

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

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**FORM 8-K**

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

Date of Report (Date of earliest event reported): October 28, 2005

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**HEIDRICK & STRUGGLES INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction  
Of incorporation)

**0-25837**  
(Commission File Number)

**36-2681268**  
IRS Employer  
Identification No.)

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

**60606-6303**  
(Zip Code)

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

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

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

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

On October 28, 2005, Heidrick & Struggles International, Inc. issued a news release reporting its 2005 third quarter financial results. A copy of the news release is attached hereto as Exhibit 99.1 to this report and is incorporated herein by reference.

**Item 9.01. Financial Statements and Exhibits.**

(c) Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
99.1	Heidrick & Struggles International, Inc. Press Release Dated October 28, 2005

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**SIGNATURES**

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC.  
(Registrant)

Date: October 28, 2005

By:           /s/ K. Steven Blake          

Name: K. Steven Blake

Title: General Counsel & Secretary

**HEIDRICK & STRUGGLES**

NEWS

**FOR IMMEDIATE RELEASE****HEIDRICK & STRUGGLES REPORTS STRONG  
2005 THIRD QUARTER FINANCIAL RESULTS*****Consolidated Net Revenue up 19.6 Percent Year-over-Year***

**CHICAGO (October 28, 2005)**—Heidrick & Struggles International, Inc. (Nasdaq: HSII), the world's premier executive search and leadership consulting firm, today announced strong financial results for its third quarter ended September 30, 2005.

Consolidated net revenue in the 2005 third quarter increased 19.6 percent to \$109.6 million from \$91.6 million in the 2004 third quarter. Net revenue grew in every region compared to the 2004 third quarter, but was especially strong in the Americas. In particular, the Financial Services industry group reported better than expected results that had a significant impact on net revenue. The positive impact of exchange rate fluctuations was less than one percent in the quarter.

Reported net income of \$30.4 million and fully diluted earnings per share of \$1.58 were significantly impacted by a non-cash tax benefit resulting from the \$18.1 million reversal of a portion of the valuation allowance on certain U.S. deferred tax assets. In accordance with SFAS No. 109 and based on the likelihood that the company will realize the benefits from its deferred tax assets, the company determined that a portion of the valuation allowance should be reversed. Excluding third quarter restructuring charges and the tax benefits associated with the reversal of a portion of the valuation allowance, adjusted net income in the 2005 third quarter would have been \$14.0 million and diluted earnings per share would have been \$0.73. In the third quarter of 2004, adjusted net income was \$6.5 million and diluted earnings per share was \$0.32, excluding a significant gain from the monetization of Google warrants.

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The reconciliation between U.S. GAAP results and adjusted results for net income and diluted earnings per share appears below.

	Three Months Ended September 30,	
	2005	2004
<i>Dollars in millions except per share data</i>		
Net income (GAAP)	\$ 30.4	\$ 62.1
Google warrants	—	(56.8)
Restructuring charges	1.6	—
Valuation allowance reversal	(18.1)	—
Impact of effective tax rate	0.1	1.2
<b>Adjusted net income</b>	<b>\$ 14.0</b>	<b>\$ 6.5</b>
<i>Reconciliation of Diluted Earnings per Share</i>		
EPS (GAAP)	\$ 1.58	\$ 3.08
Google warrants	—	(2.82)
Restructuring charges	0.08	—
Valuation allowance reversal	(0.94)	—
Impact of effective tax rate	—	0.06
<b>Adjusted EPS</b>	<b>\$ 0.73</b>	<b>\$ 0.32</b>

Reported 2005 third quarter operating income of \$12.9 million includes \$1.6 million in restructuring charges. These charges include the reversal of previously established restructuring reserves related to a property. Excluding the restructuring charges, which management believes more appropriately reflects core operations, third quarter operating income would have improved to \$14.5 million, reflecting a 13.3 percent operating margin, compared to third quarter 2004 operating income of \$8.2 million and an 8.9 percent operating margin. The year-over-year improvement in operating income and operating margin reflects the initial results of the company's restructuring plan, the result of cost containment initiatives, and higher net revenue levels.

