 25.3% in 2016.

We ended the year with combined cash and cash equivalents of \$207.5 million, an increase of \$42.5 million compared to \$165.0 million at December 31, 2016. The increase is primarily due increased cash collections and lower acquisition investments. These increases in cash were partially offset by cash paid for restructuring charges. 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. We expect to pay approximately

\$148.0 million in bonuses related to 2017 performance in March and April 2018. In January 2018, we paid approximately \$13.0 million in cash bonuses deferred in prior years.

2018 Outlook

We are currently forecasting 2018 first quarter net revenue of between \$150 million and \$160 million. Our 2018 first quarter guidance is based upon, among other things, management's assumptions for the anticipated volume of new executive search confirmations and leadership consulting and culture shaping projects, the current backlog, consultant productivity, consultant retention, the seasonality of our business and average currency rates from December 2017.

Our 2018 first quarter guidance is subject to a number of risks and uncertainties, including those disclosed under Risk Factors (See Item 1A. *Risk Factors*) and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-K. As such, actual results could vary from these projections.

Results of Operations

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

	Year Ended December 31,		
	2017	2016	2015
Revenue			
Revenue before reimbursements (net revenue)	\$ 621,400	\$ 582,390	\$ 531,139
Reimbursements	18,656	18,516	17,172
Total revenue	<u>640,056</u>	<u>600,906</u>	<u>548,311</u>
Operating Expenses			
Salaries and employee benefits	434,219	400,070	369,385
General and administrative	147,316	147,087	127,692
Impairment charges	50,722	—	—
Restructuring charges	15,666	—	—
Reimbursed expenses	18,656	18,516	17,172
Total operating expenses	<u>666,579</u>	<u>565,673</u>	<u>514,249</u>
Operating income (loss)	<u>(26,523)</u>	<u>35,233</u>	<u>34,062</u>
Non-operating income (expense)			
Interest, net	385	244	(122)
Other, net	(3,280)	2,289	(2,386)
Net non-operating income (expense)	<u>(2,895)</u>	<u>2,533</u>	<u>(2,508)</u>
Income (loss) before taxes	<u>(29,418)</u>	<u>37,766</u>	<u>31,554</u>
Provision for income taxes	19,217	22,353	14,422
Net income (loss)	<u>\$ (48,635)</u>	<u>\$ 15,413</u>	<u>\$ 17,132</u>
Basic weighted average common shares outstanding	18,735	18,540	18,334
Diluted weighted average common shares outstanding	18,735	19,038	18,715
Basic net income (loss) per common share	\$ (2.60)	\$ 0.83	\$ 0.93
Diluted net income (loss) per common share	\$ (2.60)	\$ 0.81	\$ 0.92
Cash dividends paid per share	\$ 0.52	\$ 0.52	\$ 0.52

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

	Year Ended December 31,		
	2017	2016	2015
Revenue:			
Revenue before reimbursements (net revenue)	100.0 %	100.0%	100.0%
Reimbursements	3.0	3.2	3.2
Total revenue	103.0	103.2	103.2
Operating expenses:			
Salaries and employee benefits	69.9	68.7	69.5
General and administrative expenses	23.7	25.3	24.0
Impairment Charges	8.2	—	—
Restructuring charges	2.5	—	—
Reimbursed expenses	3.0	3.2	3.2
Total operating expenses	107.3	97.1	96.8
Operating income (loss)	(4.3)	6.0	6.4
Non-operating income (expense)			
Interest, net	0.1	—	—
Other, net	(0.5)	0.4	(0.4)
Net non-operating income (expense)	(0.5)	0.4	(0.5)
Income (loss) before income taxes	(4.7)	6.5	5.9
Provision for income taxes	3.1	3.8	2.7
Net income (loss)	(7.8)%	2.6%	3.2%

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

We operate our executive search services in the Americas; Europe (which includes Africa); and Asia Pacific (which includes the Middle East) and operate our leadership consulting and culture shaping businesses as separate segments (See Note 17, *Segment Information*).

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

	Year Ended December 31,		
	2017	2016	2015
Revenue:			
Executive Search			
Americas	\$ 339,793	\$ 313,292	\$ 294,606
Europe	125,346	108,754	92,135
Asia Pacific	86,905	85,319	89,026
Total Executive Search	<u>552,044</u>	<u>507,365</u>	<u>475,767</u>
Leadership Consulting	41,227	38,806	19,045
Culture Shaping	28,129	36,219	36,327
Revenue before reimbursements (net revenue)	<u>621,400</u>	<u>582,390</u>	<u>531,139</u>
Reimbursements	18,656	18,516	17,172
Total revenue	<u><u>\$ 640,056</u></u>	<u><u>\$ 600,906</u></u>	<u><u>\$ 548,311</u></u>
Operating income (loss):			
Executive Search			
Americas (1)	\$ 81,531	\$ 73,857	\$ 68,043
Europe (2)	2,038	6,851	3,644
Asia Pacific (3)	2,128	4,799	5,909
Total Executive Search	<u>85,697</u>	<u>85,507</u>	<u>77,596</u>
Leadership Consulting (4)	(15,614)	(1,495)	(1,847)
Culture Shaping (5)	(41,818)	(1,558)	4,913
Total Segments	<u>28,265</u>	<u>82,454</u>	<u>80,662</u>
Global Operations Support (6)	(54,788)	(47,221)	(46,600)
Total operating income (loss)	<u><u>\$ (26,523)</u></u>	<u><u>\$ 35,233</u></u>	<u><u>\$ 34,062</u></u>

(1) Operating income for the Americas includes \$0.8 million of restructuring charges in 2017.

(2) Operating income for Europe includes \$4.0 million of restructuring charges in 2017.

(3) Operating income for Asia Pacific includes \$2.0 million of restructuring charges in 2017.

(4) Operating loss for Leadership Consulting includes \$11.6 million of impairment charges and \$0.9 million of restructuring charges in 2017.

(5) Operating loss for Culture Shaping includes \$39.2 million of impairment charges and \$2.5 million of restructuring charges in 2017.

(6) Operating loss for Global Operations Support includes \$5.5 million of restructuring charges in 2017.

Year ended December 31, 2017 compared to year ended December 31, 2016

Total revenue. Consolidated total revenue increased \$39.2 million, or 6.5%, to \$640.1 million in 2017 from \$600.9 million in 2016. The increase in total revenue was primarily due to the increase in revenue before reimbursements (net revenue).

Revenue before reimbursements (net revenue). Consolidated net revenue increased \$39.0 million or 6.7%, to \$621.4 million in 2017 from \$582.4 million in 2016. Excluding the impact of exchange rate fluctuations, which negatively impacted results by \$1.4 million, or 0.2%, consolidated net revenue increased \$40.4 million, or 6.9%. Executive Search net revenue was \$552.0 million in 2017, an increase of \$44.7 million compared to 2016. The increase in Executive Search net revenue was the result of growth in the Americas, Europe, and Asia Pacific. Leadership Consulting net revenue increased \$2.4 million, or 6.2%, to \$41.2 million in 2017 from \$38.8 million in 2016. Culture Shaping net revenue was \$28.1 million in 2017, a decrease of \$8.1 million, or 22.3%, compared to 2016.

The number of Executive Search, Leadership Consulting and Culture Shaping consultants was 346, 19 and 17, respectively, as of December 31, 2017 compared to 335, 22 and 17, respectively, as of December 31, 2016. Specific to Executive Search, our largest business, productivity as measured by annualized net Executive Search revenue per consultant was \$1.6 million for each of the years ended December 31, 2017 and 2016, respectively. The number of confirmed searches increased 4.5% compared to 2016. The average revenue per executive search increased to \$120,300 for the year ended December 31, 2017 compared to \$117,700 for the year ended December 31, 2016.

Salaries and employee benefits. Consolidated salaries and employee benefits expense increased \$34.1 million, or 8.5%, to \$434.2 million in 2017 from \$400.1 million in 2016. The increase was due to higher variable compensation of \$23.2 million and higher fixed compensation of \$10.9 million. Fixed compensation increased due to higher average headcount due to our recent acquisitions, new hires over the last year, and the HMRC employee benefit tax settlement of \$1.5 million. Variable compensation increased due to increased production over the prior year. Excluding the impact of exchange rate fluctuations, which positively impacted results by \$0.4 million, or 0.1%, consolidated salaries and benefits expense increased \$34.5 million, or 8.6%, compared to the year ended December 31, 2016.

In 2017, we had an average of 1,798 employees, compared to an average of 1,716 employees in 2016. As a percentage of net revenue, salaries and employee benefits expense was 69.9% in 2017, compared to 68.7% in 2016.

General and administrative expenses. Consolidated general and administrative expenses increased \$0.2 million, or 0.2%, to \$147.3 million for the year ended December 31, 2017 from \$147.1 million for the year ended December 31, 2016. Excluding the impact of exchange rate fluctuations, which positively impacted results by \$0.8 million, or 0.5%, consolidated general and administrative expenses increased \$1.0 million, or 0.7%, compared to the year ended December 31, 2016.

As a percentage of net revenue, general and administrative expenses were 23.7% in 2017, compared to 25.3% in 2016.

Impairment charges. In 2017, the Culture Shaping business continued the transition of senior-level personnel which began in 2016, primarily due to planned retirements. The Company has experienced lower than expected consultant productivity during the transition period. Also, the marketplace for culture shaping services has become increasingly more competitive and the business experienced lengthening sales cycles and decision processes within target client organizations. These events led to a decline in the revenue performance of the business and uncertainty around the timing of improving such performance. As a result, the Company identified a triggering event and performed an interim impairment evaluation on the goodwill and intangible assets related to its Culture Shaping reporting unit during the quarter ended June 30, 2017. Based on the results of the impairment evaluation, the Company determined that the goodwill and intangible assets within the Culture Shaping reporting unit were impaired, which resulted in an impairment charge of \$39.2 million to write-off all of the goodwill and intangible assets.

Additionally, based on the results of the annual impairment evaluation, performed by the Company as of October 31, 2017, the Company determined that the goodwill and intangible assets within the Leadership Consulting reporting unit were impaired, which resulted in an impairment charge of \$11.6 million to write-off all of the goodwill and intangible assets. Throughout the year, the Company was continually evaluating the results of its Leadership Consulting business, including Philosophy IB failing to achieve targets outlined in its earnout agreement and the potential impact of the conclusion of the Co Company earnout on the reporting unit. In the fourth quarter, the Company finalized its assessment of these events and its forecast for the Leadership Consulting reporting unit in future years. The forecast for the Leadership Consulting reporting unit indicated significant uncertainty around the pace and timing of growth in profitability in the Leadership Consulting reporting unit as the Company invests in talent and service offerings, which resulted in the impairment of the Leadership Consulting goodwill.

The aforementioned impairment charges of \$50.7 million are recorded within *Impairment charges* in the Condensed Consolidated Statements of Comprehensive Income (Loss) for the year ended December 31, 2017. The impairments were non-cash in nature and did not affect our current liquidity, cash flows, borrowing capability or operations; nor did they impact the debt covenants under our credit agreement.

Restructuring charges During the fourth quarter, the Company announced a restructuring plan to reduce overall costs and improve efficiencies in its operations. As a result of this plan, the Company incurred approximately \$15.7 million in restructuring charges for the year ended December 31, 2017. These charges include approximately \$13.1 million in severance related charges, \$2.3 million in professional fees and other expenses and \$0.3 million in office related charges.

Operating income. Our consolidated operating income was a loss of \$26.5 million in 2017, compared to income of \$35.2 million in 2016. The operating loss is primarily due to \$50.7 million in impairment charges as well as \$15.7 million in restructuring charges. Excluding impairment and restructuring charges, the Company reported operating income of \$39.9 million. Exchange rate fluctuations negatively impacted operating income by \$0.2 million, or 0.7%, for the year ended December 31, 2017.

Net non-operating income (expense). Net non-operating expense was \$2.9 million for 2017, compared to net non-operating income of \$2.5 million for 2016.

Net interest income was \$0.4 million in 2017, a \$0.2 million increase from net interest income of \$0.2 million in 2016.

Other, net was expense of \$3.3 million in 2017 and income of \$2.3 million in 2016. Other, net results declined primarily due to the HMRC employee benefit tax settlement of \$2.4 million.

Income taxes. See Note 16, *Income Taxes*.

Executive Search

Americas

The Americas segment reported net revenue of \$339.8 million in 2017, an increase of 8.5% from \$313.3 million in 2016. The increase in net revenue was driven by a 5.7% increase in the number of executive search confirmations compared to the prior year as well as an increase in consultant headcount. All practice groups contributed to the increased net revenue. The number of consultants was 163 as of December 31, 2017, compared to 158 as of December 31, 2016.

Salaries and employee benefits expense increased \$16.5 million from 2016. Fixed compensation increased \$4.4 million primarily due to higher base salaries and payroll taxes of \$3.8 million, higher separation costs of \$0.5 million and higher stock compensation expense of \$0.5 million, partially offset by a decrease in deferred compensation of \$1.1 million. Variable compensation increased \$12.1 million primarily due to higher bonus accruals for consultant performance.

General and administrative expenses increased \$1.6 million primarily due to increased professional service fees and office occupancy expenses, partially offset by lower hiring fees and temporary labor.

The Americas incurred approximately \$0.8 million in restructuring charges for the year ended December 31, 2017. These charges include approximately \$0.6 million in severance related charges and \$0.2 million in professional fees and other expenses.

Operating income was \$81.5 million in 2017, an increase of \$7.7 million compared to \$73.9 million in 2016. Excluding the impact of restructuring charges, the Americas segment reported operating income of \$82.3 million.

Europe

Europe reported net revenue of \$125.3 million in 2017, an increase of 15.3% from \$108.8 million in 2016. The increase in net revenue was driven by a 6.2% increase in the number of executive search confirmations as compared to the prior year and an increase in consultant headcount. Our acquisition of JCA Group in August 2016 also contributed to the year-over-year growth in net revenue. Excluding the impact of exchange rate fluctuations, which negatively impacted results by \$1.0 million, or 0.8%, net revenue increased \$17.6 million, or 16.2%. All industry practice groups contributed to net revenue growth with the exception of the Global Technology & Services practice group. The number of consultants was 103 as of December 31, 2017 as compared to 95 as of December 31, 2016.

Salaries and employee benefits expense increased \$15.7 million from 2016. Fixed compensation increased \$6.9 million primarily due to compensation expense associated with the JCA acquisition in August 2016, increases in legacy base salaries and payroll taxes and the HMRC employee benefit tax settlement, net of reimbursements, of \$1.5 million. Variable compensation increased \$8.7 million due to higher bonus accruals for consultant performance.

General and administrative expense increased \$1.7 million from 2016 primarily due to ongoing general and administrative expenses related to the JCA Group acquisition including increased amortization and accretion of \$0.7 million.

Europe incurred approximately \$3.9 million in restructuring charges for the year ended December 31, 2017. These charges include approximately \$3.9 million in severance related charges and \$0.1 million in office related charges.

The Europe segment reported operating income of \$2.0 million in 2017, a decrease of \$4.8 million compared to \$6.8 million in 2016. Excluding the impact of restructuring charges, the Europe segment reported operating income of \$6.0 million.

Asia Pacific

Asia Pacific reported net revenue of \$86.9 million in 2017, an increase of 1.9% compared to \$85.3 million in 2016. The Life Sciences, Industrial, and Financial Services practice groups contributed to the increase in net revenue. Excluding the impact of exchange rate fluctuations, which positively impacted results by \$0.4 million, or 0.4%, net revenue increased \$1.2 million, or 1.4%. The number of consultants was 80 as of December 31, 2017, compared to 82 as of December 31, 2016.

Salaries and employee benefits expense increased \$3.2 million. Fixed compensation increased by \$0.1 million due to increases in retirement and benefits expense, partially offset by lower base salaries and payroll taxes. Variable compensation increased \$3.1 million due to higher bonus accruals for consultant performance.

General and administrative expenses decreased \$1.0 million, primarily due to lower office occupancy expenses, internal travel costs, and taxes and licenses.

Asia Pacific incurred approximately \$2.0 million in restructuring charges for the year ended December 31, 2017. These charges include approximately \$1.8 million in severance related charges, \$0.1 million in office related charges and \$0.1 million in professional fees and other expenses.

The Asia Pacific segment reported operating income of \$2.1 million in 2017, a decrease of \$2.7 million compared to \$4.8 million in 2016. Excluding the impact of restructuring charges, the Asia Pacific segment reported operating income of \$4.2 million.

Leadership Consulting

The Leadership Consulting segment reported net revenue of \$41.2 million in 2017, an increase of 6.2% compared to \$38.8 million in 2016. The increase in net revenue was driven by a full year of results from our acquisitions of DSI and Philosophy IB. Excluding the impact of exchange rate fluctuations, which negatively impacted results by \$1.0 million, or 2.3%, net revenues increased \$3.4 million, or 8.8%. There were 19 Leadership Consulting consultants at December 31, 2017, compared to 22 at December 31, 2016.

Salaries and employee benefits expense increased \$4.8 million compared to the prior year. Fixed compensation increased \$4.0 million primarily due the acquisitions of DSI and Philosophy IB, partially offset by lower separation expenses and lower amortization of minimum guarantees. Variable compensation increased \$0.8 million due to higher bonus accruals for consultant performance.

General and administrative expenses decreased \$0.8 million primarily as a result of decreases in litigation expense, professional fees and internal travel costs, partially offset by increases in office occupancy costs and the use of external third-party consultants to complete client work.

Impairment charges for the year ended December 31, 2017 were \$11.6 million as a result of our annual evaluation of the goodwill and amortizable intangible assets related to our Leadership Consulting reporting unit. The impairment charge is recorded within *Impairment charges* in the Condensed Consolidated Statement of Comprehensive Income (Loss) for the year ended December 31, 2017.

Leadership Consulting incurred approximately \$0.9 million in restructuring charges for the year ended December 31, 2017. These charges include approximately \$0.6 million in professional fees and other expenses, \$0.2 million in severance related charges and \$0.1 million in office related charges.

