UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2019

OR

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

For the transition period from _______ to _______

Commission File Number 0-25837

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in its Charter)

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

233 South Wacker Drive, Suite 4900, Chicago, Illinois, 60606-6303
(Address of Principal Executive Offices)

(312) 496-1200
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Trading Symbol**	**Name of Each Exchange On Which Registered**
Common Stock, $.01 par value	HSII	The NASDAQ Stock Market LLC

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 of time that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	x
Non-Accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
Emerging growth company	o		

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. o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of October 25, 2019, there were 19,170,352 shares of the Company's common stock outstanding.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2019 (Unaudited)	December 31, 2018
Current assets		
Cash and cash equivalents	$ 176,372	$ 279,906
Marketable securities	42,566	—
Accounts receivable, net	150,872	114,977
Prepaid expenses	20,436	22,766
Other current assets	27,966	29,598
Income taxes recoverable	5,818	3,620
Total current assets	424,030	450,867
Non-current assets		
Property and equipment, net	29,356	33,871
Operating lease right-of-use assets	98,097	—
Assets designated for retirement and pension plans	14,289	15,035
Investments	23,807	19,442
Other non-current assets	20,317	22,276
Goodwill	128,286	122,092
Other intangible assets, net	4,428	2,216
Deferred income taxes	34,013	34,830
Total non-current assets	352,593	249,762
Total assets	$ 776,623	$ 700,629
Current liabilities		
Accounts payable	$ 9,093	$ 9,166
Accrued salaries and benefits	180,207	227,653
Deferred revenue	40,434	40,673
Operating lease liabilities	30,663	—
Other current liabilities	29,327	33,219
Income taxes payable	6,517	8,240
Total current liabilities	296,241	318,951
Non-current liabilities		
Accrued salaries and benefits	53,099	57,234
Retirement and pension plans	43,269	39,865
Operating lease liabilities	76,871	—
Other non-current liabilities	10,508	17,423
Total non-current liabilities	183,747	114,522
Total liabilities	479,988	433,473
Commitments and contingencies (Note 18)		
Stockholders' equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued at September 30, 2019 and December 31, 2018	—	—
Common stock, $0.01 par value, 100,000,000 shares authorized, 19,585,777 shares issued, 19,127,401 and 18,954,275 shares outstanding at September 30, 2019 and December 31, 2018, respectively	196	196
Treasury stock at cost, 458,376 and 631,502 shares at September 30, 2019 and December 31, 2018, respectively	(14,795)	(20,298)
Additional paid in capital	224,687	227,147
Retained earnings	83,497	56,049
Accumulated other comprehensive income	3,050	4,062
Total stockholders' equity	296,635	267,156
Total liabilities and stockholders' equity	$ 776,623	$ 700,629

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue				
Revenue before reimbursements (net revenue)	$ 182,174	$ 187,588	$ 526,890	$ 530,718
Reimbursements	4,344	4,753	14,075	13,970
Total revenue	186,518	192,341	540,965	544,688
Operating expenses				
Salaries and benefits	130,479	133,933	371,898	373,021
General and administrative expenses	33,093	33,072	101,646	105,532
Restructuring charges	4,130	—	4,130	—
Reimbursed expenses	4,344	4,753	14,075	13,970
Total operating expenses	172,046	171,758	491,749	492,523
Operating income	14,472	20,583	49,216	52,165
Non-operating income (expense)				
Interest, net	819	259	2,039	496
Other, net	(464)	2,345	1,887	1,849
Net non-operating income (expense)	355	2,604	3,926	2,345
Income before income taxes	14,827	23,187	53,142	54,510
Provision for income taxes	4,880	6,718	16,828	16,410
Net income	9,947	16,469	36,314	38,100
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment	(1,337)	(881)	(1,024)	(3,107)
Net unrealized gain on available-for-sale investments	—	—	12	—
Other comprehensive loss, net of tax	(1,337)	(881)	(1,012)	(3,107)
Comprehensive income	$ 8,610	$ 15,588	$ 35,302	$ 34,993
Basic weighted average common shares outstanding	19,127	18,954	19,084	18,905
Diluted weighted average common shares outstanding	19,428	19,401	19,518	19,444
Basic net income per common share	$ 0.52	$ 0.87	$ 1.90	$ 2.02
Diluted net income per common share	$ 0.51	$ 0.85	$ 1.86	$ 1.96
Cash dividends paid per share	$ 0.15	$ 0.13	$ 0.45	$ 0.39