Thomas J. Friel, chairman and chief executive officer of Heidrick & Struggles, said, "We are very pleased with the improvement in our third quarter results. They reflect the success of our long-term strategy to drive profitable growth—specifically through our revenue producing initiatives and the operating leverage at these revenue levels—as well as the positive outcomes associated with our recent restructuring efforts. We now have a much improved operating platform from which to move the company forward. We see long-term demand for qualified executives and board members who can effectively manage companies through the kind of challenging business and economic conditions prevalent today and we plan to capitalize on this opportunity to grow."

Consolidated salaries and employee benefits in the 2005 third quarter were \$71.3 million, up 18.1 percent from \$60.4 million in the comparable quarter of 2004, but declined as a percentage of net revenue to 65.0 percent compared with 65.9 percent last year. The expense increase largely reflects an increase in performance-related compensation accruals from increased revenue levels. Total stock-based compensation expense was \$3.9 million for the 2005 third quarter and is expected to be approximately \$14.0 million for the 2005 year.

Consolidated general and administrative expenses of \$23.7 million increased 3.0 percent in the 2005 third quarter from \$23.0 million reported in the same period a year ago. As a percentage of net revenue, consolidated general and administrative expenses declined to 21.7 percent in the 2005 third quarter compared to 25.1 percent in the 2004 third quarter.

As of September 30, 2005, the company employed 306 consultants, reflecting the departure of 10 consultants as part of the company's restructuring as well as new hires made in the quarter. This compares to 307 consultants employed as of June 30, 2005 and 295 as of September 30, 2004. Consultant productivity increased in the 2005 third quarter as executive search revenue per consultant rose to an annualized rate of \$1.4 million, a record level for the firm.

The cash, cash equivalents and short-term investments balance at September 30, 2005 was \$193.9 million, compared to \$222.8 million at December 31, 2004 and \$153.7 million at June 30, 2005. A portion of the company's annual bonus to employees and consultants will be disbursed in the fourth quarter and will affect year-end cash balances. The balance of the bonus payment will be made in the first quarter of 2006. On September 16, 2005, the company announced a \$50 million stock repurchase program. No stock has yet been repurchased under this authorization.

### **Regional Review**

Net revenue for the 2005 third quarter grew in every region compared to the 2004 third quarter. Every region also reported a year-over-year improvement in operating margin.

The Americas (formerly reported separately as North America and Latin America) reported net revenue of \$65.2 million, up 21.8 percent over the 2004 third quarter. The resulting operating margin of 22.3 percent also improved over the 2004 third quarter operating margin of 21.0 percent. In the Americas, the Financial Services industry group was the largest driver of growth in the third quarter, with the most significant net revenue increase compared to the 2004 third quarter.

In Europe, net revenue of \$34.3 million in the 2005 third quarter increased 14.4 percent from the 2004 third quarter, which includes a one percentage point decrease from the impact of exchange rate fluctuations. The improved revenue performance combined with savings delivered by the restructuring in the 2005 second quarter resulted in an improvement in the operating margin from 3.8 percent in the 2004 third quarter to 10.9 percent in the 2005 third quarter. The Financial Services and Industrial industry groups reported the most significant year-over-year net revenue increases.

In Asia Pacific, net revenue in the 2005 third quarter of \$10.2 million increased 25.0 percent from the 2004 third quarter, including a 3 percentage point positive impact from exchange rate fluctuations. Net revenue growth was primarily driven by strong performances in the Financial Services and Consumer industry groups. The 2005 third quarter operating margin improved to 26.1 percent compared to 19.8 percent in the 2004 third quarter.

“We believe that we have completed the appropriate actions in our organization to position the company for increasingly profitable growth going forward. In particular our European offices are now operating with a newly appointed management team and an improved business model, with aggressive plans for growth,” Friel said.

#### **Nine Month Results**

For the nine months ended September 30, 2005, consolidated net revenue was \$311.6 million, a 12.6 percent increase from \$276.8 million for the first nine months of 2004. The increase includes a positive impact of approximately two percentage points from exchange rate fluctuations. For the first nine months of 2005 reported operating income of \$11.5 million includes \$22.4 million in restructuring charges. The year-to-date reported net income of \$32.3 million and diluted earnings per common share of \$1.62 includes \$22.4 million in restructuring charges and a non-cash tax benefit resulting from the reversal of a portion of the company’s valuation allowance on certain U.S. deferred tax assets.