The Leadership Consulting segment reported an operating loss of \$15.6 million in 2017, a decrease of \$14.1 million, compared to an operating loss of \$1.5 million in 2016. The increased operating loss primarily reflects \$11.6 million of impairment charges for goodwill and intangible assets, as well as restructuring charges of \$0.9 million. Excluding the impact of impairment and restructuring charges, the Leadership Consulting segment reported an operating loss of \$3.1 million.

Culture Shaping

The Culture Shaping segment reported net revenue of \$28.1 million in 2017, a decrease of 22.3% compared to \$36.2 million in 2016. Net revenue decreased due to a decline in the volume of client work. Excluding the impact of exchange rate fluctuations, which negatively impacted results by \$0.2 million, or 0.8%, net revenue decreased \$7.9 million, or 21.7%.

Salaries and employee benefits expense decreased \$5.9 million, primarily due to investments in new and existing consultants incurred in the prior year that did not reoccur in 2017.

General and administrative expenses decreased \$3.6 million primarily due to lower intangible amortization, earnout accretion and professional fees, partially offset by increases in internal travel and office occupancy costs.

Impairment charges for the year ended December 31, 2017 were \$39.2 million as a result of an interim impairment evaluation on the goodwill and amortizable intangible assets related to our Culture Shaping reporting unit.

Culture Shaping incurred approximately \$2.5 million in restructuring charges for the year ended December 31, 2017. These charges include approximately \$1.9 million in severance related charges and \$0.6 million in professional fees and other expenses.

The Culture Shaping segment reported an operating loss of \$41.8 million in 2017, a decrease of \$40.3 million, compared to an operating loss of \$1.6 million in 2016. The increase in operating loss is primarily attributed to goodwill and intangible impairment charges of \$39.2 million and restructuring charges of \$2.5 million. Excluding the impact of impairment and restructuring charges, the Culture Shaping segment reported an operating loss of \$0.2 million.

Global Operations Support

Global Operations Support expenses in 2017 increased \$7.6 million, or 16.0%, to \$54.8 million from \$47.2 million in 2016.

Salaries and employee benefits expense decreased \$0.1 million due to lower stock compensation expense as a result of forfeitures during the year, separation costs, and management and support bonuses. These decreases were partially offset by increases in deferred compensation plan expenses and base salaries and payroll taxes.

General and administrative expense increased \$2.2 million due to increases in internal travel, audit fees and information technology costs that were partially offset by decreases in professional fees and hiring fees and temporary labor.

Global Operations Support incurred approximately \$5.5 million in restructuring charges for the year ended December 31, 2017. These charges include approximately \$4.5 million of severance related charges and \$0.9 million of professional fees and other costs.

Year Ended December 31, 2016 compared to year ended December 31, 2015

Total revenue. Consolidated total revenue increased \$52.6 million, or 9.6%, to \$600.9 million in 2016 from \$548.3 million in 2015. The increase in total revenue was primarily due to the increase in revenue before reimbursements (net revenue).

Revenue before reimbursements (net revenue). Consolidated net revenue increased \$51.2 million or 9.6%, to \$582.4 million in 2016 from \$531.1 million in 2015. Excluding the impact of exchange rate fluctuations, which decreased revenue by \$11.4 million, or 2.1%, net revenue increased \$62.6 million, or 11.8%. Executive Search net revenue was \$507.4 million in 2016, an increase of \$31.6 million compared to 2015. The increase in Executive Search net revenue was the result of growth in the Americas and Europe. Leadership Consulting net revenue increased \$19.8 million, or 103.8%, to \$38.8 million in 2016 from \$19.0 million in 2015. The increase in Leadership Consulting net revenue was primarily the result of the Co Company, DSI and Philosophy IB acquisitions. Culture Shaping net revenue was \$36.2 million in 2016, a decrease of \$0.1 million compared to 2015.

The number of Executive Search and Leadership Consulting consultants was 335 and 22, respectively, as of December 31, 2016 compared to 308 and 26, respectively, as of December 31, 2015. Specific to Executive Search, our largest business, productivity as measured by annualized net Executive Search revenue per consultant was \$1.6 million and \$1.5 million for the years ended December 31, 2016 and 2015, respectively. The number of confirmed searches increased 7.1% compared to 2015. The average revenue per executive search increased to \$117,700 for the year ended December 31, 2016 compared to \$115,300 for the year ended December 31, 2015.

Salaries and employee benefits. Consolidated salaries and employee benefits expense increased \$30.7 million or 8.3%, to \$400.1 million in 2016 from \$369.4 million in 2015. The increase was due to higher fixed compensation of \$31.7 million partially offset by lower variable compensation of \$1.0 million. Fixed compensation increased due to higher compensation related to our four recent acquisitions, new hires over the last year with incentives and minimum guarantees that are part of the

consultant hiring process, \$6.7 million of investments in new and existing partners in our Culture Shaping business and severance related to the repositioning of the Leadership Consulting business. As a result of higher fixed compensation expense and an increase in the use of third-party consultants, whose costs are included in General and administrative expenses, variable compensation decreased \$1.0 million reflecting the overall profitability of the business.

Excluding the impact of exchange rate fluctuations, which decreased total salaries and employee benefits by \$6.2 million or 1.7%, total salaries and employee benefits expense increased by \$36.9 million, or 10.0%.

In 2016, we had an average of 1,716 employees, compared to an average of 1,563 employees in 2015. As a percentage of net revenue, salaries and employee benefits expense was 68.7% in 2016, compared to 69.5% in 2015.

General and administrative expenses. Consolidated general and administrative expenses increased \$19.4 million, or 15.2%, to \$147.1 million for the year ended December 31, 2016 from \$127.7 million for the year ended December 31, 2015. More than half of the increase was due to ongoing general and administrative expenses related to our four recent acquisitions including the use of third-party consultants in these businesses to execute work. The increase in general and administrative expenses also reflects the repositioning of our Leadership Consulting business of \$1.5 million, higher professional service fees supporting technology implementation and training and development fees, higher unbilled travel and business development expense, and an increase in technology subscription costs reflecting additional headcount throughout the business for cloud-based services.

Excluding the impact of exchange rate fluctuations, which decreased total general and administrative expenses by \$3.2 million, or 2.5%, total general and administrative expenses increased \$22.6 million, or 17.7%.

As a percentage of net revenue, general and administrative expenses were 25.3% in 2016, compared to 24.0% in 2015.

Operating income. Our consolidated operating income was \$35.2 million in 2016 compared to \$34.1 million in 2015. Excluding the impact of foreign exchange rate fluctuations, which decreased operating income by \$1.9 million, or 5.6%, operating income increased \$3.1 million of 9.1%.

Net non-operating income (expense). Net non-operating income was \$2.5 million for 2016, an increase of \$5.0 million from net non-operating expense of \$2.5 million in 2015.

Net interest income was \$0.2 million in 2016, a \$0.3 million increase from net interest expense of \$0.1 million in 2015. Interest expense decreased \$0.3 million due the repayment of outstanding debt in the third quarter of 2015, which had been outstanding during the year ended December 31, 2015.

Other, net was income of \$2.3 million in 2016 and expense of \$2.4 million in 2015. Other, net increased due to lower net losses on available for sale securities compared to the prior year and decreased losses on the disposal of fixed assets.

Income taxes. See Note 16, *Income Taxes*.

Executive Search

Americas

The Americas segment reported net revenue of \$313.3 million in 2016, an increase of 6.3% from \$294.6 million in 2015. The increase in net revenue was due to an increase average revenue per search in addition to an increase in consultant headcount. All practice groups contributed to the increased net revenue with the exception of the Financial Services practice group. The number of consultants was 158 as of December 31, 2016, compared to 146 as of December 31, 2015.

Salaries and employee benefits expense increased \$10.9 million from 2015. Fixed compensation increased \$11.3 million primarily due to higher base salaries and payroll taxes of \$4.2 million, higher minimum guarantee and sign-on bonuses of \$1.4 million, higher retirement and benefits and increased deferred compensation due to market fluctuations. Variable compensation decreased \$0.4 million primarily due to lower bonus accruals.

General and administrative expenses increased \$2.0 million primarily due to professional service fees, office occupancy expenses and internal travel costs.

Operating income was \$73.9 million in 2016, an increase of \$5.8 million compared to \$68.0 million in 2015.

Europe

Europe reported net revenue of \$108.7 million in 2016, an increase of 18.0% from \$92.1 million in 2015. The increase in net revenue was driven by a 24.7% increase in the number of executive search confirmations as compared to the prior year and an increase in consultant headcount. Our acquisition of JCA Group in August 2016 also contributed to the year-over-year growth in net revenue. Excluding the impact of exchange rate fluctuations, which decreased revenue by \$6.7 million, or 7.3%, net revenue increased \$23.3 million, or 25.3%. All industry practice groups contributed to net revenue growth except for the Education, Nonprofit & Social Enterprise practice group. The number of consultants was 95 as of December 31, 2016 as compared to 78 as of December 31, 2015.

Salaries and employee benefits expense increased \$10.7 million from 2015. Fixed compensation increased \$9.2 million due to higher base salaries and payroll taxes of \$5.3 million primarily from merit increases, additional headcount related to the JCA Group acquisition and higher minimum guarantees of \$3.5 million. Variable compensation increased \$1.5 million due to higher bonus accruals for consultant performance.

General and administrative expense increased \$2.7 million from 2015 due to higher internal travel costs, amortization and accretion related to the JCA group acquisition and higher professional service fees, partially offset by lower office occupancy costs.

The Europe segment reported operating income of \$6.9 million in 2016, an increase of \$3.3 million compared to \$3.6 million in 2015.

Asia Pacific

Asia Pacific reported net revenue of \$85.3 million in 2016, a decrease of 4.2% compared to \$89.0 million in 2015. The decrease in net revenue was due to lower average revenue per search and lower consultant headcount. The Consumer Markets and Financial Services practice groups increased net revenue, which was offset by decreases in the Global Technology & Services, Healthcare & Life Sciences, Industrial and Education and Social Enterprise practice groups. The number of consultants was 82 as of December 31, 2016, compared to 84 as of December 31, 2015.

Salaries and employee benefits expense decreased \$3.0 million. The decrease in salaries and employee benefits expense is due to lower variable compensation of \$4.8 million from lower bonus accruals for consultant performance partially offset by an increase in fixed compensation of \$1.8 million as a result of headcount increases and the timing of merit increases.

General and administrative expenses increased \$0.4 million primarily due to higher office occupancy expenses and internal travel costs.

The Asia Pacific segment reported operating income of \$4.8 million in 2016, a decrease of \$1.1 million compared to 2015.

Leadership Consulting

The Leadership Consulting segment reported net revenue of \$38.8 million in 2016, an increase of 103.8% compared to \$19.0 million in 2015. The increase in net revenue was primarily driven by our DSI and Philosophy IB acquisitions in addition to a full year of results for Co Company, which was acquired in October 2015. Excluding the impact of exchange rate fluctuations, which decreased net revenues by \$2.7 million, or 14.2%, net revenue increased \$22.5 million, or 118.0%. There were 22 Leadership Consulting consultants at December 31, 2016 compared to 26 at December 31, 2015.

Salaries and employee benefits expense increased \$6.0 million compared to the prior year. Fixed compensation increased \$4.9 million due to additional headcount related to the DSI and Philosophy IB acquisitions in addition to a full year of expense for Co Company. Variable compensation increased \$1.1 million as compared to the prior year.

General and administrative expenses increased \$13.4 million primarily as a result of ongoing general and administrative expenses related to our recent acquisitions of DSI, Philosophy and Co Company and their use of third-party consultants to execute work, \$1.5 million of costs associated with repositioning of our Leadership Consulting business and higher office occupancy costs.

The Leadership Consulting segment reported an operating loss of \$1.5 million in 2016, an improvement of \$0.3 million compared to an operating loss of \$1.8 million in 2015.

Culture Shaping

The Culture Shaping segment reported net revenue of \$36.2 million in 2016, a decrease of 0.3% compared to \$36.3 million in 2015. Net revenue decreased due to a decline in the volume of client work.

Salaries and employee benefits expense increased \$4.6 million due to \$6.7 million of investments in new and existing consultants.

General and administrative expenses increased \$1.8 million primarily due to third-party external consultant costs and professional service fees.

The Culture Shaping segment reported an operating loss of \$1.6 million in 2016, a decrease of \$6.5 million compared to \$4.9 million of operating income in 2015.

Global Operations Support

Global Operations Support expenses in 2016 increased \$0.6 million or 1.3% to \$47.2 million from \$46.6 million in 2015.

Salaries and employee benefits expense increased \$1.4 million due to additional stock-based compensation expense related to meeting the vesting requirements of the performance share awards for the chief executive officer, higher retirement and benefits expense and higher separation costs.

General and administrative expense decreased \$0.8 million due to decreases in internal travel costs, office occupancy expenses and professional service fees that were partially offset by increased taxes and licenses, hiring fees and temporary labor costs.

Liquidity and Capital Resources

General. We continually evaluate our liquidity requirements, capital needs and availability of capital resources based on our operating needs. We believe that our available cash balances together with the funds expected to be generated from operations and funds available under our committed revolving credit facility will be sufficient to finance our operations for the foreseeable future, as well as to finance the cash payments associated with our cash dividends and stock repurchase program.

We pay the non-deferred portion of annual bonuses in the first quarter following the year in which they are earned. Employee bonuses are accrued throughout the year and are based on our performance and the performance of the individual employee.

Lines of Credit. On June 30, 2015, we entered into a Second Amended and Restated Credit Agreement (the “Restated Credit Agreement”) (See Note 10, *Line of Credit* in the Notes to Consolidated Financial Statements), and replaced our revolving facility and term facility (“Existing Facility”) with a single senior unsecured revolving line of credit. The Restated Credit Agreement has an aggregate commitment of up to \$100 million, which includes a sublimit of \$25 million for letters of credit, and a \$50 million expansion feature. On the amendment date, an aggregate of \$26.5 million of term loans outstanding under the Existing Facility remained outstanding as revolving borrowings under the Replacement Facility. On September 30, 2015, the Company repaid the full outstanding \$26.5 million balance of the revolver, in order to reduce the Company’s interest expense.

During the year ended December 31, 2017, we borrowed \$40.0 million under the Restated Credit Agreement and elected the Adjusted LIBOR Rate. We subsequently repaid \$40.0 million during the year ended December 31, 2017. There were no borrowings made during the year ended December 31, 2016. During 2017 and 2016 we were in compliance with the financial and other covenants under the Restated Credit Agreement, respectively, and no event of default existed.

During the three months ended March 31, 2018, the Company borrowed \$20 million under the Restated Credit Agreement and elected the Adjusted LIBOR Rate.

Cash and cash equivalents. Cash and cash equivalents at December 31, 2017 were \$207.5 million, an increase of \$42.5 million compared to \$165.0 million at December 31, 2016. The \$207.5 million of cash and cash equivalents at December 31,

2017 includes \$103.0 million held by our foreign subsidiaries. A portion of the \$103.0 million is considered permanently reinvested in these foreign subsidiaries. If these funds were required to satisfy obligations in the U.S., the repatriation of these funds could cause us to incur additional foreign withholding taxes. We expect to pay approximately \$148.0 million in variable compensation related to 2017 performance in March and April 2018. In January 2018, we paid approximately \$13.0 million in variable compensation that was deferred in prior years.

Cash flows provided by operating activities. In 2017, cash provided by operating activities was \$70.0 million, principally reflecting net income net of non-cash charges of \$21.1 million, an increase in accrued expenses of \$18.3 million and a restructuring accrual of \$13.0 million. The increase in accrued expenses primarily reflects approximately \$148 million of current year bonus accruals partially offset by \$128 million of bonus payments for 2016 made in early 2017.

In 2016, cash provided by operating activities was \$24.8 million, primarily reflecting depreciation and amortization expense of \$16.4 million, net income of \$15.4 million, stock based compensation expense of \$6.4 million and an increase in the net retirement and pension plan liability of \$4.2 million, partially offset by an increase in accounts receivable of \$14.4 million, a change in other assets and liabilities of \$3.0 million and an increase in prepaid expenses of \$2.3 million.

In 2015, cash provided by operating activities was \$57.6 million, principally reflecting an increase in accrued expenses of \$37.2 million, higher net income of \$17.1 million and depreciation and amortization expense of \$13.7 million, partially offset by an increase in accounts receivable of \$8.7 million. The accrued expense increase reflects approximately \$113 million of bonus payments for 2014 and prior year cash deferrals partially offset by 2015 bonus accruals of \$148 million. The accounts receivable increase reflects higher revenue in the fourth quarter of 2015 compared to the fourth quarter of 2014.

Cash flows used in investing activities. Cash used in investing activities was \$15.3 million for the year ended December 31, 2017, primarily due to capital expenditures of \$14.0 million and purchases of available for sale securities of \$2.3 million, partially offset by proceeds from the sale of available for sale securities of \$1.4 million. The increase in capital expenditures is primarily the result of office build-outs and a global information technology update.

Cash used in investing activities was \$27.8 million for the year ended December 31, 2016, primarily due to the acquisitions of JCA Group, DSI and Philosophy IB. This use of cash was partially offset by a reduction in restricted cash of \$7.2 million primarily due to a release of funds for the retention bonuses paid to certain key executives related to the Senn Delaney acquisition.

Cash used in investing activities was \$27.5 million in 2015, primarily due to capital expenditures of \$16.4 million, the acquisition of Co Company for \$10.3 million, and net purchases of available for sale securities of \$0.8 million. Capital expenditures primarily related to office build outs or renovations for eight offices, of which \$4.3 million was reimbursed as tenant improvement allowances and reflected as an operating activity. Our capital expenditures consist mostly of office build outs and investments in technology.

Cash flows used in financing activities. Cash used in financing activities in 2017 was \$17.1 million due to cash dividend payments of \$10.1 million, earnout payments related to the Co Company and Scambler MacGregor acquisitions of \$4.6 million, and the payment of employee tax withholdings on equity transactions of \$2.4 million. Gross proceeds and payments on the Company's line of credit were each \$40.0 million during the year ended December 31, 2017.