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

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

	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2018	19,586	$ 196	632	$ (20,298)	$ 227,147	$ 56,049	$ 4,062	$ 267,156
Net income	—	—	—	—	—	12,087	—	12,087
Other comprehensive income, net of tax	—	—	—	—	—	—	320	320
Common and treasury stock transactions:								
Stock-based compensation	—	—	—	—	1,343	—	—	1,343
Vesting of equity, net of tax withholdings	—	—	(160)	5,155	(9,707)	—	—	(4,552)
Cash dividends declared ($0.15 per share)	—	—	—	—	—	(2,848)	—	(2,848)
Dividend equivalents on restricted stock units	—	—	—	—	—	(87)	—	(87)
Balance at March 31, 2019	19,586	$ 196	472	$ (15,143)	$ 218,783	$ 65,201	$ 4,382	$ 273,419
Net income	—	—	—	—	—	14,280	—	14,280
Other comprehensive income, net of tax	—	—	—	—	—	—	5	5
Common and treasury stock transactions:								
Stock-based compensation	—	—	—	—	3,368	—	—	3,368
Vesting of equity, net of tax withholdings	—	—	(3)	—	—	—	—	—
Re-issuance of treasury stock	—	—	(11)	348	(3)	—	—	345
Cash dividends declared ($0.15 per share)	—	—	—	—	—	(2,867)	—	(2,867)
Dividend equivalents on restricted stock units	—	—	—	—	—	(101)	—	(101)
Balance at June 30, 2019	19,586	$ 196	458	$ (14,795)	$ 222,148	$ 76,513	$ 4,387	$ 288,449
Net income	—	—	—	—	—	9,947	—	$ 9,947
Other comprehensive income, net of tax	—	—	—	—	—	—	(1,337)	(1,337)
Common and treasury stock transactions:								
Stock-based compensation	—	—	—	—	2,539	—	—	2,539
Cash dividends declared ($0.15 per share)	—	—	—	—	—	(2,870)	—	(2,870)
Dividend equivalents on restricted stock units	—	—	—	—	—	(93)	—	(93)
Balance at September 30, 2019	19,586	$ 196	458	$ (14,795)	$ 224,687	$ 83,497	$ 3,050	$ 296,635

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

	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2017	19,586	$ 196	805	$ (26,096)	$ 226,006	$ (716)	$ 13,315	$ 212,705
Net income	—	—	—	—	—	10,168	—	10,168
Adoption of accounting standards	—	—	—	—	—	15,043	(6,089)	8,954
Other comprehensive income, net of tax	—	—	—	—	—	—	1,590	1,590
Common and treasury stock transactions:								
Stock-based compensation	—	—	—	—	1,776	—	—	1,776
Vesting of equity, net of tax withholdings	—	—	(138)	4,614	(6,847)	—	—	(2,233)
Cash dividends declared ($0.13 per share)	—	—	—	—	—	(2,460)	—	(2,460)
Dividend equivalents on restricted stock units	—	—	—	—	—	(11)	—	(11)
Balance at March 31, 2018	19,586	$ 196	667	$ (21,482)	$ 220,935	$ 22,024	$ 8,816	$ 230,489
Net income	—	—	—	—	—	11,463	—	11,463
Other comprehensive (loss), net of tax	—	—	—	—	—	—	(3,816)	(3,816)
Common and treasury stock transactions:								
Stock-based compensation	—	—	—	—	2,076	—	—	2,076
Vesting of equity, net of tax withholdings	—	—	(29)	989	(989)	—	—	—
Re-issuance of treasury stock	—	—	(6)	195	29	—	—	224
Cash dividends declared ($0.13 per share)	—	—	—	—	—	(2,465)	—	(2,465)
Dividend equivalents on restricted stock units	—	—	—	—	—	(106)	—	(106)
Balance at June 30, 2018	19,586	$ 196	632	$ (20,298)	$ 222,051	$ 30,916	$ 5,000	$ 237,865
Net income	—	—	—	—	—	16,469	—	16,469
Other comprehensive (loss), net of tax	—	—	—	—	—	—	(881)	(881)
Common and treasury stock transactions:								—
Stock-based compensation	—	—	—	—	2,911	—	—	2,911
Cash dividends declared ($0.13 per share)	—	—	—	—	—	(2,464)	—	(2,464)
Dividend equivalents on restricted stock units	—	—	—	—	—	(67)	—	(67)
Balance at September 30, 2018	$ 19,586	$ 196	$ 632	$ (20,298)	$ 224,962	$ 44,854	$ 4,119	$ 253,833