Excluding the restructuring charges, which management believes more appropriately reflects core operations, the 2005 year-to-date adjusted operating income would have been \$33.9 million, representing a 10.9 percent operating margin. Excluding year-to-date restructuring charges and \$18.1 million of non-cash tax benefits associated with the reversal of a portion of the valuation allowance, adjusted net income would have been \$34.4 million and diluted earnings per share would have been \$1.73. For the comparable nine-month period of 2004, operating income was \$21.9 million. Excluding a significant gain from the monetization of Google warrants in the third quarter, net income for the comparable nine-month period of 2004 would have been \$17.7 million and diluted earnings per share would have been \$0.89.

The reconciliation between U.S. GAAP results and adjusted results for the nine month period appears below.

	Nine Months Ended September 30,	
	2005	2004
<i>Dollars in millions except per share data</i>		
Net Income (GAAP)	\$ 32.3	\$ 73.3
Google warrants	—	\$ (56.8)
Restructuring charges	22.4	—
Valuation allowance reversal	(18.1)	—
Impact of effective tax rate	(2.2)	1.2
Adjusted net income	<u>\$ 34.4</u>	<u>\$ 17.7</u>
<i>Reconciliation of Diluted Earnings per Share</i>		
EPS (GAAP)	\$ 1.62	\$ 3.68
Google warrants	—	(2.85)
Restructuring charges	1.13	—
Valuation allowance reversal	(0.91)	—
Impact of effective tax rate	(0.11)	0.06
Adjusted EPS	<u>\$ 1.73</u>	<u>\$ 0.89</u>

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## **Outlook**

Based on third quarter results, the company has increased its guidance for consolidated net revenue for the 2005 year to be in the range of \$409 million to \$414 million. At those net revenue levels, and excluding any restructuring charges, the company expects that the full-year operating margin will be approximately 10 percent. Including restructuring charges, the company expects the reported annual operating margin would be approximately 5 percent. The company expects that consolidated net revenue for the fourth quarter will be between \$97 million and \$102 million. This guidance is based on historical executive recruiting patterns during the holiday season, which are affected by client budget cycles and bonus schedules. The company expects that the fourth quarter operating income will be between \$8 million and \$10 million.

The company estimates an effective tax rate for the 2005 fourth quarter of between 15 and 20 percent, which continues to reflect an impact from the valuation allowance reversal. In 2006, the company expects to return to a normalized tax rate of approximately 40 percent. As always, the tax rate estimate can be significantly impacted by country-level results, which vary from period to period, and certain discrete items that require recognition in a particular quarter rather than be considered as part of the annual rate.

Friel added, "We are well into our 2006 global budget and forecasting meetings, and expect to provide guidance for 2006 when we release fourth quarter results. Similar to 2005, we will be very prudent with regard to budgeting expenses to follow revenue. Although it is always difficult in this industry to forecast revenue with precision, we believe that our growth initiatives and the steps we have taken in 2005 to improve our cost structure will provide us with opportunities to continue to grow profitably."

## **Quarterly Conference Call**

Executives of Heidrick & Struggles will host a conference call to review its 2005 third quarter results today, October 28, at 9:00 am (CT). Participants may access the company's call and any supporting slides through the Internet at [www.heidrick.com](http://www.heidrick.com). For those unable to participate on the live call, a webcast and copy of the slides will be archived at [www.heidrick.com](http://www.heidrick.com) and available for up to 30 days following the investor call.

**About Heidrick & Struggles International, Inc.**

Heidrick & Struggles International, Inc. is the world’s premier provider of senior-level executive search and leadership consulting services, including talent management, board building, executive on-boarding and M&A effectiveness. For more than 50 years, we have focused on quality service and built strong leadership teams through our relationships with clients and individuals worldwide. Today, Heidrick & Struggles leadership experts operate from principal business centers in North America, Latin America, Europe and Asia Pacific. For more information, please visit [www.heidrick.com](http://www.heidrick.com).