Cash used in financing activities in 2016 was \$20.1 million due to cash dividend payments of \$10.0 million, earnout payments for the Senn Delaney, Scambler MacGregor and Co Company acquisitions of \$6.8 million, \$0.4 million and \$0.2 million, respectively, and the payment of employee tax withholdings on equity transactions of \$2.7 million.

Cash used in financing activities in 2015 was \$46.3 million primarily due to debt repayments of \$29.5 million, quarterly cash dividend payments to shareholders of \$10.0 million and earnout payments of \$5.5 million related to the Senn Delaney and Scambler MacGregor acquisitions.

On February 11, 2008, we announced that our Board of Directors authorized management to repurchase shares of our common stock with an aggregate total amount up to \$50 million. We intend from time to time and as business conditions warrant, to purchase shares of our common stock on the open market or in negotiated or block trades. No time limit has been set for completion of this program. We did not repurchase any shares of our common stock in 2017. The most recent purchase of shares of common stock occurred during the year ended December 31, 2012. As of December 31, 2017 and December 31, 2016, we have purchased 1,038,670 shares of our common stock for a total of \$28.3 million and \$21.7 million remains available for future purchases under the authorization. Unless terminated or extended earlier by resolution of the board of directors, the program will expire when the amount authorized for repurchases has been spent.

Off-Balance Sheet Arrangements. We do not have material off-balance sheet arrangements, special purpose entities, trading activities of non-exchange traded contracts or transactions with related parties.

Contractual obligations. The following table presents our known contractual obligations as of December 31, 2017 and the expected timing of cash payments related to these contractual obligations (in millions):

	Payments due for the years ended December 31,						Total
	2018	2019	2020	2021	2022	Thereafter	
Contractual obligations:							
Operating lease obligations	\$ 36.4	\$ 31.1	\$ 22.9	\$ 18.9	\$ 16.2	\$ 22.6	\$ 148.1
Asset retirement obligations (1)	0.4	0.3	0.2	0.6	0.1	1.3	2.9
Total	<u>\$ 36.8</u>	<u>\$ 31.4</u>	<u>\$ 23.1</u>	<u>\$ 19.5</u>	<u>\$ 16.3</u>	<u>\$ 23.9</u>	<u>\$ 151.0</u>

(1) Represents the fair value of the obligation associated with the retirement of tangible long-lived assets, primarily related to our obligation at the end of the lease term to return office space to the landlord in its original condition.

In addition to the contractual obligations included in the above table, we have liabilities related to certain employee benefit plans. These liabilities are recorded in our Consolidated Balance Sheet at December 31, 2017. The obligations related to these employee benefit plans are described in Note 11, *Employee Benefit Plans*, and Note 12, *Pension Plan and Life Insurance Contract*, in the Notes to Consolidated Financial Statements. As the timing of cash disbursements related to these employee benefit plans is uncertain, we have not included these obligations in the above table. The table excludes our liability for uncertain tax positions including accrued interest and penalties, which totaled \$0.1 million as of December 31, 2017, since we cannot predict with reasonable reliability the timing of cash settlements to the respective taxing authorities.

Application of Critical Accounting Policies and Estimates

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

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

Revenue recognition. Revenue before reimbursements of out-of-pocket expenses (“net revenue”) consists of retainers and indirect expenses billed to clients. For each assignment, we and our client enter into a contract that outlines the general terms and conditions of the assignment. Typically, we are paid a retainer for our executive search services equal to approximately one-third of the estimated first year compensation for the position to be filled. In addition, generally, 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. We generally bill our clients for our retainer and indirect expenses in one-third increments over a three-month period commencing in the month of a client’s acceptance of the contract.

Net revenue is recognized when earned and realizable and therefore when the following criteria have been met: (a) persuasive evidence of an arrangement exists, (b) services have been rendered, (c) the fee to our client is fixed or determinable, and (d) collectability is reasonably assured. Taxes collected from clients and remitted to governmental authorities are presented on a net basis. Typically, net revenue from standard executive search engagements is recognized over the expected average period of performance, in proportion to the estimated personnel time incurred to fulfill our obligations under the arrangements. Net revenue in excess of the retainer, resulting from actual compensation of the placed candidate exceeding

the estimated compensation, is recognized upon completion of the executive search when the amount of the additional fee is known.

Net revenue associated with culture shaping consulting is recognized proportionally as services are performed. Net revenue associated with licenses to use our culture shaping proprietary materials is typically recognized over the term of the arrangement.

Depending on the terms of that agreement, net revenue from certain leadership consulting and non-standard executive search engagements is either recognized proportionally as services are performed or in accordance with the completion of the engagement deliverables.

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

We apply an estimated annual effective tax rate to our cumulative quarterly operating results to determine the provision for income tax expense. In the event there are significant unusual or infrequent items recognized in our quarterly operating results, the tax attributable to that item is recorded in the interim period in which it occurs.

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

Deferred taxes have been recorded for U.S. income taxes and foreign withholding taxes related to undistributed foreign earnings that are not permanently reinvested. Annually, we assess material changes in estimates of cash, working capital and long-term investment requirements in order to determine whether these earnings should be distributed. If so, an additional provision for taxes may apply, which could materially affect our future effective tax rate.

Goodwill and other intangible assets. We review goodwill for impairment annually. We also review goodwill and long-lived assets; including identifiable intangible assets for impairment whenever events or changes in circumstances indicate that it is more-likely-than-not that the fair value has fallen below the carrying amount of an asset. We review factors such as a significant change in business climate, attrition of key personnel, changes in financial condition or results of operations, a prolonged decline in our stock price and market capitalization, competition, and other factors to determine if an impairment test is necessary. Our annual impairment test begins with a qualitative assessment to determine whether it is necessary to perform a fair value based goodwill impairment test. The qualitative assessment includes evaluating whether events and circumstances indicate that it is more-likely-than-not that fair values of reporting units are greater than the carrying values. If the qualitative factors do not indicate that it is more-likely-than-not that the fair values of the reporting units are greater than the carrying values then we perform the fair value test.

The Company operates five reporting units: Americas; Europe, which includes Africa; Asia Pacific, which includes the Middle East; Leadership Consulting; and Culture Shaping. The goodwill impairment test is completed by comparing the fair value of a reporting unit with its carrying amount. The fair value of each of the Company's reporting units is determined using a discounted cash flow methodology. The discounted cash flow approach is dependent on a number of factors including estimates of future market growth and trends, forecasted revenue and costs, capital investments, appropriate discount rates, certain assumptions to allocate shared costs, assets and liabilities, historical and projected performance of our reporting units, the outlook for the executive search industry, and the macroeconomic conditions affecting each of our reporting units. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. The fair value of our reporting units is also impacted by our overall market capitalization and may be impacted by volatility in our stock price and assumed control premium, among other factors. As a result, actual future results may differ from those estimates and may result in a future impairment charge. These assumptions are updated annually, at a minimum, to reflect information concerning our reportable segments. The fair value of the Asia Pacific reporting unit may deteriorate and could result in the need to record an impairment charge in future periods. The Company continues to monitor potential triggering events including changes in the business climate in which it operates, the Company's market capitalization compared to its book value, and the Company's recent operating performance, specifically in relation to the Asia Pacific reporting unit. Any

changes in these factors could result in an impairment charge. An impairment charge is recognized for the amount by which the carrying value of a the reporting unit exceeds its carrying amount, however, the loss recognized is not to exceed the total amount of goodwill allocated to that reporting unit.

Additionally, we review long-lived assets, such as property, equipment, and purchased intangibles subject to amortization for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge, equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset, is recognized.

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

Recently Adopted Financial Accounting Standards

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other, which eliminates Step 2 from the goodwill impairment test. Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The Board also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. The Company early adopted ASU 2017-04, during the three months ended June 30, 2017. The Company concluded that ASU 2017-04 is preferable to the current guidance included in ASC 350 due to the simplified process of subsequently measuring goodwill.

Recent Financial Accounting Standards

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-09, Compensation - Stock Compensation, Scope of Modification Accounting, which is intended to provide clarity and reduce both diversity in practice, cost and complexity when implementing a change in the terms or conditions of a share-based payment award. ASU 2017-09 requires that an entity should account for the effects of a modification unless the fair value, vesting conditions, and whether the award is classified as a liability instrument or an equity instrument remain unchanged in the modification. ASU 2017-09 is effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted. The Company will adopt this guidance effective January 1, 2018. The impact of this accounting guidance will be dependent on future modification events including the number of awards modified.

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost, which is intended to improve the consistency, transparency and usefulness of net benefit cost disclosures. ASU 2017-07 requires that an employer report the service cost component of net benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Additionally, the other components of net benefit costs are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. ASU 2017-07 is effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted. The Company will adopt this guidance effective January 1, 2018. The impact of this accounting guidance will not be material to the Company's financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. The Company currently does not include restricted cash amounts in the beginning and ending cash amounts and will change the presentation of the cash flow statement to include restricted cash in the beginning and ending cash totals. The standard is effective for annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company will adopt this guidance effective January 1, 2018. If the Company had adopted the guidance as of December 31,

2017, the beginning and ending balance of cash, cash equivalents and restricted cash for the year ended December 31, 2017 would have each increased by \$0.6 million in the Condensed Consolidated Statement of Cash Flows.

In August 2016, the Financial Accounting Standards Board ("FASB") issued accounting Standards Update ("ASU") No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which is intended to reduce diversity in practice as to how certain cash receipts and cash payments should be presented and classified. The standard is effective for interim and annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company will adopt this guidance effective January 1, 2018. The Company has evaluated the standard and noted the guidance for contingent consideration payments made after a business combination are applicable to the Condensed Consolidated Statements of Cash Flows. The Company currently classifies all contingent consideration payments as financing activities. The impact of this change is not expected to be significant to the classification of these activities on the Consolidated Statement of Cash Flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases, intended to improve financial reporting about leasing transactions. The new guidance will require entities that lease assets to recognize on their balance sheets the assets and liabilities for the rights and obligations created by those leases and to disclose key information about the leasing arrangements. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018 with early adoption permitted. The Company will adopt this guidance on January 1, 2019. The guidance requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the impact of this accounting guidance. The effect is not known or reasonably estimable at this time.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments including the recognition of unrealized changes in fair value within net income. The standard is effective for annual reporting periods beginning after December 15, 2017. The Company will adopt this guidance effective January 1, 2018. Upon adoption, the Company will reclassify approximately \$6.1 million of unrecognized gains on the Company's available for sale securities, which are currently included in accumulated other comprehensive income, to retained earnings. Future holding gains on the Company's available for sale securities will be recorded in earnings. During the year ended December 31, 2017, the Company had holding gains of approximately \$2.7 million, prior to the reclassification of realized gains to earnings, on its available for sale securities, which would have been recognized in earnings under ASU 2016-01. The amount of future holding gains or losses is dependent upon market conditions and may substantially fluctuate between periods.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The ASU requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for these goods or services. The guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The guidance permits the use of either of the following transition methods: (i) a full retrospective method reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a retrospective method with the cumulative effect upon initial adoption recognized at the date of initial application (modified retrospective). The Company will adopt the guidance on January 1, 2018 and will apply the modified retrospective method, which involves recognizing the cumulative effect of applying the guidance at the date of initial application with no restatement of the comparative periods presented.

The Company continues to perform its evaluation of ASU No. 2014-09 and has made certain assessments regarding each of its primary revenue streams.

Executive Search - The Company's executive search engagements involve the receipt of a retainer that is equal to approximately one-third of the estimated first year compensation for the position to be filled. If actual compensation of a placed candidate exceeds the original compensation estimate, the Company is often authorized to bill the client for one-third of the excess compensation. The Company refers to this excess compensation billing as uptick revenue. Currently, the Company recognizes uptick revenue upon the completion of the executive search at the point the uptick revenue becomes fixed and determinable. Under ASU No. 2014-09, uptick revenue is considered variable consideration and the Company will be required to estimate this revenue at contract inception. The Company has developed an estimation process utilizing the expected value method, incorporating historical uptick revenue realized in the Company's geographic regions and industry practices, which will result in an initial recording of a contract's uptick revenue that is probable not to result in a significant reversal of cumulative revenue recognized when the actual amount of uptick revenue for that contract is known. Estimates of uptick revenue will be recognized using the same over time revenue recognition model the Company currently utilizes to recognize retainer revenue, and differences between the estimated and actual amount of uptick revenue will be recorded when known. Typically, revenue from executive search engagements is recognized over the expected average period of performance, in

proportion to the estimated personnel time incurred to fulfill our obligations under the executive search arrangement. The Company is currently quantifying the required transition adjustment for the Executive Search revenue streams.

Leadership Consulting - The Company does not anticipate a significant change in revenue recognition as it relates to its leadership consulting engagements. Substantially all of the Company's engagements will continue to be recognized over time although the identification of the performance obligations within any given engagement may differ from the Company's current revenue recognition methodology.

Culture Shaping - The Company does not anticipate a significant change in revenue recognition as it relates to its culture shaping consulting engagements. Substantially all of the Company's consulting engagements will continue to be recognized over time although the identification of the performance obligations within any given engagement may differ from the Company's current revenue recognition methodology. The Company has concluded that licenses to use our proprietary culture shaping materials, which the Company refers to as enterprise agreements, generally contain a material right resulting in the recognition of this type of revenue over a longer period of time. The Company is currently quantifying the required transition adjustment.

Quarterly Financial Information (Unaudited)

The following table sets forth certain financial information for each quarter of 2017 and 2016. The information is derived from our quarterly consolidated financial statements which are unaudited but which, in the opinion of management, have been prepared on the same basis as the audited annual consolidated financial statements included in this document. The consolidated financial data shown below should be read in conjunction with the consolidated financial statements and notes thereto. The operating results for any quarter are not necessarily indicative of results for any future period.

	Quarter Ended							
	2017				2016			
	Mar. 31	Jun. 30	Sept. 30	Dec. 31	Mar. 31	Jun. 30	Sept. 30	Dec. 31
Revenue before reimbursements (net revenue)	\$ 140,006	\$ 152,214	\$ 159,800	\$ 169,380	\$ 130,189	\$ 148,861	\$ 143,519	\$ 159,821
Operating income (loss)	6,638	(28,411)	14,022	(18,772)	3,868	11,694	12,006	7,665
Income (loss) before income taxes	4,094	(28,686)	14,263	(19,089)	3,989	11,781	12,388	9,608
Provision for income taxes	3,444	(10,438)	6,092	20,119	2,664	5,126	5,448	9,115
Net income (loss)	\$ 650	\$ (18,248)	\$ 8,171	\$ (39,208)	\$ 1,325	\$ 6,655	\$ 6,940	\$ 493
Basic earnings (loss) per common share	\$ 0.03	\$ (0.97)	\$ 0.44	\$ (2.09)	\$ 0.07	\$ 0.36	\$ 0.37	\$ 0.03
Diluted earnings (loss) per common share	\$ 0.03	\$ (0.97)	\$ 0.43	\$ (2.09)	\$ 0.07	\$ 0.35	\$ 0.37	\$ 0.01
Cash dividends paid per share	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Currency market risk. With our operations in the Americas, Europe and Asia Pacific, we conduct business using various currencies. Revenue earned in each country is generally matched with the associated expenses incurred, thereby reducing currency risk to earnings. However, because certain assets and liabilities are denominated in currencies other than the U.S. dollar, changes in currency rates may cause fluctuations in the valuation of such assets and liabilities. As the local currency of our subsidiaries has generally been designated as the functional currency, we are affected by the translation of foreign currency financial statements into U.S. dollars. A 10% change in the average exchange rate for currencies of all foreign countries in which we operate would have increased or decreased our 2017 net income by approximately \$0.4 million. For financial information by segment, see Note 17, *Segment Information*, in the Notes to Consolidated Financial Statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

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

Opinions on the Consolidated Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Heidrick & Struggles International, Inc. and subsidiaries (the Company) as of December 31, 2017 and 2016, and the related statements of comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). We have also audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

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

We have served as the Company's auditor since 2002.