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

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows - operating activities		
Net income	$ 36,314	$ 38,100
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	7,983	9,558
Deferred income taxes	(24)	(438)
Stock-based compensation expense	7,250	6,763
Accretion expense related to earnout payments	495	963
Gain on marketable securities	(353)	—
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable	(36,961)	(60,057)
Accounts payable	(144)	(761)
Accrued expenses	(52,680)	3,834
Restructuring accrual	2,762	(10,833)
Deferred revenue	113	185
Income taxes payable, net	(3,952)	(2,003)
Retirement and pension plan assets and liabilities	1,824	(1,019)
Prepaid expenses	(920)	(3,416)
Other assets and liabilities, net	2,874	(3,761)
Net cash used in operating activities	(35,419)	(22,885)
Cash flows - investing activities		
Acquisition of business	(3,520)	(3,119)
Capital expenditures	(2,641)	(4,939)
Purchases of available-for-sale investments	(83,146)	(2,046)
Proceeds from sales of available-for-sale investments	39,162	2,890
Net cash used in investing activities	(50,145)	(7,214)
Cash flows - financing activities		
Proceeds from line of credit	—	20,000
Payments on line of credit	—	(20,000)
Cash dividends paid	(8,866)	(7,573)
Payment of employee tax withholdings on equity transactions	(4,552)	(2,234)
Acquisition earnout payments	(1,853)	—
Net cash used in financing activities	(15,271)	(9,807)
Effect of exchange rate fluctuations on cash, cash equivalents and restricted cash	(3,055)	(3,442)
Net decrease in cash, cash equivalents and restricted cash	(103,890)	(43,348)
Cash, cash equivalents and restricted cash at beginning of period	280,262	208,162
Cash, cash equivalents and restricted cash at end of period	$ 176,372	$ 164,814

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

(All tables in thousands, except per share figures)

1. Basis of Presentation of Interim Financial Information

The accompanying unaudited Condensed Consolidated Financial Statements of Heidrick & Struggles International, Inc. and subsidiaries (the "Company") have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Significant items subject to estimates and assumptions include revenue recognition, income taxes, interim effective tax rate and the 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. These financial statements and notes are to be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC on February 26, 2019.

2. Summary of Significant Accounting Policies

A complete listing of the Company's significant accounting policies is discussed in Note 2, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Revenue Recognition

See Note 3, *Revenue.*

Marketable Securities

The Company's marketable securities consist of available-for-sale debt securities with original maturities exceeding three months.

Available-for-sale debt securities are reported at fair value with realized gains (losses) recorded as non-operating income (expense) in *Interest, net* in the Condensed Consolidated Statements of Comprehensive Income. Unrealized gains (losses) are recorded as a separate component of *Accumulated other comprehensive income* in the Consolidated Balance Sheets until realized.

Restricted Cash

Historically, the Company had lease agreements and business licenses with terms that required the Company to restrict cash through the termination dates of the agreements. Current and non-current restricted cash is included in *Other current assets* and *Other non-current assets*, respectively, in the Condensed Consolidated Balance Sheets.

The following table provides a reconciliation of the cash and cash equivalents between the Condensed Consolidated Balance Sheets and the Condensed Consolidated Statement of Cash Flows as of September 30, 2019 and 2018, and December 31, 2018 and 2017:

	September 30,		December 31,	
	2019	2018	2018	2017
Cash and cash equivalents	$ 176,372	$ 164,216	$ 279,906	$ 207,534
Restricted cash included within other current assets	—	598	108	526
Restricted cash included within other non-current assets	—	—	248	102
Total cash, cash equivalents and restricted cash	$ 176,372	$ 164,814	$ 280,262	$ 208,162

Earnings per Common Share

Basic earnings per common share is computed by dividing net income by weighted average common shares outstanding for the period. 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 per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$ 9,947	$ 16,469	$ 36,314	$ 38,100
Weighted average shares outstanding:				
Basic	19,127	18,954	19,084	18,905
Effect of dilutive securities:				
Restricted stock units	195	278	283	345
Performance stock units	106	169	151	194
Diluted	19,428	19,401	19,518	19,444
Basic earnings per share	$ 0.52	$ 0.87	$ 1.90	$ 2.02
Diluted earnings per share	$ 0.51	$ 0.85	$ 1.86	$ 1.96

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in *Operating Lease Right-of-Use Assets*, *Operating Lease Liabilities - Current* and *Operating Lease Liabilities - Non-Current* in our Condensed Consolidated Balance Sheets. The Company does not have any leases that meet the finance lease criteria.

Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized on the commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease right-of-use asset also includes any lease payments made in advance and any accrued rent expense balances. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

We have lease agreements with lease and non-lease components. For office leases, we account for the lease and non-lease components as a single lease component. For equipment leases, such as vehicles and office equipment, we account for the lease and non-lease components separately.