**Safe Harbor Statement**

This news release contains forward-looking statements. The forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate and management’s beliefs and assumptions. Forward-looking statements may be identified by the use of words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” and similar expressions. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, forecasted or implied in the forward-looking statements. Factors that may affect the outcome of the forward-looking statements include, among other things, our ability to attract and retain qualified executive search consultants; the condition of the economies in the United States, Europe, or elsewhere; social or political instability in markets where we operate; the impact of foreign currency exchange rate fluctuations; price competition; an inability to achieve the planned cost savings from our cost-reduction initiatives; an inability to sublease or assign unused office space; our ability to realize our tax loss carryforwards; the timing of any deferred tax asset valuation allowance reversals; the mix of profit and loss by country; an impairment of our goodwill and other intangible assets; and delays in the development and/or implementation of new technology and systems. Our reports filed with the U.S. Securities and Exchange Commission also include information on factors that may affect the outcome of forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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**Heidrick & Struggles International, Inc.**  
**Consolidated Statements of Operations**  
(In thousands, except per share data)

	Three Months Ended September 30,		\$ Change	% Change
	2005	2004		
<b>Revenue:</b>				
Revenue before reimbursements (net revenue)	\$109,605	\$91,607	\$17,998	19.6%
Reimbursements	4,339	4,750	(411)	-8.7%
Total revenue	113,944	96,357	17,587	18.3%
<b>Operating expenses:</b>				
Salaries and employee benefits	71,291	60,378	10,913	18.1%
General and administrative expenses	23,732	23,033	699	3.0%
Reimbursed expenses	4,393	4,750	(357)	-7.5%
Restructuring charges	1,580	—	1,580	
Total operating expenses	100,996	88,161	12,835	14.6%
Operating income	12,948	8,196	4,752	58.0%
<b>Non-operating income (expense):</b>				
Interest income	1,539	671		
Interest expense	(18)	(19)		
Net realized and unrealized gains on equity and warrant portfolio	426	56,445		
Other, net	43	158		
Net non-operating income	1,990	57,255		
Income before income taxes	14,938	65,451		
Provision for (benefit from) income taxes	(15,458)	3,302		
Net income	\$ 30,396	\$62,149		
Basic earnings per common share	\$ 1.63	\$ 3.25		
Basic weighted average common shares outstanding	18,694	19,124		
Diluted earnings per common share	\$ 1.58	\$ 3.08		
Diluted weighted average common shares outstanding	19,269	20,167		
Salaries and employee benefits as a percentage of net revenue	65.0%	65.9%		
General and administrative expense as a percentage of net revenue	21.7%	25.1%		
Operating income as a percentage of net revenue	11.8%	8.9%		
Effective tax rate	—	5.0%		

**Heidrick & Struggles International, Inc.**  
**Segment Information**  
(In thousands)

Three Months Ended September 30,

	2005	2004	\$ Change	% Change	2005 Margin *	2004 Margin *
<b>Revenue:</b>						
Americas	\$ 65,181	\$53,516	\$11,665	21.8%		
Europe	34,267	29,965	4,302	14.4%		
Asia Pacific	10,157	8,126	2,031	25.0%		
Revenue before reimbursements (net revenue)	109,605	91,607	17,998	19.6%		
Reimbursements	4,339	4,750	(411)	-8.7%		
<b>Total revenue</b>	<b>\$ 113,944</b>	<b>\$96,357</b>	<b>\$17,587</b>	<b>18.3%</b>		
<b>Operating Income:</b>						
Americas	\$ 14,511	\$11,240	\$ 3,271	29.1%	22.3%	21.0%
Europe	3,718	1,139	2,579	226.4%	10.9%	3.8%
Asia Pacific	2,648	1,609	1,039	64.6%	26.1%	19.8%
Total regions	20,877	13,988	6,889	49.2%	19.0%	15.3%
Corporate	(6,349)	(5,792)	(557)	-9.6%		
Operating income before restructuring charges	14,528	8,196	6,332	77.3%	13.3%	8.9%
Restructuring charges	(1,580)	—	(1,580)			
<b>Operating income</b>	<b>\$ 12,948</b>	<b>\$ 8,196</b>	<b>\$ 4,752</b>			

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

**Heidrick & Struggles International, Inc.**  
**Consolidated Statements of Operations**  
(In thousands, except per share data)