/s/ KPMG LLP
Chicago, Illinois
March 13, 2018

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

	December 31, 2017	December 31, 2016
Current assets:		
Cash and cash equivalents	\$ 207,534	\$ 165,011
Accounts receivable, net	98,700	93,191
Prepaid expenses	22,003	21,602
Other current assets	11,620	13,779
Income taxes recoverable	3,933	4,847
Total current assets	343,790	298,430
Non-current assets:		
Property and equipment, net	39,514	35,099
Assets designated for retirement and pension plans	17,130	15,698
Investments	21,319	17,346
Other non-current assets	8,999	9,322
Goodwill	118,892	151,844
Other intangible assets, net	2,158	20,690
Deferred income taxes	35,402	33,073
Total non-current assets	243,414	283,072
Total assets	\$ 587,204	\$ 581,502
Current liabilities:		
Accounts payable	\$ 9,824	\$ 7,952
Accrued salaries and employee benefits	177,426	155,523
Deferred revenue, net	31,272	28,367
Other current liabilities	40,346	24,133
Income taxes payable	6,924	4,617
Total current liabilities	265,792	220,592
Non-current liabilities:		
Accrued salaries and employee benefits	40,308	34,993
Retirement and pension plans	44,802	39,039
Other non-current liabilities	23,597	28,288
Total non-current liabilities	108,707	102,320
Total liabilities	374,499	322,912
Commitments and contingencies (Note 19)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued at December 31, 2017 and December 31, 2016	—	—
Common stock, \$0.01 par value, 100,000,000 shares authorized, 19,585,777 shares issued, 18,781,433 and 18,578,176 shares outstanding at December 31, 2017 and December 31, 2016, respectively	196	196
Treasury stock at cost, 804,344 and 1,007,601 shares at December 31, 2017 and December 31, 2016, respectively	(26,096)	(32,915)
Additional paid in capital	226,006	229,957
Retained earnings (deficit)	(716)	58,030
Accumulated other comprehensive income	13,315	3,322
Total stockholders' equity	212,705	258,590
Total liabilities and stockholders' equity	\$ 587,204	\$ 581,502

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

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

	December 31,		
	2017	2016	2015
Revenue:			
Revenue before reimbursements (net revenue)	\$ 621,400	\$ 582,390	\$ 531,139
Reimbursements	18,656	18,516	17,172
Total revenue	<u>640,056</u>	<u>600,906</u>	<u>548,311</u>
Operating expenses:			
Salaries and employee benefits	434,219	400,070	369,385
General and administrative expenses	147,316	147,087	127,692
Impairment charges	50,722	—	—
Restructuring charges	15,666	—	—
Reimbursed expenses	18,656	18,516	17,172
Total operating expenses	<u>666,579</u>	<u>565,673</u>	<u>514,249</u>
Operating income (loss)	<u>(26,523)</u>	<u>35,233</u>	<u>34,062</u>
Non-operating income (expense):			
Interest, net	385	244	(122)
Other, net	(3,280)	2,289	(2,386)
Net non-operating income (expense)	<u>(2,895)</u>	<u>2,533</u>	<u>(2,508)</u>
Income (loss) before income taxes	<u>(29,418)</u>	<u>37,766</u>	<u>31,554</u>
Provision for income taxes	19,217	22,353	14,422
Net income (loss)	<u>(48,635)</u>	<u>15,413</u>	<u>17,132</u>
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	6,853	(6,271)	(1,811)
Net unrealized gain (loss) on available-for-sale investments	2,660	1,035	(789)
Pension gain (loss) adjustment	480	(701)	714
Unrealized loss on cash flow hedge	—	—	(78)
Other comprehensive income (loss), net of tax	<u>9,993</u>	<u>(5,937)</u>	<u>(1,964)</u>
Comprehensive income (loss)	<u>\$ (38,642)</u>	<u>\$ 9,476</u>	<u>\$ 15,168</u>
Basic weighted average common shares outstanding	18,735	18,540	18,334
Dilutive common shares	—	498	381
Diluted weighted average common shares outstanding	18,735	19,038	18,715
Basic net income (loss) per common share	\$ (2.60)	\$ 0.83	\$ 0.93
Diluted net income (loss) per common share	\$ (2.60)	\$ 0.81	\$ 0.92
Cash dividends paid per share	\$ 0.52	\$ 0.52	\$ 0.52

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2014	19,586	\$ 196	1,346	\$ (44,261)	\$ 232,075	\$ 45,431	\$ 11,223	\$ 244,664
Net income	—	—	—	—	—	17,132	—	17,132
Other comprehensive loss, net of tax	—	—	—	—	—	—	(1,964)	(1,964)
Treasury and common stock transactions:								
Stock-based compensation	—	—	—	—	5,066	—	—	5,066
Vesting of equity, net of tax withholdings	—	—	(123)	4,094	(4,972)	—	—	(878)
Re-issuance of treasury stock	—	—	(17)	584	(135)	—	—	449
Cash dividends declared (\$0.52 per share)	—	—	—	—	—	(9,550)	—	(9,550)
Dividend equivalents on restricted stock units	—	—	—	—	—	(441)	—	(441)
Tax surplus related to stock-based compensation	—	—	—	—	324	—	—	324
Balance at December 31, 2015	19,586	196	1,206	(39,583)	232,358	52,572	9,259	254,802
Net income	—	—	—	—	—	15,413	—	15,413
Other comprehensive loss, net of tax	—	—	—	—	—	—	(5,937)	(5,937)
Treasury and common stock transactions:								
Stock-based compensation	—	—	—	—	6,393	—	—	6,393
Vesting of equity, net of tax withholdings	—	—	(167)	5,636	(8,324)	—	—	(2,688)
Re-issuance of treasury stock	—	—	(31)	1,032	(470)	—	—	562
Cash dividends declared (\$0.52 per share)	—	—	—	—	—	(9,668)	—	(9,668)
Dividend equivalents on restricted stock units	—	—	—	—	—	(287)	—	(287)
Balance at December 31, 2016	19,586	196	1,008	(32,915)	229,957	58,030	3,322	258,590
Net loss	—	—	—	—	—	(48,635)	—	(48,635)
Other comprehensive income, net of tax	—	—	—	—	—	—	9,993	9,993
Treasury and common stock transactions:								
Stock-based compensation	—	—	—	—	4,935	—	—	4,935
Vesting of equity, net of tax withholdings	—	—	(188)	6,311	(8,716)	—	—	(2,405)
Re-issuance of treasury stock	—	—	(15)	508	(170)	—	—	338
Cash dividends declared (\$0.52 per share)	—	—	—	—	—	(9,762)	—	(9,762)
Dividend equivalents on restricted stock units	—	—	—	—	—	(349)	—	(349)
Balance at December 31, 2017	19,586	\$ 196	805	\$ (26,096)	\$ 226,006	\$ (716)	\$ 13,315	\$ 212,705

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

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

	Year Ended December 31,		
	2017	2016	2015
Cash flows - operating activities:			
Net income (loss)	\$ (48,635)	\$ 15,413	\$ 17,132
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	14,774	16,433	13,696
Deferred income taxes	(1,690)	2,394	(1,166)
Stock-based compensation expense	4,935	6,393	5,066
Accretion expense related to earnout payments	1,038	635	1,294
Impairment charges	50,722	—	—
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivables	(1,882)	(14,425)	(8,714)
Accounts payable	1,474	941	810
Accrued expenses	18,330	(909)	37,207
Restructuring accrual	13,025	—	—
Deferred revenue	2,010	(1,672)	(236)
Income taxes (payable) recoverable, net	3,381	1,184	(3,257)
Retirement and pension plan assets and liabilities	3,065	4,215	(1,142)
Prepaid expenses	797	(2,330)	(4,388)
Other assets and liabilities, net	5,626	(3,449)	1,281
Net cash provided by operating activities	<u>66,970</u>	<u>24,823</u>	<u>57,583</u>
Cash flows - investing activities:			
Restricted cash	(3)	7,228	—
Acquisition of business, net of cash acquired	(364)	(27,722)	(10,312)
Capital expenditures	(14,022)	(5,351)	(16,427)
Purchases of available for sale investments	(2,269)	(2,475)	(1,526)
Proceeds from sale of available for sale investments	1,404	535	758
Net cash used in investing activities	<u>(15,254)</u>	<u>(27,785)</u>	<u>(27,507)</u>
Cash flows - financing activities:			
Proceeds from line of credit	40,000	—	—
Payments on line of credit	(40,000)	—	(29,500)
Debt issuance costs	—	—	(473)
Cash dividends paid	(10,111)	(9,955)	(9,991)
Payment of employee tax withholdings on equity transactions	(2,392)	(2,676)	(878)
Acquisition earnout payments	(4,557)	(7,461)	(5,496)
Net cash used in financing activities	<u>(17,060)</u>	<u>(20,092)</u>	<u>(46,338)</u>
Effect of exchange rates fluctuations on cash and cash equivalents	<u>7,867</u>	<u>(2,387)</u>	<u>(4,638)</u>
Net increase (decrease) in cash and cash equivalents	<u>42,523</u>	<u>(25,441)</u>	<u>(20,900)</u>
Cash and cash equivalents at beginning of period	165,011	190,452	211,352
Cash and cash equivalents at end of period	<u>\$207,534</u>	<u>\$165,011</u>	<u>\$190,452</u>
Supplemental Schedule of Non-cash Financing Activities:			
Term loan facility retirement (Note 10)	\$ —	\$ —	\$ (26,500)
Subsequent drawing on line of credit (Note 10)	\$ —	\$ —	\$ 26,500
Supplemental disclosures of cash flow information			
Cash paid for			
Income taxes	<u>\$ 14,814</u>	<u>\$ 16,817</u>	<u>\$ 16,936</u>
Interest	<u>\$ 193</u>	<u>\$ 41</u>	<u>\$ 442</u>

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (All tables in thousands, except share and per share figures)

1. Basis of Presentation

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

The consolidated financial statements include Heidrick & Struggles International, Inc. and its wholly-owned subsidiaries and have been prepared using accounting principles generally accepted in the United States of America (“GAAP”). The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Significant items subject to estimates and assumptions include revenue recognition, allowances for deferred tax assets and liabilities, and assessment of goodwill and other intangible assets for impairment. Estimates are subject to a degree of uncertainty and actual results could differ from these estimates.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Concentration of Risk

The Company is potentially exposed to concentrations of risk associated with its accounts receivable. However, this risk is limited due to the Company’s large number of clients and their dispersion across many different industries and geographies. At December 31, 2017 and 2016, the Company had no significant concentrations of risk.

Accounts Receivable

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

Fair Value of Financial Instruments

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

Property and Equipment

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

Office furniture, fixtures and equipment	5–10 years
Computer equipment and software	3–7 years

Leasehold improvements are depreciated over the lesser of the lease term or life of the asset improvement, which typically range from three to ten years.

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

Long-lived Assets

The Company reviews its long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge, equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset, is recognized.

Investments

The Company's investments consist primarily of available-for-sale investments within the U.S. non-qualified deferred compensation plan (the "Plan").

Available-for-sale investments are reported at fair value with changes in unrealized gains (losses) recorded as a separate component of *Accumulated other comprehensive income* in the Consolidated Balance Sheets until realized. Realized gains (losses) resulting from an employee's termination from the Plan are recorded as a non-operating expense in *Other, net* in the Consolidated Statements of Comprehensive Income (Loss).

Goodwill and Other Intangible Assets

Goodwill represents the difference between the purchase price of acquired companies and the related fair value of the net assets acquired, which is accounted for by the acquisition method of accounting. Other intangible assets include client relationships and employee non-compete agreements. The Company performs assessments of the carrying value of goodwill at least annually and of its goodwill and other intangible assets whenever events occur or circumstances indicate that a carrying amount of these assets may not be recoverable. These circumstances include a significant change in business climate, attrition of key personnel, changes in financial condition or results of operations, a prolonged decline in the Company's stock price and market capitalization, competition, and other factors.

The goodwill impairment test compares the fair value of a reporting unit to its carrying amount, including goodwill. The Company operates five reporting units: Americas; Europe, which includes Africa; Asia Pacific, which includes the Middle East; Leadership Consulting; and Culture Shaping. The goodwill impairment test is completed by comparing the fair value of a reporting unit with its carrying amount. The fair value of each of the Company's reporting units is determined using a discounted cash flow methodology. An impairment charge is recognized for the amount by which the carrying value of the reporting unit exceeds its fair value, however, the loss recognized is not to exceed the total amount of goodwill allocated to that reporting unit.

The other intangible asset impairment review compares the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge, equal to the amount by which the carrying amount of the asset exceeds the fair value, is recognized.

Other intangible assets acquired are amortized either using the straight-line method over their estimated useful lives or based on the projected cash flow associated with the respective intangible assets.

Restructuring Charges

The Company accounts for restructuring charges by recognizing a liability at fair value when the costs are incurred.

Revenue Recognition

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

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

Net revenue associated with culture shaping services is recognized proportionally as services are performed. Net revenue associated with licenses to use our culture shaping proprietary materials is typically recognized over the term of the arrangement.

Depending on the terms of that agreement, net revenue from certain leadership consulting and non-standard executive search engagements is either recognized proportionally as services are performed or in accordance with the completion of the engagement deliverables.

Reimbursements

The Company incurs certain out-of-pocket expenses that are reimbursed by its clients, which are accounted for as revenue and expense in its Consolidated Statements of Comprehensive Income (Loss).

Salaries and Employee Benefits

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

Salaries and employee benefits are recognized on an accrual basis. Certain sign-on bonuses, retention awards, and minimum guaranteed compensation are capitalized and amortized in accordance with the terms of the respective agreements.

A portion of the Company's consultants' and management cash bonuses are deferred and paid over a three-year vesting period. The portion of the bonus is approximately 15% depending on the employee's level or position. The compensation expense related to the amounts being deferred is recognized on a graded vesting attribution method over the requisite service period. This service period begins on January 1 of the respective fiscal year and continues through the deferral date, which coincides with the Company's bonus payments in the first quarter of the following year, and for an additional three year vesting period. The deferrals are recorded in *Accrued salaries and employee benefits* within both *Current liabilities* and *Non-current liabilities* in the Consolidated Balance Sheets.

Income Taxes

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

Earnings per Common Share

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

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

	December 31,		
	2017	2016	2015
Net income (loss)	\$ (48,635)	\$ 15,413	\$ 17,132
Weighted average shares outstanding:			
Basic	18,735	18,540	18,334
Effect of dilutive securities:			
Restricted stock units	—	347	234
Performance stock units	—	151	147
Diluted	18,735	19,038	18,715
Basic earnings (loss) per share	\$ (2.60)	\$ 0.83	\$ 0.93
Diluted earnings (loss) per share	\$ (2.60)	\$ 0.81	\$ 0.92

Translation of Foreign Currencies

The Company generally designates the local currency for all its subsidiaries as the functional currency. The Company translates the assets and liabilities of its subsidiaries into U.S. dollars at the current rate of exchange prevailing at the balance sheet date. Revenue and expenses are translated at a monthly average exchange rate for the period. Translation adjustments are reported as a component of *Accumulated other comprehensive income*.

Restricted Cash

The Company has lease agreements and business licenses with terms that require the Company to restrict cash through the termination dates of the agreements, which extend through 2019. During 2016, the Company paid certain key executives of Senn Delaney a \$6.5 million retention bonus out of restricted cash for remaining with the Company for three years subsequent to the acquisition. As of December 31, 2017 and 2016, the total restricted cash was \$0.6 million and \$0.6 million, respectively. Current and non-current restricted cash is included in *Other current assets* and *Other non-current assets*, respectively, on the Consolidated Balance Sheet.

Recently Issued Financial Accounting Standards

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-09, Compensation - Stock Compensation, Scope of Modification Accounting, which is intended to provide clarity and reduce both diversity in practice, cost and complexity when implementing a change in the terms or conditions of a share-based payment award. ASU 2017-09 requires that an entity should account for the effects of a modification unless the fair value, vesting conditions, and whether the award is classified as a liability instrument or an equity instrument remain unchanged in the modification. ASU 2017-09 is effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted. The Company will adopt this guidance effective January 1, 2018. The impact of this accounting guidance will be dependent on future modification events including the number of awards modified.

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost, which is intended to improve the consistency, transparency and usefulness of net benefit cost disclosures. ASU 2017-07 requires that an employer report the service cost component of net benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Additionally, the other components of net benefit costs are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. ASU 2017-07 is effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted. The Company will adopt this guidance effective January 1, 2018. The impact of this accounting guidance will not be material to the Company's financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. The Company currently does not include restricted cash amounts in the beginning and ending cash amounts and will change the presentation of the cash flow statement to include restricted cash in the beginning and ending cash totals. The standard is effective for annual reporting periods beginning after December 15, 2017 with early adoption permitted.

The Company will adopt this guidance effective January 1, 2018. If the Company had adopted the guidance as of December 31, 2017, the beginning and ending balance of cash, cash equivalents and restricted cash for the year ended December 31, 2017 would have each increased by \$0.6 million in the Condensed Consolidated Statement of Cash Flows.

In August 2016, the Financial Accounting Standards Board ("FASB") issued accounting Standards Update ("ASU") No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which is intended to reduce diversity in practice as to how certain cash receipts and cash payments should be presented and classified. The standard is effective for interim and annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company will adopt this guidance effective January 1, 2018. The Company has evaluated the standard and noted the guidance for contingent consideration payments made after a business combination are applicable to the Condensed Consolidated Statements of Cash Flows. The Company currently classifies all contingent consideration payments as financing activities. The impact of this change is not expected to be significant to the classification of these activities on the Consolidated Statement of Cash Flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases, intended to improve financial reporting about leasing transactions. The new guidance will require entities that lease assets to recognize on their balance sheets the assets and liabilities for the rights and obligations created by those leases and to disclose key information about the leasing arrangements. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018 with early adoption permitted. The guidance requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the impact of this accounting guidance. The effect is not known or reasonably estimable at this time.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments including the recognition of unrealized changes in fair value within net income. The standard is effective for annual reporting periods beginning after December 15, 2017. The Company will adopt this guidance effective January 1, 2018. Upon adoption, the Company will reclassify approximately \$6.1 million of unrecognized gains on the Company's available for sale securities, which are currently included in accumulated other comprehensive income, to retained earnings. Future holding gains on the Company's available for sale securities will be recorded in earnings. During the year ended December 31, 2017, the Company had holding gains of approximately \$2.7 million prior to the reclassification of realized gains to earnings, on its available for sale securities, which would have been recognized in earnings under ASU 2016-01. The amount of future holding gains or losses is dependent upon market conditions and may substantially fluctuate between periods.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The ASU requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for these goods or services. The guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The guidance permits the use of either of the following transition methods: (i) a full retrospective method reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a retrospective method with the cumulative effect upon initial adoption recognized at the date of initial application (modified retrospective). The Company will adopt the guidance on January 1, 2018 and will apply the modified retrospective method, which involves recognizing the cumulative effect of applying the guidance at the date of initial application with no restatement of the comparative periods presented.

The Company continues to perform its evaluation of ASU No. 2014-09 and has made certain assessments regarding each of its primary revenue streams.

Executive Search - The Company's executive search engagements involve the receipt of a retainer that is equal to approximately one-third of the estimated first year compensation for the position to be filled. If actual compensation of a placed candidate exceeds the original compensation estimate, the Company is often authorized to bill the client for one-third of the excess compensation. The Company refers to this excess compensation billing as uptick revenue. Currently, the Company recognizes uptick revenue upon the completion of the executive search at the point the uptick revenue becomes fixed and determinable. Under ASU No. 2014-09, uptick revenue is considered variable consideration and the Company will be required to estimate this revenue at contract inception. The Company has developed an estimation process utilizing the expected value method, incorporating historical uptick revenue realized in the Company's geographic regions and industry practices, which will result in an initial recording of a contract's uptick revenue that is probable not to result in a significant reversal of cumulative revenue recognized when the actual amount of uptick revenue for that contract is known. Estimates of uptick revenue will be recognized using the same over time revenue recognition model the Company currently utilizes to recognize retainer revenue, and differences between the estimated and actual amount of uptick revenue will be recorded when known.