	Nine Months Ended September 30,		\$ Change	% Change
	2005	2004		
<b>Revenue:</b>				
Revenue before reimbursements (net revenue)	\$311,560	\$276,762	\$ 34,798	12.6%
Reimbursements	15,735	14,903	832	5.6%
<b>Total revenue</b>	<b>327,295</b>	<b>291,665</b>	<b>35,630</b>	<b>12.2%</b>
<b>Operating expenses:</b>				
Salaries and employee benefits	207,257	188,046	19,211	10.2%
General and administrative expenses	70,375	66,804	3,571	5.3%
Reimbursed expenses	15,735	14,903	832	5.6%
Restructuring charges	22,417	—	22,417	
<b>Total operating expenses</b>	<b>315,784</b>	<b>269,753</b>	<b>46,031</b>	<b>17.1%</b>
<b>Operating income</b>	<b>11,511</b>	<b>21,912</b>	<b>(10,401)</b>	<b>-47.5%</b>
<b>Non-operating income (expense):</b>				
Interest income	3,960	1,366		
Interest expense	(359)	(42)		
Net realized and unrealized gains on equity and warrant portfolio	230	56,967		
Other, net	1,161	52		
<b>Net non-operating income</b>	<b>4,992</b>	<b>58,343</b>		
<b>Income before income taxes</b>	<b>16,503</b>	<b>80,255</b>		
<b>Provision for (benefit from) income taxes</b>	<b>(15,786)</b>	<b>6,955</b>		
<b>Net income</b>	<b>\$ 32,289</b>	<b>\$ 73,300</b>		
<b>Basic earnings per common share</b>	<b>\$ 1.70</b>	<b>\$ 3.88</b>		
<b>Basic weighted average common shares outstanding</b>	<b>18,957</b>	<b>18,872</b>		
<b>Diluted earnings per common share</b>	<b>\$ 1.62</b>	<b>\$ 3.68</b>		
<b>Diluted weighted average common shares outstanding</b>	<b>19,886</b>	<b>19,895</b>		
<b>Salaries and employee benefits as a percentage of net revenue</b>	<b>66.5%</b>	<b>67.9%</b>		
<b>General and administrative expense as a percentage of net revenue</b>	<b>22.6%</b>	<b>24.1%</b>		
<b>Operating income as a percentage of net revenue</b>	<b>3.7%</b>	<b>7.9%</b>		
<b>Effective tax rate</b>	<b>—</b>	<b>8.7%</b>		

**Heidrick & Struggles International, Inc.**  
**Segment Information**  
(In thousands)

Nine Months Ended September 30,

	2005	2004	\$ Change	% Change	2005 Margin *	2004 Margin *
<b>Revenue:</b>						
Americas	\$179,060	\$158,806	\$ 20,254	12.8%		
Europe	102,679	94,544	8,135	8.6%		
Asia Pacific	29,821	23,412	6,409	27.4%		
Revenue before reimbursements (net revenue)	311,560	276,762	34,798	12.6%		
Reimbursements	15,735	14,903	832	5.6%		
<b>Total revenue</b>	<b>\$327,295</b>	<b>\$291,665</b>	<b>\$ 35,630</b>	<b>12.2%</b>		
<b>Operating Income:</b>						
Americas	\$ 39,174	\$ 32,030	\$ 7,144	22.3%	21.9%	20.2%
Europe	5,789	2,501	3,288	131.5%	5.6%	2.6%
Asia Pacific	7,389	5,008	2,381	47.5%	24.8%	21.4%
Total regions	52,352	39,539	12,813	32.4%	16.8%	14.3%
Corporate	(18,424)	(17,627)	(797)	-4.5%		
Operating income before restructuring charges	33,928	21,912	12,016	54.8%	10.9%	7.9%
Restructuring charges	(22,417)	—	(22,417)			
<b>Operating income</b>	<b>\$ 11,511</b>	<b>\$ 21,912</b>	<b>\$(10,401)</b>			

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

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

	Nine Months Ended September 30,	
	2005	2004
<b>Cash flows from operating activities:</b>		
Net income	\$ 32,289	\$ 73,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,628	9,702
Deferred income taxes	(16,366)	(7,035)
Net realized and unrealized gains on equity and warrant portfolio	(230)	(56,967)
Stock-based compensation expense, net	10,074	1,568
Restructuring charges	22,417	—
Cash paid for restructuring charges	(28,625)	(12,858)
Changes in assets and liabilities:		
Trade and other receivables	(23,680)	(8,700)
Accounts payable	(5,182)	(483)
Accrued expenses	31,188	20,598
Income taxes recoverable (payable), net	(11,485)	8,741
Other assets and liabilities, net	(5,043)	746
Net cash provided by operating activities	13,985	28,612
<b>Cash flows from investing activities:</b>		
Capital expenditures	(4,468)	(3,948)
Proceeds from sales of equity securities	1,769	128,991
Payments to consultants related to sales of equity securities	(18,202)	(71)
Proceeds from sales of short-term investments	176,925	35,975
Purchases of short-term investments	(112,600)	(101,025)
Other, net	112	118
Net cash provided by investing activities	43,536	60,040
<b>Cash flows from financing activities:</b>		
Proceeds from stock options exercised	8,050	7,514
Purchases of treasury stock	(27,498)	—
Payments on debt	—	(569)
Net cash provided by (used in) financing activities	(19,448)	6,945
<b>Effect of foreign currency exchange rates on cash and cash equivalents</b>	(2,590)	295
<b>Net increase in cash and cash equivalents</b>	35,483	95,892
<b>Cash and cash equivalents:</b>		
Beginning of period	98,428	79,039
End of period	\$ 133,911	\$ 174,931