Typically, revenue from executive search engagements is recognized over the expected average period of performance, in proportion to the estimated personnel time incurred to fulfill our obligations under the executive search arrangement. The Company is currently quantifying the required transition adjustment for the Executive Search revenue streams.

Leadership Consulting - The Company does not anticipate a significant change in revenue recognition as it relates to its leadership consulting engagements. Substantially all of the Company's engagements will continue to be recognized over time although the identification of the performance obligations within any given engagement may differ from the Company's current revenue recognition methodology.

Culture Shaping - The Company does not anticipate a significant change in revenue recognition as it relates to its culture shaping consulting engagements. Substantially all of the Company's consulting engagements will continue to be recognized over time although the identification of the performance obligations within any given engagement may differ from the Company's current revenue recognition methodology. The Company has concluded that licenses to use our proprietary culture shaping materials, which the Company refers to as enterprise agreements, generally contain a material right resulting in the recognition of this type of revenue over a longer period of time. The Company is currently quantifying the required transition adjustment.

Recently Adopted Financial Accounting Standards

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other, which eliminates Step 2 from the goodwill impairment test. Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The Board also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. The Company early adopted ASU 2017-04, during the three months ended June 30, 2017. The Company concluded that ASU 2017-04 is preferable to the current guidance included in ASC 350 due to the simplified process of subsequently measuring goodwill.

3. Allowance for Doubtful Accounts

The activity of the allowance for doubtful accounts for the years ended:

	December 31,		
	2017	2016	2015
Balance at January 1,	\$ 2,575	\$ 5,376	\$ 3,942
Provision charged to income	963	1,407	2,772
Write-offs	(1,134)	(4,106)	(1,140)
Foreign currency translation	130	(102)	(198)
Balance at December 31,	<u>\$ 2,534</u>	<u>\$ 2,575</u>	<u>\$ 5,376</u>

4. Property and Equipment, net

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

	December 31,	
	2017	2016
Leasehold improvements	\$ 48,216	\$ 42,891
Office furniture, fixtures and equipment	17,732	16,677
Computer equipment and software	28,300	30,186
Property and equipment, gross	94,248	89,754
Accumulated depreciation	(54,734)	(54,655)
Property and equipment, net	<u>\$ 39,514</u>	<u>\$ 35,099</u>

Depreciation expense for the years ended December 31, 2017, 2016, and 2015 was \$10.4 million, \$9.4 million, and \$8.8 million, respectively.

5. Investments

The Company has a U.S. non-qualified deferred compensation plan that consists primarily of U.S. marketable securities and mutual funds, all of which are valued using Level 1 inputs (See Note 6, *Fair Value Measurements*). The fair value for these investments was \$21.3 million and \$17.3 million as of December 31, 2017 and 2016, respectively. The aggregate cost basis for these investments was \$14.6 million and \$13.3 million as of December 31, 2017 and 2016, respectively.

6. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets and liabilities.
- Level 2 – Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following tables provide a summary of the fair value measurements at December 31, 2017 and 2016 for each major category of assets and liabilities measured at fair value on a recurring basis:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At December 31, 2017				
U.S. non-qualified deferred compensation plan	\$ 21,319	\$ —	\$ —	\$ 21,319
Assets designated for retirement and pension plans	—	18,590	—	18,590
Pension benefit obligation	—	(23,886)	—	(23,886)
Acquisition earnout accruals	—	—	(7,213)	(7,213)
	<u>\$ 21,319</u>	<u>\$ (5,296)</u>	<u>\$ (7,213)</u>	<u>\$ 8,810</u>

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At December 31, 2016				
U.S. non-qualified deferred compensation plan	\$ 17,346	\$ —	\$ —	\$ 17,346
Assets designated for retirement and pension plans	—	16,979	—	16,979
Pension benefit obligation	—	(22,128)	—	(22,128)
Acquisition earnout accruals	—	—	(10,991)	(10,991)
	<u>\$ 17,346</u>	<u>\$ (5,149)</u>	<u>\$ (10,991)</u>	<u>\$ 1,206</u>

The Level 2 assets above are reinsurance contracts fair valued in accordance with BaFin - German Federal Financial Supervisory Authority guidelines, which utilize observable inputs including mortality tables and discount rates. The Level 3 liabilities are accruals for future earnout payments related to prior year acquisitions, the values of which are determined based on discounted cash flow models. The Company considers the recorded value of its financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, and accounts payable, to approximate the fair value of the respective assets and liabilities at December 31, 2017 and 2016 based upon the short-term nature of the assets and liabilities.

The following table provides a reconciliation of the beginning and ending balance of Level 3 assets and liabilities for the year ended December 31, 2017.

	Acquisition Earnout Accruals
Balance at December 31, 2016	\$ (10,991)
Earnout accretion	(1,038)
Earnout payments	4,557
Philosophy IB earnout adjustment (Note 7)	705
Foreign currency translation	(446)
Balance at December 31, 2017	<u>\$ (7,213)</u>

7. Acquisitions

On October 1, 2015, the Company acquired Co Company, a UK-based management consulting firm that specializes in organizational development. The former owners of Co Company were eligible to receive additional cash consideration upon the realization of specific revenue and EBITDA Margin milestones achieved over the period October 2015 through December 2018. On August 25, 2016, the Company and the former owners of Co Company entered into a Deed of Amendment (the "Amendment") to the Share Purchase Agreement dated October 1, 2015. The Amendment adjusted the target fee revenue and targeted EBITDA margin for each remaining earn out period taking into consideration the unanticipated acquisitions completed subsequent to the Share Purchase Agreement. The new targets include subsequent acquisitions and took effect retrospectively from January 1, 2016. On June 14, 2017, the Company and the former owners of Co Company entered into an Earn Out Buyout Agreement (the "Buyout Agreement") in accordance with the terms and conditions of the Share Purchase Agreement dated October 1, 2015, as amended by a Deed of Amendment dated August 25, 2016. Pursuant to the Buyout Agreement, in accordance with the Share Purchase Agreement and Deed of Amendment, the Company exercised its right to buy out all of the remaining earnout amounts. The price paid to buy out the Remaining Earn Out Amounts was calculated in accordance with the formula set forth in the Purchase Agreement and resulted in an aggregate buyout payment to the former owners of Co Company of \$2.3 million during the three months ended June 30, 2017.

On September 1, 2016 the Company acquired substantially all of the assets of Philosophy IB, LLP ("Philosophy IB"), a New Jersey-based leadership, organization development and management consulting firm. The former owners of Philosophy IB are eligible to receive additional cash consideration based on two components: achieving revenue milestones generated from its software products from September 2016 through August 2019 and percentage of consulting revenue achieved over the period September 2016 to August 2019, subject to a profitability test. During the three months ended September 30, 2017, the Company determined that the software and consulting revenue targets for the period from September 2016 to August 2017, or first installment, would not be achieved. As such, the Company reduced the first installment earnout accrual by \$0.7 million.

8. Goodwill and Other Intangible Assets

Goodwill

The Company's goodwill by segment is as follows:

	December 31, 2017	December 31, 2016
Executive Search		
Americas	\$ 88,690	\$ 88,101
Europe	44,407	42,599
Asia Pacific	9,302	8,893
Total Executive Search	142,399	139,593
Leadership Consulting	6,940	6,534
Culture Shaping	29,317	29,224
Goodwill, gross	178,656	175,351
Accumulated impairment	(59,764)	(23,507)
Goodwill, net	\$ 118,892	\$ 151,844

Changes in the carrying amount of goodwill by segment for the years ended December 31, 2017, 2016, and 2015 were as follows:

	Executive Search					Total
	Americas	Europe	Asia Pacific	Leadership Consulting	Culture Shaping	
Gross balance at December 31, 2014	\$ 82,270	\$ 23,507	\$ 10,255	\$ —	\$ 29,651	\$ 145,683
Accumulated goodwill impairment	—	(23,507)	—	—	—	(23,507)
Net balance at December 31, 2014	82,270	—	10,255	—	29,651	122,176
Co Company acquisition	—	10,745	—	—	—	10,745
Exchange rate fluctuations	(644)	—	(1,044)	—	(111)	(1,799)
Net balance at December 31, 2015	81,626	10,745	9,211	—	29,540	131,122
DSI acquisition	5,673	—	—	—	—	5,673
Philosophy IB acquisition	2,357	—	—	—	—	2,357
JCA acquisition	—	15,769	—	—	—	15,769
Segment reallocation (1)	(1,670)	(4,517)	(347)	6,534	—	—
Exchange rate fluctuations	115	(2,905)	29	—	(316)	(3,077)
Net balance at December 31, 2016	88,101	19,092	8,893	6,534	29,224	151,844
Philosophy IB acquisition	357	—	—	7	—	364
Exchange rate fluctuations	232	1,808	409	399	93	2,941
Impairment	—	—	—	(6,940)	(29,317)	(36,257)
Net balance at December 31, 2017	\$ 88,690	\$ 20,900	\$ 9,302	\$ —	\$ —	\$ 118,892

- (1) Due to the Company's change in segment reporting during the year ended December 31, 2016, goodwill amounts included in the Company's Americas, Europe and Asia Pacific segments in the prior year have been reallocated to the Leadership Consulting segment utilizing the relative fair value method.

In 2017, the Culture Shaping business continued the transition of senior-level personnel which began in 2016, primarily due to planned retirements. The Company has experienced lower than expected consultant productivity during the transition period. Also, the marketplace for culture shaping services has become increasingly more competitive and the business experienced lengthening sales cycles and decision processes within target client organizations. These events led to a decline in the revenue performance of the business and uncertainty around the timing of improving such performance. As a result, the Company identified a triggering event and performed an interim impairment evaluation on the goodwill related to its Culture Shaping reporting unit during the three months ended June 30, 2017.

During the impairment evaluation process, the Company used a discounted cash flow methodology to estimate the fair value of its Culture Shaping reporting unit. The discounted cash flow approach is dependent on a number of factors, including estimates of future market growth and trends, forecasted revenue and costs, capital investments, appropriate discount rates, certain assumptions to allocate shared costs, assets and liabilities, historical and projected performance of the reporting unit, and the macroeconomic conditions affecting each of the Company's reporting units. The assumptions used in the determination of fair value were (1) a forecast of growth in the near and long term; (2) the discount rate; (3) working capital investments; and (4) other factors.

The Company adopted ASU No. 2017-04, Intangibles - Goodwill and Other in conjunction with its impairment evaluation during the three months ended June 30, 2017. Under the adopted guidance, Step 2 of the goodwill impairment test is eliminated. Instead, the goodwill impairment test is completed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge is recognized for the amount by which the carrying value of the reporting unit exceeds its fair value, however, the loss recognized is not to exceed the total amount of goodwill allocated to that reporting unit.

Based on the results of the impairment evaluation, the Company determined that the goodwill within the Culture Shaping reporting unit was impaired, which resulted in an impairment charge of \$29.3 million to write-off all of the goodwill. The impairment charge is recorded within *Impairment charges* in the Condensed Consolidated Statement of Comprehensive Income (Loss). The impairment was non-cash in nature and did not affect our current liquidity, cash flows, borrowing capability or operations; nor did it impact the debt covenants under our credit agreement.

During the 2017 fourth quarter, the Company conducted its annual goodwill impairment evaluation as of October 31, 2017 in accordance with ASU No. 2017-04, Intangibles - Goodwill and Other. The goodwill impairment test is completed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge is recognized for the amount by which the carrying value of the reporting unit exceeds its fair value, however, the loss recognized is not to exceed the total amount of goodwill allocated to that reporting unit.

The impairment test is considered for each of the Company's reporting units that have goodwill as defined in the accounting standard for goodwill and intangible assets. The Company operates five reporting units: Americas; Europe, which includes Africa; Asia Pacific, which includes the Middle East; Leadership Consulting; and Culture Shaping. No annual impairment test was conducted for the Culture Shaping reporting unit as all goodwill associated with this reporting unit was impaired during the three months ended June 30, 2017.

During the impairment evaluation process, the Company used a discounted cash flow methodology to estimate the fair value of each of its reporting units with goodwill. The discounted cash flow approach is dependent on a number of factors, including estimates of future market growth and trends, forecasted revenue and costs, capital investments, appropriate discount rates, certain assumptions to allocate shared costs, assets and liabilities, historical and projected performance of the reporting unit, and the macroeconomic conditions affecting each of the Company's reporting units. The assumptions used in the determination of fair value were (1) a forecast of growth in the near and long term; (2) the discount rate; (3) working capital investments; and (4) other factors.

Based on the results of the impairment analysis, the fair values of the Americas, Europe and Asia Pacific reporting units exceeded their carrying values by 180%, 38% and 7%, respectively. The Leadership Consulting impairment analysis indicated that the book value of the reporting unit was in excess of its fair value, which resulted in an impairment charge of approximately \$6.9 million to write-off all of the goodwill associated with the reporting unit. Throughout the year, the Company was continually evaluating the results of its Leadership Consulting business, including Philosophy IB failing to achieve targets outlined in its earnout agreement and the potential impact of the conclusion of the Co Company earnout on the reporting unit. In the fourth quarter, the Company finalized its assessment of these events and its forecast for the Leadership Consulting reporting unit in future years. The forecast for the Leadership Consulting reporting unit indicated significant uncertainty around the pace and timing of growth in profitability in the Leadership Consulting reporting unit as the Company invests in talent and service offerings, which resulted in the impairment of the Leadership Consulting goodwill. The impairment was non-cash in nature and did not affect our current liquidity, cash flows, borrowing capability or operations; nor did it impact the debt covenants under our credit agreement.

The fair value of the Asia Pacific reporting unit may deteriorate and could result in the need to record an impairment charge in future periods. The Company continues to monitor potential triggering events including changes in the business climate in which it operates, the Company's market capitalization compared to its book value, and the Company's recent operating performance, specifically in relation to the Asia Pacific reporting unit. Any changes in these factors could result in an impairment charge.

Other Intangible Assets, net

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

	December 31, 2017	December 31, 2016
Executive Search		
Americas	\$ 252	\$ 501
Europe	1,799	2,937
Asia Pacific	107	127
Total Executive Search	2,158	3,565
Leadership Consulting	—	6,223
Culture Shaping	—	10,902
Total Other Intangible Assets, Net	<u>\$ 2,158</u>	<u>\$ 20,690</u>

As discussed above, the Culture Shaping business was impacted by the transition of senior-level personnel, primarily due to planned retirements, and the Company experienced lower than expected consultant productivity. The Company has also experienced lengthening sales cycles and decision processes within target client organizations. Due to the impact of these events on revenue and earnings when compared to actual and forecasted results, and the impact to the revenue and earnings inputs utilized in the fair value assessment of the intangible assets, the Company identified a triggering event for its Culture Shaping intangible assets and performed an impairment evaluation during the three months ended June 30, 2017.

As noted above, due to the uncertainty around the pace and timing of growth in profitability in the Leadership Consulting reporting unit as the Company invests in talent and service offerings, the Company identified a triggering event for its Leadership Consulting intangible assets and performed an impairment evaluation as of October 31, 2017.

These analyses were conducted in accordance with accounting guidance on fair value measurements taking into consideration Level 3 inputs, primarily consisting of discounted cash flow and replacement cost methodologies. Based on these evaluations, the Company recorded an impairment charge related to its Culture Shaping client relationships, trade name, software and non-compete intangible assets of \$9.9 million during the year ended December 31, 2017. The Company also recorded an impairment charge related to its Leadership Consulting client relationships, software and non-compete intangible assets of \$4.6 million during the year ended December 31, 2017. These impairment charges are recorded within *Impairment charges* in the Condensed Consolidated Statement of Comprehensive Income (Loss) for the year ended December 31, 2017. The impairments were non-cash in nature and did not affect our current liquidity, cash flows, borrowing capability or operations; nor did it impact the debt covenants under our credit agreement.

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

	Weighted Average Life (in years)	December 31, 2017			December 31, 2016		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	7.9	\$ 13,703	\$ (11,612)	\$ 2,091	\$ 33,299	\$ (21,653)	\$ 11,646
Trade name	0.0	459	(459)	—	9,436	(4,465)	4,971
Software	0.0	—	—	—	7,200	(4,114)	3,086
Non-compete	2.0	230	(163)	67	974	(423)	551
Technology	0.0	—	—	—	604	(168)	436
Total intangible assets	<u>7.7</u>	<u>\$ 14,392</u>	<u>\$ (12,234)</u>	<u>\$ 2,158</u>	<u>\$ 51,513</u>	<u>\$ (30,823)</u>	<u>\$ 20,690</u>

Intangible asset amortization expense for the years ended December 31, 2017, 2016, and 2015 was \$4.4 million, \$7.1 million and \$4.9 million respectively.

The Company's estimated future amortization expense related to intangible assets as of December 31, 2017 for the years ended December 31st is as follows:

2018	\$ 968
2019	507
2020	294
2021	194
2022	129
Thereafter	66
Total	<u>\$ 2,158</u>

9. Other Current and Non-Current Liabilities

The components of other current liabilities are as follows:

	December 31, 2017	December 31, 2016
Restructuring charges	\$ 13,023	\$ —
Other	27,323	24,133
Total other current liabilities	<u>\$ 40,346</u>	<u>\$ 24,133</u>

The components of other non-current liabilities are as follows:

	December 31, 2017	December 31, 2016
Premise related costs	\$ 18,360	\$ 18,188
Accrued earnout payments	3,076	8,518
Restructuring charges	10	—
Other	2,151	1,582
Total other non-current liabilities	<u>\$ 23,597</u>	<u>\$ 28,288</u>

10. Line of Credit

On June 30, 2015, the Company entered into a Second Amended and Restated Credit Agreement (the "Restated Credit Agreement"). The Restated Credit agreement amended and restated the Credit Agreement executed on June 22, 2011 (the "Credit Agreement"). Pursuant to the Restated Credit Agreement, the Company replaced its Revolving Facility and Term Facility ("Existing Facility") with a single senior unsecured revolving line of credit with an aggregate commitment of up to \$100 million, which includes a sublimit of \$25 million for letters of credit, and a \$50 million expansion feature (the "Replacement Facility"). The Replacement Facility will mature on June 30, 2020. Borrowings under the Restated Credit Agreement bear interest at the Company's election at the existing Alternate Base Rate (as defined in the Credit Agreement) or Adjusted LIBOR Rate (as defined in the Credit Agreement) plus a spread as determined by the Company's leverage ratio.

Borrowings under the Replacement Facility may be used for working capital, capital expenditures, Permitted Acquisitions (as defined in the Credit Agreement) and for other general purposes of the Company and its subsidiaries. The obligations under the Replacement Facility are guaranteed by certain of the Company's subsidiaries.

During the three months ended March 31, 2017, the Company borrowed \$40 million under the Restated Credit Agreement and elected the Adjusted LIBOR rate. The Company subsequently repaid \$15 million during the three months ended March 31, 2017 and \$25 million during the three months ended June 30, 2017.

As of December 31, 2017 and 2016, the Company had no outstanding borrowings under the Restated Credit Agreement and the Company was in compliance with the financial and other covenants under the Restated Credit Agreement and no event of default existed.

During the three months ended March 31, 2018, the Company borrowed \$20 million under the Restated Credit Agreement and elected the Adjusted LIBOR Rate.

11. Employee Benefit Plans

Qualified Retirement Plan

The Company has a defined contribution retirement plan (the “Plan”) for all eligible employees in the United States. Eligible employees may begin participating in the Plan upon their hire date. The Plan contains a 401(k) provision, which provides for employee pre-tax and/or after-tax contributions, from 1% to 50% of their eligible compensation up to a combined maximum permitted by law. The Company matched employee contributions on a dollar for dollar basis per participant up to the greater of \$6,000, or 6.0%, of eligible compensation for the years ended December 31, 2017 and December 31, 2016. The Company matched employee contributions up to the greater of \$5,500, or 5.5%, of eligible compensation for the year ended December 31, 2015. Beginning in 2016, employees are eligible for the Company match immediately provided that they are working on the last day of the Plan year in which the match is made. Previously, employees were eligible for the Company match after satisfying a one year service requirement provided that they were working on the last day of the Plan year in which the match was made. The Plan also provides for employees who retire, die or become disabled during the Plan year to receive the Company match for that Plan year. The Plan provides that forfeitures will be used to reduce the Company’s contributions. Forfeitures are created annually by participants who terminate employment before becoming entitled to the Company’s matching contribution under the Plan. The Company also has the option of making discretionary contributions. There were no discretionary contributions made for the years ended December 31, 2017, 2016, and 2015. The expense that the Company incurred for matching employee contributions for the years ended December 31, 2017, 2016, and 2015 was \$5.6 million, \$4.8 million and \$3.3 million, respectively.

The Company maintains additional retirement plans in the Americas, Europe and Asia Pacific regions which the Company does not consider as material, and, therefore additional disclosure has not been presented. The balances associated with these plans have been reported in the Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2017, 2016, and 2015 and in the Consolidated Balance Sheets as of December 31, 2017 and 2016.

Deferred Compensation Plans

The Company has a deferred compensation plan for certain U.S. employees (the “U.S. Plan”) that became effective on January 1, 2006. The U.S. Plan allows participants to defer up to 25% of their base compensation and up to the lesser of \$500,000 or 25% of their eligible bonus compensation into several different investment vehicles. These deferrals are immediately vested and are not subject to a risk of forfeiture. In 2017 and 2016, all deferrals in the U.S. Plan were funded. The compensation deferred in the U.S. Plan was \$19.2 million and \$14.9 million, at December 31, 2017 and 2016, respectively. The assets of the U.S. Plan are included in *Investments* and the liabilities of the U.S. Plan are included in *Retirement and pension plans* in the Consolidated Balance Sheets as of December 31, 2017 and 2016.

The Company has a Non-Employee Directors Voluntary Deferred Compensation Plan whereby non-employee members of the Company’s Board of Directors may elect to defer up to 100% of the cash component of their directors’ fees into several different investment vehicles. As of December 31, 2017 and 2016, the total amounts deferred under the plan were \$2.2 million and \$2.4 million, respectively, all of which was funded. The assets of the plan are included in *Investments* and the liabilities of the plan are included in *Retirement and pension plans* in the Consolidated Balance Sheets at December 31, 2017 and 2016.

The U.S. and Non-Employee Directors Voluntary Deferred Compensation Plans consist primarily of marketable securities and mutual funds, all of which are valued using Level 1 inputs (See Note 6, *Fair Value Measurements*).

12. Pension Plan and Life Insurance Contract

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

	<u>2017</u>	<u>2016</u>
Benefit obligation at January 1,	\$ 22,128	\$ 22,388
Interest cost	362	453
Actuarial (gain) loss	(371)	1,178
Benefits paid	(1,453)	(1,198)
Cumulative translation adjustment	3,220	(693)
Benefit obligation at December 31,	<u>\$ 23,886</u>	<u>\$ 22,128</u>

The benefit obligation amounts recognized in the Consolidated Balance Sheets are as follows:

	December 31,	
	2017	2016
Current liabilities	\$ 1,461	\$ 1,281
Noncurrent liabilities	22,425	20,847
Total	<u>\$ 23,886</u>	<u>\$ 22,128</u>

The accumulated benefit obligation amounts at December 31, 2017 and 2016 are \$23.9 million million and \$22.1 million million, respectively.

The components of and assumptions used to determine the net periodic benefit cost are as follows:

	December 31,		
	2017	2016	2015
Net period benefit cost:			
Interest cost	\$ 362	\$ 453	\$ 436
Amortization of net loss	111	17	72
Net periodic benefit cost	<u>\$ 473</u>	<u>\$ 470</u>	<u>\$ 508</u>
Weighted average assumptions			
Discount rate (1)	1.49%	2.15%	1.82%
Rate of compensation increase	—%	—%	1.75%

Assumptions to determine the Company's benefit obligation are as follows:

	December 31,		
	2017	2016	2015
Discount rate (1)	1.64%	1.53%	2.15%
Rate of compensation increase	—%	—%	—%
Measurement Date	12/31/2017	12/31/2016	12/31/2015

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

The amounts in *Accumulated other comprehensive income* as of December 31, 2017 and 2016 that had not yet been recognized as components of net periodic benefit cost were \$3.7 million and \$3.6 million, respectively. As of December 31, 2017, an insignificant amount of the accumulated other comprehensive income is expected to be recognized as a component of net periodic benefit cost in 2018.

The Company's investment strategy is to support its pension obligations through reinsurance contracts. The BaFin—German Federal Financial Supervisory Authority—supervises the insurance companies and the reinsurance contracts. The BaFin requires each reinsurance contract to guarantee a fixed minimum return. The Company's pension benefits are fully reinsured by group insurance contracts with ERGO Lebensversicherung AG, and the group insurance contracts are measured in accordance with BaFin guidelines (including mortality tables and discount rates) which are considered Level 2 inputs (See Note 6, *Fair Value Measurements*). The fair value at December 31, 2017 and 2016 was \$18.6 million million and \$17.0 million, respectively. The expected contribution to be paid into the plan in 2018 is \$1.5 million.

Since the pension assets are not segregated in trust from the Company's other assets, the pension assets are not shown as an offset against the pension liabilities in the Consolidated Balance Sheets. These assets are included in the Consolidated Balance Sheets at December 31, 2017 and 2016, as a component of *Other current assets* and *Assets designated for retirement and pension plans*.

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

2018	\$ 1,461
2019	1,451
2020	1,437
2021	1,421
2022	1,401
2023 through 2027	6,573

13. Stock-Based Compensation

The Company's 2012 Heidrick & Struggles GlobalShare Program (the "2012 Program") provides for grants of stock options, stock appreciation rights, and other stock-based awards that are valued based upon the grant date fair value of shares. These awards may be granted to directors, selected employees and independent contractors. The 2012 Program originally authorized 1,300,000 shares of Common Stock for issuance pursuant to awards under the plan.

On May 22, 2014, the stockholders of the Company approved an amendment to the 2012 Program to increase the number of shares of Common Stock reserved for issuance under the 2012 Program by 700,000 shares. As of December 31, 2017, 1,744,266 awards have been issued under the 2012 Program and 797,453 shares remain available for future awards, which includes 541,719 forfeited awards. The 2012 Program provides that no awards can be granted after May 24, 2022.

In September 2017, the Company entered into an agreement with its former Chief Executive Officer pursuant to which Mr. Wolstencroft voluntarily agreed, with the concurrence of the Board of Directors, to forfeit 100 percent of his 2017 restricted stock unit and performance stock unit grants. Mr. Wolstencroft remains eligible to continue vesting in 100 percent of his 2014 sign-on restricted stock unit grant, without proration, subject to his continued service on the board through the future scheduled vesting dates. With respect to his outstanding 2015 and 2016 restricted stock unit and performance stock unit grants, Mr. Wolstencroft remains eligible to earn an agreed upon pro-rata portion of the tranches scheduled to vest in 2017, 2018 and 2019, subject to his continued service as a director through the scheduled vesting dates (and with the performance goals for performance stock unit deemed to have been achieved at target level performance), and he agreed to forfeit the remaining portions of such 2015 and 2016 restricted stock unit and performance stock unit awards.

The Company measures its stock-based compensation costs based on the grant date fair value of the awards and recognizes these costs in the financial statements over the requisite service period.

A summary of information with respect to stock-based compensation is as follows:

	December 31,		
	2017	2016	2015
Salaries and employee benefits	\$ 4,597	\$ 5,830	\$ 4,616
General and administrative expenses	338	563	450
Income tax benefit related to stock-based compensation included in net income	1,948	2,523	1,856

Restricted Stock Units

Restricted stock units are generally subject to ratable vesting over a three year period. Compensation expense related to service-based restricted stock units is recognized on a straight-line basis over the vesting period. For awards requiring satisfaction of service and performance conditions, compensation expense is recognized using a graded vesting attribution method.

Restricted stock unit activity as of December 31, 2017, 2016, and 2015:

	Number of Restricted Stock Units	Weighted- Average Grant-date Fair Value
Outstanding on December 31, 2014	462,717	\$ 18.07
Granted	184,541	23.94
Vested and converted to common stock	(146,307)	18.80
Forfeited	(27,016)	20.74
Outstanding on December 31, 2015	473,935	19.98
Granted	207,405	22.92
Vested and converted to common stock	(119,455)	20.02
Forfeited	(24,612)	22.81
Outstanding on December 31, 2016	537,273	20.97
Granted	243,306	24.18
Vested and converted to common stock	(217,028)	21.39
Forfeited	(72,397)	24.05
Outstanding on December 31, 2017	491,154	21.92

As of December 31, 2017, there was \$2.8 million of pre-tax unrecognized compensation expense related to unvested restricted stock units, which is expected to be recognized over a weighted average of 1.8 years.

Performance Stock Units

The Company grants performance stock units to certain of its senior executives. The performance stock units are generally subject to a cliff vesting at the end of a three year period. The vesting will vary between 0% - 200% based on the attainment of operating income goals over the three year vesting period. The performance stock units are expensed on a straight-line basis over the three year vesting period.

Performance share unit activity as of December 31, 2017, 2016, and 2015:

	Number of Performance Stock Units	Weighted- Average Grant-date Fair Value
Outstanding on December 31, 2014	229,170	\$ 17.06
Granted	59,221	23.64
Vested and converted to common stock	(13,397)	20.62
Forfeited	(2,970)	20.62
Outstanding on December 31, 2015	272,024	18.28
Granted	125,388	22.98
Vested and converted to common stock	(160,600)	15.51
Forfeited	—	—
Outstanding on December 31, 2016	236,812	22.64
Granted	88,415	23.83
Vested and converted to common stock	(70,652)	19.65
Forfeited	(68,684)	24.07
Outstanding on December 31, 2017	185,891	23.82

As of December 31, 2017, there was \$1.1 million of pre-tax unrecognized compensation expense related to unvested performance stock units, which is expected to be recognized over a weighted average of 1.3 years.

14. Changes in Accumulated Other Comprehensive Income

The changes in *Accumulated other comprehensive income* (“AOCI”) by component for the year ended December 31, 2017 are summarized below:

	Available- for- Sale Securities	Foreign Currency Translation	Pension	AOCI
Balance at December 31, 2016	\$ 3,429	\$ 2,290	\$ (2,397)	\$ 3,322
Other comprehensive income before classification, net of tax	3,108	6,853	383	10,344
Amount reclassified from AOCI (1)	(448)	—	97	(351)
Net current period other comprehensive income	2,660	6,853	480	9,993
Balance at December 31, 2017	<u>\$ 6,089</u>	<u>\$ 9,143</u>	<u>\$ (1,917)</u>	<u>\$ 13,315</u>

(1) Available-for-Sale Securities and Pension reclassifications from AOCI are included in *Other, net* and *Salaries and employee benefits*, respectively, in the Consolidated Statement of Comprehensive Income (Loss).

15. Restructuring

Restructuring Charges

In 2017, the Company recorded restructuring charges of \$15.7 million in connection with initiatives to reduce overall costs and improve operational efficiencies. The primary components of the restructuring include: the elimination of two executive officer roles for a flatter leadership structure; a workforce reduction as the firm aligns its support resources to better meet operational needs and recognize synergies with the combination of Leadership Consulting and Culture Shaping; a reduction of the firm’s real estate expenses and support costs by consolidating or closing three of its locations across its global footprint; and the acceleration of future expenses under certain contractual obligations.

These charges consist of \$13.1 million of employee-related costs, including severance associated with reductions in our workforce of 251 employees globally, \$2.3 million of other professional and consulting fees and \$0.3 million of expenses associated with closing three office locations. Restructuring charges by operating segment for the year ended December 31, 2017 are as follows:

	<u>Restructuring Charges</u>
Executive Search	
Americas	\$ 784
Europe	3,993
Asia Pacific	2,046
Total Executive Search	<u>6,823</u>
Leadership Consulting	913
Culture Shaping	2,480
Global Operations Support	5,450
Total restructuring	<u>\$ 15,666</u>

The accrued restructuring charges at December 31, 2017 primarily consists of employee-related costs that require cash payments based on individual severance agreements, real estate leases that require cash payments through the lease terms reduced by sublease income and other professional fees. These accruals are included within *Other current liabilities* and *Other non-current liabilities* in the Consolidated Balance Sheets at December 31, 2017.

The table below outlines the restructuring charges along with related cash payments for the year ended December 31, 2017:

	Employee Related	Office Related	Other	Total
Accrual balance at December 31, 2016	\$ —	\$ —	\$ —	\$ —
Restructuring charges	13,065	308	2,293	15,666
Cash payments	(1,199)	(5)	(1,282)	(2,486)
Non cash write-offs	—	(155)	—	(155)
Accrual balance at December 31, 2017	<u>\$ 11,866</u>	<u>\$ 148</u>	<u>\$ 1,011</u>	<u>\$ 13,025</u>

16. Income Taxes

The sources of income (loss) before income taxes are as follows:

	December 31,		
	2017	2016	2015
United States	\$ (28,577)	\$ 30,696	\$ 26,550
Foreign	(841)	7,070	5,004
Income (loss) before income taxes	<u>\$ (29,418)</u>	<u>\$ 37,766</u>	<u>\$ 31,554</u>

The provision for (benefit from) income taxes are as follows:

	December 31,		
	2017	2016	2015
Current			
Federal	\$ 10,107	\$ 12,261	\$ 8,598
State and local	2,372	3,219	1,697
Foreign	8,257	5,668	4,911
Current provision for income taxes	<u>20,736</u>	<u>21,148</u>	<u>15,206</u>
Deferred			
Federal	5,642	727	(1,551)
State and local	(2,951)	(370)	(180)
Foreign	(4,210)	848	947
Deferred provision (benefit) for income taxes	<u>(1,519)</u>	<u>1,205</u>	<u>(784)</u>
Total provision for income taxes	<u>\$ 19,217</u>	<u>\$ 22,353</u>	<u>\$ 14,422</u>

A reconciliation of the provision for income taxes to income taxes at the statutory U.S. federal income tax rate of 35% is as follows:

	December 31,		
	2017	2016	2015
Income tax provision (benefit) at the statutory U.S. federal rate	\$ (10,296)	\$ 13,218	\$ 11,044
State income tax provision (benefit), net of federal tax benefit	(593)	1,904	1,272
Nondeductible expenses, net	3,282	1,410	262
Foreign taxes (includes rate differential and changes in foreign valuation allowance)	5,465	(2,133)	368
Establishment (release) of valuation allowance	(3,200)	340	—
U.S. tax on foreign dividends	—	5,898	1,120
Current/deferred true-up	567	1,226	241
Tax reform	23,732	—	—
Other, net	260	490	115
Total provision for income taxes	<u>\$ 19,217</u>	<u>\$ 22,353</u>	<u>\$ 14,422</u>

The deferred tax assets and liabilities are attributable to the following components:

	December 31,	
	2017	2016
Deferred tax assets attributable to:		
Foreign net operating loss carryforwards	\$ 31,960	\$ 26,902
Accrued compensation and employee benefits	15,809	18,625
Deferred compensation	13,600	17,851
Foreign tax credit carryforwards	8,128	12,112
Accrued rent	3,607	5,113
Other accrued expenses	2,179	3,388
Deferred tax assets, before valuation allowance	<u>75,283</u>	<u>83,991</u>
Valuation allowance	<u>(35,624)</u>	<u>(25,020)</u>
Deferred tax assets, after valuation allowance	39,659	58,971
Deferred tax liabilities attributable to:		
Goodwill	306	17,130
Taxes provided on unremitted earnings	129	3,331
Depreciation on property and equipment	3,216	4,723
Other	606	966
Deferred tax liabilities	<u>4,257</u>	<u>26,150</u>
Net deferred tax assets	<u>\$ 35,402</u>	<u>\$ 32,821</u>

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

The valuation allowance increased from \$25.0 million at December 31, 2016 to \$35.6 million at December 31, 2017. The valuation allowance at December 31, 2017 was related to foreign net operating loss carryforwards, foreign tax credit carryforwards, and certain foreign deferred tax assets. The Company intends to maintain these valuation allowances until sufficient evidence exists to support their reversal.