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

	Three Months Ended September 30,	
	2005	2004
<b>Cash flows from operating activities:</b>		
Net income	\$ 30,396	\$ 62,149
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,672	3,263
Deferred income taxes	(18,512)	(7,035)
Net realized and unrealized gains on equity and warrant portfolio	(426)	(56,445)
Stock-based compensation expense, net	3,947	716
Restructuring charges	1,580	—
Cash paid for restructuring charges	(8,546)	(3,299)
Changes in assets and liabilities:		
Trade and other receivables	850	8,481
Accounts payable	(548)	(1,175)
Accrued expenses	27,308	17,172
Income taxes recoverable (payable), net	542	9,274
Other assets and liabilities, net	(975)	(1,085)
Net cash provided by operating activities	<u>38,288</u>	<u>32,016</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(1,343)	(879)
Proceeds from sales of equity securities	456	128,841
Payments to consultants related to sales of equity securities	(198)	—
Proceeds from sales of short-term investments	20,050	14,225
Purchases of short-term investments	(10,050)	(45,125)
Other, net	71	38
Net cash provided by investing activities	<u>8,986</u>	<u>97,100</u>
<b>Cash flows from financing activities:</b>		
Proceeds from stock options exercised	2,590	1,081
Payments on debt	—	(200)
Net cash provided by financing activities	<u>2,590</u>	<u>881</u>
<b>Effect of foreign currency exchange rates on cash and cash equivalents</b>	<u>371</u>	<u>660</u>
<b>Net increase in cash and cash equivalents</b>	<u>50,235</u>	<u>130,657</u>
<b>Cash and cash equivalents:</b>		
Beginning of period	83,676	44,274
End of period	<u>\$133,911</u>	<u>\$174,931</u>

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

	September 30,	December 31,
	2005	2004
<b>Current assets:</b>		
Cash and cash equivalents	\$ 133,911	\$ 98,428
Short-term investments	60,000	124,325
Accounts receivable, net of allowance for doubtful accounts	73,360	51,843
Other receivables	3,879	4,453
Prepaid expenses	8,707	8,377
Income taxes recoverable, net	4,032	—
Deferred income taxes, net	7,767	2,744
<b>Total current assets</b>	<b>291,656</b>	<b>290,170</b>
<b>Non-current assets:</b>		
Property and equipment, net	21,993	27,677
Assets designated for retirement and pension plans	27,055	32,468
Investments	2,365	4,089
Other non-current assets	6,163	3,406
Goodwill	48,609	48,818
Other intangible assets, net	6,235	6,890
Deferred income taxes, net	25,626	7,766
<b>Total non-current assets</b>	<b>138,046</b>	<b>131,114</b>
<b>Total assets</b>	<b>\$ 429,702</b>	<b>\$ 421,284</b>
<b>Current liabilities:</b>		
Accounts payable	\$ 5,499	\$ 10,986
Accrued salaries and employee benefits	95,176	68,044
Other accrued liabilities	27,044	42,870
Current portion of accrued restructuring charges	12,676	10,609
Income taxes payable, net	—	7,463
<b>Total current liabilities</b>	<b>140,395</b>	<b>139,972</b>
<b>Non-current liabilities:</b>		
Retirement and pension plans	32,055	37,941
Non-current portion of accrued restructuring charges	12,500	21,632
Other non-current liabilities	6,481	5,613
<b>Total non-current liabilities</b>	<b>51,036</b>	<b>65,186</b>
<b>Stockholders' equity</b>	<b>238,271</b>	<b>216,126</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 429,702</b>	<b>\$ 421,284</b>