At December 31, 2017, the Company had a net operating loss carryforward of \$126.0 million related to its foreign tax filings and \$0.1 million related to its U.S. state tax filings. Of the \$126.0 million net operating loss carryforward, \$95.4 million is subject to a valuation allowance. Depending on the tax rules of the tax jurisdictions, the losses can be carried forward indefinitely or for periods ranging from five to twenty years. The Company also has a foreign tax credit carryforward of \$8.1 million subject to a valuation allowance of \$8.1 million recorded as a result of the Tax Reform Act described below.

At December 31, 2016, the Company had a net operating loss carryforward of \$101.7 million related to its foreign tax filings and \$0.5 million related to its U.S. state tax filings. Of the \$101.7 million net operating loss carryforward, \$79.9 million is subject to a valuation allowance. Depending on the tax rules of the tax jurisdictions, the losses can be carried forward indefinitely or for periods ranging from five to twenty years. The Company also had a foreign tax credit carryforward of \$12.1 million, expiring in 2017 through 2025.

As of December 31, 2017, the Company had unremitted earnings held in its foreign subsidiaries of approximately \$74.1 million, of which the company has provided \$1.6 million of tax on \$15.7 million of earnings that are intended to be remitted. The Company did not recognize a tax liability for income taxes and foreign withholding taxes related to the unremitted earnings of its foreign operations because the Company intends to reinvest those earnings indefinitely, net of any allowable deductions. An estimate of these taxes; however, is not practicable. A tax liability will be recognized if and when the Company is no longer able to demonstrate that it plans to permanently reinvest unremitted earnings.

As of December 31, 2016, the Company had unremitted earnings held in its foreign subsidiaries of approximately \$72.7 million, of which the company has provided \$3.3 million of tax on \$15.6 million of earnings that are intended to be remitted. In 2016, the Company repatriated dividends from foreign operations to the United States. This resulted in additional book tax expense which will be offset by utilizing foreign tax credits. The Company did not recognize a deferred tax liability for U.S. income taxes and foreign withholding taxes related to the unremitted earnings of its foreign operations because the Company intends to reinvest those earnings indefinitely. If a distribution of these earnings were to be made, the Company might be subject to both foreign withholding taxes and U.S. income taxes, net of any allowable foreign tax credits or deductions. An

estimate of these taxes; however, is not practicable. A deferred tax liability will be recognized if and when the Company is no longer able to demonstrate that it plans to permanently reinvest unremitted earnings.

As of January 1, 2017, the Company had \$1.0 million of unrecognized tax benefits. As of December 31, 2017, the Company had \$0.7 million of unrecognized tax benefits of which, if recognized, would be recorded as a component of income tax expense.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

	December 31,		
	2017	2016	2015
Gross unrecognized tax benefits at January 1,	\$ 1,038	\$ 130	\$ 143
Gross increases for tax positions of prior years	167	2,146	22
Gross decreases for tax positions of prior years	—	(4)	(15)
Settlements	(465)	(1,234)	(20)
Lapse of statute of limitations	—	—	—
Gross unrecognized tax benefits at December 31,	<u>\$ 740</u>	<u>\$ 1,038</u>	<u>\$ 130</u>

In many cases the Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant taxable authorities. Years 2014 through 2016 are subject to examination by the state taxing authorities. The years 2014 and 2016 are subject to examination by the federal taxing authority. There are certain foreign jurisdictions that are subject to examination for years prior to 2014.

The Company is currently under audit by some jurisdictions. It is likely that the examination phase of several of these audits will conclude in the next twelve months. No significant increases or decreases in unrecognized tax benefits are expected to occur by December 31, 2018.

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of the provision for income taxes in the Consolidated Statements of Comprehensive Income (Loss). Accrued interest and penalties are \$0.1 million as of December 31, 2017.

The "Tax Cuts and Jobs Act" was enacted in December 22, 2017. Certain changes of the 2017 Tax Reform Act to the U.S. tax code include: permanently reducing the corporate tax rate from 35% to a flat 21% for tax years beginning after December 31, 2017. The Tax Act includes the Transition Tax 'Toll Charge' and two additions to the tax base erosion: the global intangible low-taxed income ("GILTI") of U.S. shareholders of CFCs, and the base-erosion and anti-abuse tax ("BEAT").

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. As a result of the reduction in the U.S. corporate income tax rate from 35% to 21% under the Tax Reform Act, the Company revalued its ending net deferred tax assets at December 31, 2017 and recognized a \$14.2 million tax expense in the Company's consolidated statement of income for the year ended December 31, 2017. As a result of the changes in the Tax Reform Act, the Company also reduced its deferred tax assets by \$1.4 million.

The Tax Reform Act provided for a one-time deemed mandatory repatriation ("Toll Tax") of post-1986 undistributed foreign subsidiary earnings and profits ("E&P") through the year ended December 31, 2017. The Company does not have undistributed foreign subsidiary E&P and therefore did not record a Toll Tax liability for the year ended December 31, 2017.

While the Tax Reform Act provides for a territorial tax system, beginning in 2018, it includes two new U.S. tax base erosion provisions, the global intangible low-taxed income ("GILTI") provisions and the base-erosion and anti-abuse tax ("BEAT") provisions.

The GILTI provisions require the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. The Company expects that it will be subject to incremental U.S. tax on GILTI income beginning in 2018, due to expense allocations required by the U.S. foreign tax credit rules. The Company has elected to account for GILTI tax in the period in which it is incurred, and therefore has not provided any deferred tax impacts of GILTI in its consolidated financial statements for the year ended December 31, 2017.

The BEAT provisions in the Tax Reform Act eliminates the deduction of certain base-erosion payments made to related foreign corporations, and impose a minimum tax if greater than regular tax. The Company does not expect it will be subject to this tax and therefore has not included any tax impacts of BEAT in its consolidated financial statements for the year ended December 31, 2017.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. The Company has recognized the provisional tax impacts related to the revaluation of deferred tax assets and liabilities, foreign earnings intended to be remitted, and the tax on foreign earnings intended to be remitted. The Company has included these amounts in its consolidated financial statements for the year ended December 31, 2017. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the Tax Reform Act. The accounting is expected to be complete when the 2017 U.S. corporate income tax return is filed in 2018.

17. Segment Information

In the fourth quarter of 2016, the Company restructured its operating segments. Given the significant growth of the Company's Leadership Consulting service line, the Company's chief operating decision maker began to regularly assess performance and make resource allocation decisions separately for Executive Search and Leadership Consulting. Therefore, the Company now reports Executive Search and Leadership Consulting as separate operating segments. Previously reported operating segment results for the year ended December 31, 2015 have been recast to conform to the new operating segment structure.

The Company currently operates its executive search business in the Americas; Europe (which includes Africa); and Asia Pacific (which includes the Middle East) and operates its leadership consulting and culture shaping businesses as separate segments.

For segment purposes, reimbursements of out-of-pocket expenses classified as revenue and other operating income are reported separately and, therefore, are not included in the results of each segment. The Company believes that analyzing trends in revenue before reimbursements (net revenue), analyzing operating expenses as a percentage of net revenue, and analyzing operating income (loss) more appropriately reflects its core operations.

The revenue, operating income, depreciation and amortization, and capital expenditures, by segment, are as follows:

	December 31,		
	2017	2016	2015
Revenue			
Executive Search			
Americas	\$ 339,793	\$ 313,292	\$ 294,606
Europe	125,346	108,754	92,135
Asia Pacific	86,905	85,319	89,026
Total Executive Search	<u>552,044</u>	<u>507,365</u>	<u>475,767</u>
Leadership Consulting	41,227	38,806	19,045
Culture Shaping	28,129	36,219	36,327
Revenue before reimbursements	<u>621,400</u>	<u>582,390</u>	<u>531,139</u>
Reimbursements	18,656	18,516	17,172
Total revenue	<u>\$ 640,056</u>	<u>\$ 600,906</u>	<u>\$ 548,311</u>
Operating Income (Loss)			
Executive Search			
Americas (1)	\$ 81,531	\$ 73,857	\$ 68,043
Europe (2)	2,038	6,851	3,644
Asia Pacific (3)	2,128	4,799	5,909
Total Executive Search	<u>85,697</u>	<u>85,507</u>	<u>77,596</u>
Leadership Consulting (4)	(15,614)	(1,495)	(1,847)
Culture Shaping (5)	(41,818)	(1,558)	4,913
Total segments	<u>28,265</u>	<u>82,454</u>	<u>80,662</u>
Global Operations Support (6)	(54,788)	(47,221)	(46,600)
Total operating income (loss)	<u>\$ (26,523)</u>	<u>\$ 35,233</u>	<u>\$ 34,062</u>
Depreciation and Amortization			
Executive Search			
Americas	\$ 4,661	\$ 3,892	\$ 3,858
Europe	3,207	2,478	1,530
Asia Pacific	1,579	1,774	1,383
Total Executive Search	<u>9,447</u>	<u>8,144</u>	<u>6,771</u>
Leadership Consulting	2,240	2,501	393
Culture Shaping	1,646	4,341	4,520
Total segments	<u>13,333</u>	<u>14,986</u>	<u>11,684</u>
Global Operation Support	1,441	1,447	2,012
Total depreciation and amortization	<u>\$ 14,774</u>	<u>\$ 16,433</u>	<u>\$ 13,696</u>
Capital Expenditures			
Executive Search			
Americas	\$ 7,123	\$ 2,221	\$ 7,334
Europe	1,460	835	890
Asia Pacific	2,633	3,346	1,030
Total Executive Search	<u>11,216</u>	<u>6,402</u>	<u>9,254</u>
Leadership Consulting	470	380	330
Culture Shaping	702	279	95
Total segments	<u>12,388</u>	<u>7,061</u>	<u>9,679</u>
Global Operation Support	3,298	1,321	6,184
Total capital expenditures	<u>\$ 15,686</u>	<u>\$ 8,382</u>	<u>\$ 15,863</u>

(1) Operating income for the Americas includes \$0.8 million of restructuring charges in 2017.

(2) Operating income for Europe includes \$4.0 million of restructuring charges in 2017.

(3) Operating income for Asia Pacific includes \$2.0 million of restructuring charges in 2017.

(4) Operating loss for Leadership Consulting includes \$11.6 million of impairment charges and \$0.9 million of restructuring charges in 2017.

(5) Operating loss for Culture Shaping includes \$39.2 million of impairment charges and \$2.5 million of restructuring charges in 2017.

(6) Operating loss for Global Operations Support includes \$5.5 million of restructuring charges in 2017.

Identifiable assets, and goodwill and other intangible assets, net, by segment, are as follows:

	December 31,	
	2017	2016
Current assets		
Executive Search		
Americas	\$ 171,985	\$ 147,070
Europe	84,405	54,153
Asia Pacific	55,196	60,704
Total Executive Search	<u>311,586</u>	<u>261,927</u>
Leadership Consulting	16,025	15,737
Culture Shaping	15,091	19,059
Total segments	<u>342,702</u>	<u>296,723</u>
Global Operations Support	1,088	1,707
Total allocated current assets	<u>343,790</u>	<u>298,430</u>
Unallocated non-current assets	122,364	110,538
Goodwill and other intangible assets, net		
Executive Search		
Americas	88,942	88,602
Europe	22,699	22,029
Asia Pacific	9,409	9,020
Total Executive Search	<u>121,050</u>	<u>119,651</u>
Leadership Consulting	—	12,757
Culture Shaping	—	40,126
Total goodwill and other intangible assets, net	<u>121,050</u>	<u>172,534</u>
Total assets	<u>\$ 587,204</u>	<u>\$ 581,502</u>

18. Guarantees

The Company has issued cash collateralized bank guarantees and letter of credit backed bank guarantees supporting certain obligations, primarily the payment of office lease obligations and business license requirements for certain of its subsidiaries in Europe and Asia Pacific. The bank guarantees were made to secure the respective agreements and are for the terms of the agreements, which extend through 2019. For each bank guarantee issued, the Company would have to perform under the guarantee if the subsidiary defaults on a lease payment. The maximum amount of undiscounted payments the Company would be required to make in the event of default on all outstanding bank guarantees is approximately \$2.6 million as of December 31, 2017. The Company has not accrued for these arrangements as no event of default exists or is expected to exist.

19. Commitments and Contingencies

Operating Leases

The Company leases office space in 49 cities in 24 countries. The terms of these office-related leases provide that the Company pay base rent and a share of operating expenses and real estate taxes in excess of defined amounts. These leases expire at various dates through 2026. The Company also leases certain computer equipment and cars, the terms of which are accounted for as operating leases. Rent expense, which includes the base rent, maintenance costs, operating expenses and real estate taxes, and the costs of equipment leases for the years ended December 31, 2017, 2016, and 2015 was \$32.2 million, \$30.8 million, and \$29.6 million, respectively.

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

2018	\$	36,386
2019		31,121
2020		22,869
2021		18,860
2022		16,229
Thereafter		22,600
Total	<u>\$</u>	<u>148,065</u>

The aggregate minimum future payments on office leases are \$145.1 million. The Company has contractual arrangements to receive aggregate sublease income of \$0.6 million related to certain leases that expire at various dates through 2019. This sublease income primarily relates to properties that were part of prior office consolidations and closings.

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

The Company has an obligation at the end of the lease term to return certain offices to the landlord in its original condition, which is recorded at fair value at the time the liability is incurred. The Company had \$2.9 million and \$2.6 million of asset retirement obligations as of December 31, 2017 and 2016, respectively.

In 2017, the Company began vacating three offices as a result of the restructuring plan to reduce overall costs and improve efficiencies in the Company's operations.

Litigation

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

UK Employee Benefits Trust

On March 31, 2017, the Company reached a settlement with Her Majesty's Revenue and Customs ("HMRC") in the United Kingdom regarding HMRC's challenge of the tax treatment of certain of the Company's contributions in the United Kingdom to an Employee Benefits Trust between 2002 and 2008. HMRC alleged that the contributions should have been subject to Pay As You Earn tax and Class 1 National Insurance Contributions in the United Kingdom. In connection with the settlement, the Company agreed to pay approximately £5.4 million (equivalent to \$6.8 million on the settlement date) related to Pay as You Earn tax, Class 1 National Insurance Contributions, inheritance tax and interest. Concurrently with the HMRC settlement, the Company also reached an agreement with the beneficiaries under the Employee Benefits Trust for the reimbursement of approximately £2.3 million (equivalent to \$2.9 million on the settlement date) beneficiary-owed Pay as You Earn tax and Class 1 National Insurance Contributions.

The Company has recorded \$1.5 million related to the Pay as You Earn tax and Class 1 National Insurance Contributions and the respective beneficiary reimbursements as a component of *Salaries and employee benefits* in the Condensed Consolidated Statement of Comprehensive Income (Loss). Inheritance tax and interest expense of \$2.4 million incurred as a result of the settlement is recorded as a component of *Other, net* in the Condensed Consolidated Statement of Comprehensive Income (Loss).

During the three months ended June 30, 2017, the Company made payments of approximately £5.4 million (equivalent to \$6.9 million on the payment date) related to the Pay as You Earn tax, and received reimbursement of £2.0 million (equivalent to \$2.6 million on the reimbursement date) from the beneficiaries under the Employee Benefits Trust. Approximately £0.3 million (equivalent to \$0.4 million) of reimbursements related to beneficiary-owed Pay as You Earn tax is outstanding at December 31, 2017.

20. Subsequent Events

On January 4, 2018, the Company acquired Amrop A/S ("Amrop"), a Denmark-based provider of executive search, succession planning and coaching services for 24.3 million Danish Kroner (equivalent to \$3.9 million on the acquisition date) of initial consideration. The former owners of Amrop are expected to receive additional cash consideration of 28.0 million Danish Kroner (equivalent to \$4.5 million on the acquisition date) based on fee revenue generated by the business during the two-year period following the completion of the acquisition. However, the actual amount of additional cash consideration cannot be determined at this time. The transaction was financed with cash.

PART II (continued)

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures as defined in Securities Exchange Act of 1934, as amended, (the “Exchange Act”) Rules 13a-15(e) and 15d-15(e), that are designed to ensure that information required to be disclosed in the Company’s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission (the “SEC”) rules and forms, and that such information is accumulated and communicated to the Company’s management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Management of the Company, with the participation of the principal executive officer and the principal financial officer, evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of December 31, 2017. Based on the evaluation, the Company’s principal executive officer and principal financial officer concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2017.

(b) Management’s report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Securities Exchange Act Rules 13a-15(f) and 15d-15(f). The Company’s internal control over financial reporting is a process designed by, or under the supervision of, the Company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the Company’s board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and includes those policies and procedures that:

- (1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

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

Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013. Based on this evaluation, management concluded that the Company’s system of internal control over financial reporting was effective as of December 31, 2017.

The Company’s independent registered public accounting firm, KPMG LLP, has issued a report on the Company’s internal control over financial reporting. The report on the audit of internal control over financial reporting appears in this Form 10-K.

(c) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the period covered by this Annual Report on Form 10-K as of December 31, 2017, that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information relating to our directors, executive officers and corporate governance will be in the 2018 Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to our executive officer and director compensation and the compensation committee of the Board will be in the 2018 Proxy Statement and is incorporated herein by reference.

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

Information relating to security ownership of certain beneficial owners of our common stock and information relating to the security ownership of our management will be in the 2018 Proxy Statement and is incorporated herein by reference.

Equity Compensation Plan Information

The following table sets forth additional information as of December 31, 2017, about shares of our common stock that may be issued upon the vesting of restricted stock units and performance stock units and the exercise of options under our existing equity compensation plans and arrangements, divided between plans approved by our stockholders and plans or arrangements not submitted to the stockholders for approval. For a description of the types of securities that may be issued under our 2012 Heidrick & Struggles GlobalShare Program (See Note 13, *Stock-Based Compensation*).

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options	(b) Weighted-average exercise price of outstanding options	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	685,922	(1) \$ 33.79	797,453
Equity compensation plans not approved stockholders	—	—	—
Total equity compensation plans	<u>685,922</u>	<u>\$ 33.79</u>	<u>797,453</u>

(1) Includes 491,154 restricted stock units, 185,891 performance stock units at their target levels and 8,877 options.

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

Information regarding certain relationships and related transactions and director independence will be in the 2018 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the discussion under the caption “Audit Fees” in our 2018 Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. Index to Consolidated Financial Statements:

See Consolidated Financial Statements included as part of this Form 10-K beginning on page 35.

2. Exhibits:

<u>Exhibit No.</u>	<u>Description</u>
3.01	Amended and Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.02 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023))
3.02	Amended and Restated By-laws of the Registrant (Incorporated by reference to Exhibit 3.03 of the Registrant's Form 8-K filed May 30, 2017)
4.01	Specimen Stock Certificate (Incorporated by reference to Exhibit 4.01 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023))
10.01	Credit Agreement among Heidrick & Struggles International, Inc., certain foreign subsidiary borrowers thereto, the lenders party thereto and JPMorgan Chase Bank, as Administrative Agent, dated June, 2011 (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K, dated June 22, 2011, filed on June 27, 2011)
10.02	Amendment and Restatement Agreement among Heidrick & Struggles International, Inc., certain foreign subsidiary borrowers thereto, the lenders party thereto and JPMorgan Chase Bank, as Administrative Agent, dated January 31, 2013 (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K, dated January 31, 2013)
10.03	The Second Amended and Restated Credit Agreement among Heidrick & Struggles International, Inc., the Foreign Subsidiary Borrowers from time to time parties thereto, the Lenders parties thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other agent parties thereto, dated June 30, 2015 (Incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K, dated July 1, 2015)
10.04	Eighth Lease Amendment between 233 S. WACKER LLC and Heidrick & Struggles International, Inc. dated October 1, 2014 (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed on October 9, 2014)
10.05	Lease between 1114 6th Avenue Co., LLC and Heidrick & Struggles International, Inc., and Heidrick & Struggles, Inc., dated August 31, 2007 (Incorporated by reference to Exhibit 10.04 of the Registrant's Form 10-K filed on February 28, 2008)
10.06	Employment Agreement of Richard W. Pehlke dated August 15, 2011 (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K, dated August 15, 2011, filed August 16, 2011) **
10.07	Employment Agreement of Stephen Beard (Incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q filed on August 1, 2011)**
10.08	Employment Agreement of Tracy R. Wolstencroft (Incorporated by reference to exhibit 99.1 of the Registrant's Form 8-K filed February 6, 2014)**
10.09	Employment Agreement of Richard W. Greene (Incorporated by reference to Exhibit 99.1 of the Registrant's Form 8-K filed March 27, 2015) **
10.10	Employment Agreement of Krishnan Rajagopalan (Incorporated by reference to Exhibit 99.1 of the Registrant's Form 8-K filed April 20, 2015) **
10.11	Restricted Stock Unit Agreement issued to Tracy R. Wolstencroft (Incorporated by reference to exhibit 99.2 of the Registrant's Form 8-K filed February 6, 2014)**
10.12	Performance Stock Unit Agreement issued to Tracy R. Wolstencroft (Incorporated by reference to exhibit 99.3 of the Registrant's Form 8-K filed February 6, 2014)**
10.13	Employment Agreement of Colin Price (Incorporated by reference to Exhibit 99.1 of the Registrant's Form 8-K filed January 19, 2017.)**

- 10.14 Membership Interest Purchase Agreement, dated as of December 31, 2012, among Heidrick & Struggles International, Inc., Senn-Delaney Leadership Consulting Group, LLC and the members of Senn-Delaney Leadership Consulting Group, LLC (Incorporated by reference to exhibit 2.1 of the Registrant's Form 8-K filed January 4, 2013).
- 10.15 Asset Purchase Agreement, dated October 1, 2015, by and among Heidrick & Struggles International, Inc. and Heidrick & Struggles (UK) Limited and Sharon Lee Toye, Tammy Ann Mitchell-Fisher, Catherine Elizabeth Powell and Colin Price (Incorporated by reference to exhibit 2.1 of the Registrant's Form 8-K filed October 6, 2015).
- 10.16 Asset Purchase Agreement, dated as of February 29, 2016, by and among Heidrick & Struggles International, Inc. and Decision Strategies International, Inc. (Incorporated by reference to exhibit 2.1 of the Registrant's Form 8-K filed February 11, 2016).
- 10.17 Heidrick & Struggles International, Inc. Management Severance Pay Plan and Summary Plan Description as Amended and Restated Effective December 31, 2010 (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K dated, October 25, 2011, filed on October 25, 2011) **
- 10.18 2007 Heidrick & Struggles GlobalShare Plan (Incorporated by reference to Appendix A to the Registrant's Proxy Statement dated April 25, 2011)**
- 10.19 The Heidrick & Struggles Incentive Plan, as Amended and Restated Effective January 1, 2008 (Incorporated by reference to Exhibit 10.20 of the Registrant's Form 10-K filed on February 27, 2009)**
- 10.20 Form of Non-Qualified Stock Option Agreement (Incorporated by reference to Exhibit 10.5 of the Registrant's Form 8-K dated December 29, 2011, filed on January 5, 2012)**
- 10.21 Form of Restricted Stock Unit Participation Agreement (Incorporated by reference to Exhibit 10.3 of the Registrant's Form 8-K dated December 29, 2011, filed on January 5, 2012)**
- 10.22 Form of Performance Stock Unit Participation Agreement (Incorporated by reference to Exhibit 10.4 of the Registrant's Form 8-K dated December 29, 2011, filed on January 5, 2012)**
- 10.23 Form of Non-Employee Director Restricted Stock Unit Participation Agreement (Incorporated by reference to Exhibit 10.19 of the Registrant's 10-K dated March 14, 2012)**
- 10.24 Heidrick & Struggles International, Inc. U.S. Employees Deferred Compensation Plan (Incorporated by reference to Exhibit 10.10 of the Registrant's Form 10-K for the year ended December 31, 2005, filed on March 10, 2006)**
- 10.25 Heidrick & Struggles International, Inc. Deferred Compensation Plan for UK Employees (Incorporated by reference to Exhibit 4.1 of this Registrant's Registration Statement on Form S-8 (File No. 333-82424))**
- 10.26 First Amendment to the Heidrick & Struggles International, Inc. U.S. Employees Deferred Compensation Plan (Incorporated by reference to Exhibit 10.25 of the Registrant's Form 10-K for the year ended December 31, 2008, filed on February 27, 2009)**
- 10.27 Heidrick & Struggles Non-Employee Directors' Voluntary Deferred Compensation Plan - Amended and Restated as of September 30, 2016 (Incorporated by reference to Exhibit 2.1 of the Registrant's Form 8-K filed October 5, 2016.)**
- 10.28 Heidrick & Struggles International, Inc. Change in Control Severance Plan, as amended and restated effective December 29, 2011 (Incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K dated December 29, 2011, filed on January 5, 2012).**
- 10.29 Share Purchase Agreement, dated August 4, 2016 for the sale and purchase of the entire issued share capital of JCA Group Limited and the entire partnership interest in JCA Partners LLP by and among JCA Events Limited, the persons listed in Schedule 1, Heidrick & Struggles (UK) Limited, and Heidrick & Struggles International, Inc. (Incorporated by reference to Exhibit 2.1 of the Registrant's Form 8-K filed August 4, 2016.)
- 10.30 Asset Purchase Agreement by and among Philosophy IB, LLP, Christine H. Lotze, Kaveh Naficy and Heidrick & Struggles, Inc. dated August 12, 2016 (Incorporated by reference to Exhibit 2.1 of the Registrant's Form 8-K filed August 16, 2016.)
- 10.31 Deed of Amendment dated August 25, 2016 by and among Heidrick & Struggles International, Inc., Heidrick & Struggles (UK) Limited, and Sharon Lee Toye, Tammy Ann Mitchell-Fisher, Catherine Elizabeth Powell and Colin Price (Incorporated by reference to Exhibit 2.1 of the Registrant's Form 8-K filed August 29, 2016.)
- 10.32 Business Protection Agreement by and between Heidrick & Struggles (UK) Limited and Mr. Colin Price (Incorporated by reference to Exhibit 99.2 of the Registrant's Form 8-K filed January 19, 2017.)**
- 10.33 2012 Heidrick & Struggles GlobalShare Plan (Incorporated by reference to Appendix A to the Registrant's Proxy Statement dated May 28, 2014)**

- 10.34 Earn Out Buyout Agreement of Colin Price (Incorporated by reference to Exhibit 2.1 of the Registrant's Form 8-K filed June 20, 2017)
- 10.35 Employment Agreement of Krishnan Rajagopalan (Incorporated by reference to Exhibit 99.1 of the Registrant's Form 8-K filed September 21, 2017)**
- 10.36 Agreement Regarding Equity Awards of Tracy R. Wolstencroft (Incorporate by reference to Exhibit 99.2 of the Registrant's Form 8-K filed September 21, 2017)
- 10.37 Share Purchase Agreement, dated September 19, 2017 for the sale and purchase of the entire issued share capital of Amrop A/S, Porma AP, and Heidrick & Struggles International, Inc. (Incorporated by reference to Exhibit 2.1 of the Registrant's Form 8-K filed September 28, 2017)
- 10.38 Memorandum of Clarification relating to the Share Purchase Agreement of JCA made on August 4, 2016 (Incorporated by reference to Exhibit 2.1 of the Registrant's Form 8-K filed November 15, 2017)
- 10.39 Separation Agreement of Stephen W. Beard (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed January 5, 2018)
- 10.40 Separation Agreement of Michael Marino (Incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed January 5, 2018)
- 10.41 Employment Agreement of Kamau Coar (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed January 10, 2018)**
- 10.42 Employment Agreement of Andrew LeSueur (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed January 10, 2018)**
- 10.43 Amended and Restated Management Severance Pay Plan (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed January 10, 2018)
- 10.44 Leadership Changes (Incorporated by reference to Exhibit 99.1 of the Registrant's Form 8-K filed February 5, 2018)
- *21.01 Subsidiaries of the Registrant
- *23.01 Consent of Independent Registered Public Accounting Firm
- *31.1 Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31.2 Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *32.1 Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *32.2 Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *101.INS XBRL Instance document
- *101.SCH XBRL Taxonomy Extension Schema Document
- *101.CAL XBRL Taxonomy Calculation Linkbase Document
- *101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- *101.LAB XBRL Taxonomy Extension Label Linkbase Document
- *101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Denotes a management contract or compensatory plan or arrangement.

(b) SEE EXHIBIT INDEX ABOVE

(c) FINANCIAL STATEMENTS NOT PART OF ANNUAL REPORT

None.

SIGNATURES

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

/s/ Stephen A. Bondi

By:

Stephen A. Bondi

Title:

Vice President, Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 13, 2018.

Signature	Title
<u>/s/ Krishnan Rajagopalan</u> Krishnan Rajagopalan (Principal Executive Officer)	Chief Executive Officer & Director
<u>/s/ Richard W. Pehlke</u> Richard W. Pehlke (Principal Financial Officer)	Executive Vice President & Chief Financial Officer
<u>/s/ Stephen A. Bondi</u> Stephen A. Bondi (Principal Accounting Officer)	Vice President, Controller
<u>/s/ Elizabeth L. Axelrod</u> Elizabeth L. Axelrod	Director
<u>/s/ Richard I. Beattie</u> Richard I. Beattie	Director
<u>/s/ Clare M. Chapman</u> Clare M. Chapman	Director
<u>/s/ Gary E. Knell</u> Gary E. Knell	Director
<u>/s/ Lyle Logan</u> Lyle Logan	Director
<u>/s/ T. Willem Mesdag</u> T. Willem Mesdag	Director
<u>/s/ Adam Warby</u> Adam Warby	Director
<u>/s/ Tracy R. Wolstencroft</u> Tracy R. Wolstencroft	Director

SUBSIDIARIES OF HEIDRICK & STRUGGLES INTERNATIONAL, INC.

The following are subsidiaries of Heidrick & Struggles International, Inc. as of December 31, 2017.

BEIJING HEIDRICK & STRUGGLES INTERNATIONAL MANAGEMENT CONSULTING COMPANY LIMITED, a China limited partnership (joint venture 90% ownership)

HEIDRICK & STRUGGLES LEADERSHIP CONSULTING, LTD., a UK corporation

H&S HOLDINGS LIMITED, a Thailand corporation

H&S SOFTWARE DEVELOPMENT and KNOWLEDGE MANAGEMENT CENTRE PRIVATE LIMITED, an India corporation

HEIDRICK & STRUGGLES AB, a Sweden corporation

HEIDRICK & STRUGGLES AG, a Switzerland corporation

HEIDRICK & STRUGGLES ARGENTINA S.A., an Argentina corporation

HEIDRICK & STRUGGLES ASIA-PACIFIC, LTD., an Illinois corporation

HEIDRICK & STRUGGLES AUSTRALIA PTY. LTD., an Australia corporation

HEIDRICK & STRUGGLES B.V., a Netherlands corporation

HEIDRICK & STRUGGLES CANADA, INC., a Canada corporation

HEIDRICK & STRUGGLES (CAYMAN ISLANDS), INC., a Cayman Islands corporation

HEIDRICK & STRUGGLES COLOMBIA LTDA, a Colombia corporation

HEIDRICK & STRUGGLES CYPRUS LTD., a Cyprus corporation

HEIDRICK & STRUGGLES DE CHILE LIMITADA, a Chile corporation

HEIDRICK & STRUGGLES DO BRASIL LTDA, a Brazil corporation

HEIDRICK & STRUGGLES ESPANA, INC., an Illinois corporation

HEIDRICK & STRUGGLES FAR EAST LIMITED, a Hong Kong corporation

HEIDRICK & STRUGGLES (GIBRALTAR) HOLDINGS LIMITED, a Gibraltar corporation

HEIDRICK & STRUGGLES (GIBRALTAR) LIMITED, a Gibraltar corporation

HEIDRICK & STRUGGLES HOLDING B.V., a Netherlands corporation

HEIDRICK & STRUGGLES HOLDING DO BRASIL LTDA, a Brazil corporation

HEIDRICK & STRUGGLES HOLDINGS C.V., a Netherlands limited partnership

HEIDRICK & STRUGGLES HONG KONG, LTD., an Illinois corporation

HEIDRICK & STRUGGLES, INC., a Delaware corporation

HEIDRICK & STRUGGLES (INDIA) PRIVATE LIMITED, an India corporation

HEIDRICK & STRUGGLES INTERNATIONAL S.R.L, an Italy corporation

HEIDRICK & STRUGGLES JAPAN GODO KAISHA, a Japan limited liability company

HEIDRICK & STRUGGLES JAPAN, LTD., an Illinois corporation

HEIDRICK & STRUGGLES KB PARTNERSHIP, a Sweden partnership

HEIDRICK & STRUGGLES (KOREA), INC., a Korea corporation

HEIDRICK & STRUGGLES LATIN AMERICA, INC., an Illinois corporation

HEIDRICK & STRUGGLES LTD., an Israel corporation

HEIDRICK & STRUGGLES (MIDDLE EAST) LLC, a Dubai corporation

HEIDRICK & STRUGGLES (NZ) LIMITED, a New Zealand corporation

HEIDRICK & STRUGGLES (RUSSIA) LLC, a Russia corporation

HEIDRICK & STRUGGLES S.A. de C.V., a Mexico corporation

HEIDRICK & STRUGGLES (SHP) LIMITED, a UK corporation

HEIDRICK & STRUGGLES SINGAPORE PTE LTD., a Singapore corporation

HEIDRICK & STRUGGLES SP. ZO.O, a Poland corporation

HEIDRICK & STRUGGLES RECRUITMENT (THAILAND), LTD, a Thailand corporation

HEIDRICK & STRUGGLES TAIWAN LIMITED, a Taiwan corporation

HEIDRICK & STRUGGLES (UK) FINANCE COMPANY LIMITED, a United Kingdom company

HEIDRICK & STRUGGLES (UK) LIMITED, a United Kingdom corporation

HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG GMBH & CO. KG, a Germany limited partnership

HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG VERWALTUNG- GMBH, a Germany limited liability company

SHPA ESOP LTD., a UK corporation

SENN-DELANEY LEADERSHIP CONSULTING GROUP, LLC

SCAMBLER MACGREGOR EXECUTIVE SEARCH PTY. LIMITED --- an Australian corporation

JCA Group Limited 1

JCA Board Practice Limited 1

JCA Partners LLP 1

JCA Search Limited

Consent of Independent Registered Public Accounting Firm

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

We consent to the incorporation by reference in the registration statement (No. 333-181712, No. 333-147476, No. 333-130143, No. 333-82424, No. 333-58118, No. 333-32544, and No. 333-73443) on Form S-8 of Heidrick & Struggles International, Inc. of our report dated March 13, 2018, with respect to the consolidated balance sheets of Heidrick & Struggles International, Inc. as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the "consolidated financial statements"), and the effectiveness of internal control over financial reporting as of December 31, 2017, which report appears in the December 31, 2017 annual report on Form 10-K of Heidrick & Struggles International, Inc.

/s/ KPMG LLP

Chicago, Illinois
March 13, 2018

CERTIFICATION

I, Krishnan Rajagopalan, certify that:

1. I have reviewed this annual report on Form 10-K of Heidrick & Struggles International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 13, 2018

/s/ Krishnan Rajagopalan

Krishnan Rajagopalan

Chief Executive Officer

CERTIFICATION

I, Richard W. Pehlke, certify that:

1. I have reviewed this annual report on Form 10-K of Heidrick & Struggles International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 13, 2018

/s/ Richard W. Pehlke

Richard W. Pehlke

Executive Vice President and Chief Financial Officer

CERTIFICATION

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

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

The Annual Report on Form 10-K for the year ended December 31, 2017 (the “Form 10-K”) of the Company fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 13, 2018

/s/ Krishnan Rajagopalan

Krishnan Rajagopalan

Chief Executive Officer

CERTIFICATION

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

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

The Annual Report on Form 10-K for the year ended December 31, 2017 (the “Form 10-K”) of the Company fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 13, 2018

/s/ Richard W. Pehlke

Richard W. Pehlke

Executive Vice President and Chief Financial Officer