Recently Adopted Financial Accounting Standards

On January 1, 2019, the Company adopted Accounting Standards Update ("ASU") No. 2016-02, Leases, ASU No. 2018-10, Codification Improvements to Topic 842 (Leases) and ASU No. 2018-11, Targeted Improvements to Topic 842 (Leases). The guidance is intended to increase transparency and comparability among companies for leasing transactions, including a requirement for companies that lease assets to recognize on their balance sheets the assets and liabilities for the rights and obligations created by those leases. The guidance also provides for disclosures that allow the users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted the guidance on January 1, 2019 using the modified retrospective method without restatement of comparative periods. As such, periods prior to the date of adoption are presented in accordance with ASC 840 - Leases. The Company utilized the available practical expedient that allowed for the Company to not reassess whether existing contracts contain a lease under the new definition of a lease, lease classification for existing leases and whether previously capitalized initial direct costs would qualify for capitalization under the new guidance.

The adoption of this guidance had a material impact on the Condensed Consolidated Balance Sheet as of September 30, 2019 due to the recognition of equal right-of-use assets and lease liabilities for the Company's portfolio of operating leases. The right-of-use asset balance was then adjusted by the reclassification of pre-existing prepaid and accrued rent balances from other line items within the Condensed Consolidated Balance Sheet. The adoption had an immaterial impact on the Condensed Consolidated Statement of Comprehensive Income and Condensed Consolidated Statement of Cash Flows for the three and nine months ended September 30, 2019. The adoption had no impact on the Condensed Consolidated Statement of Changes in Stockholders' Equity for the three and nine months ended September 30, 2019.

Additional information and disclosures required by the new standard are contained in Note 6, *Leases*.

On January 1, 2019, the Company adopted ASU No. 2018-02, Income Statement - Reporting Comprehensive Income, which is intended to improve the usefulness of information reported as a result of the Tax Cuts and Jobs Act. The new guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

3. Revenue

Executive Search

Revenue is recognized as we satisfy our performance obligations by transferring a good or service to a client. Generally, each of our executive search contracts contains one performance obligation which is the process of identifying potentially qualified candidates for a specific client position. In most contracts, the transaction price includes both fixed and variable consideration. Fixed compensation is comprised of a retainer, equal to approximately one-third of the estimated first year compensation for the position to be filled, and indirect expenses, equal to a specified percentage of the retainer, as defined in the contract. 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. 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 additional billing as uptick revenue. In most contracts, variable consideration is comprised of uptick revenue and direct expenses. The Company bills its clients for uptick revenue upon completion of the executive search, and direct expenses are billed as incurred.

The Company estimates uptick revenue at contract inception, based on a portfolio approach, utilizing the expected value method based on a historical analysis of uptick revenue realized in the Company’s geographic regions and industry practices, and initially records a contract’s uptick revenue in an amount 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. Differences between the estimated and actual amounts of variable consideration are recorded when known. The Company does not estimate revenue for direct expenses as it is not materially different than recognizing revenue as direct expenses are incurred.

Revenue from our executive search engagement performance obligation is recognized over time as our clients simultaneously receive and consume the benefits provided by the Company's performance. 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 contract. Revenue is generally recognized over a period of approximately six months.

Our executive search contracts contain a replacement guarantee which provides for an additional search to be completed, free of charge except for expense reimbursements, should the candidate presented by the Company be hired by the client and subsequently terminated by the client for performance reasons within a specified period of time. The replacement guarantee is an assurance warranty, which is not a performance obligation under the terms of the executive search contract, as the Company does not provide any services under the terms of the guarantee that transfer benefits to the client in excess of assuring that the identified candidate complies with the agreed-upon specifications. The Company accounts for the replacement guarantee under the relevant warranty guidance in ASC 460 - Guarantees.

Heidrick Consulting

Revenue is recognized as we satisfy our performance obligations by transferring a good or service to a client. Heidrick Consulting enters into contracts with clients that outline the general terms and conditions of the assignment to provide succession planning, executive assessment, top team and board effectiveness and culture shaping programs. The consideration the Company expects to receive under each contract is generally fixed. Most of our consulting contracts contain one performance obligation, which is the overall process of providing the consulting service requested by the client. The majority of our consulting revenue is recognized over time utilizing both input and output methods. Contracts that contain coaching sessions, training sessions or the completion of assessments are recognized using the output method as each session or assessment is delivered to the client. Contracts that contain general consulting work are recognized using the input method utilizing a measure of progress that is based on time incurred on the project.

The Company enters into enterprise agreements with clients to provide a license for online access, via the Company's SD Connect platform, to training and other proprietary material related to the Company's culture shaping programs. The consideration the Company expects to receive under the terms of an enterprise agreement is comprised of a single fixed fee. Our enterprise agreements contain multiple performance obligations, the delivery of materials via SD Connect and material rights related to options to renew enterprise agreements at a significant discount. The Company allocates the transaction price to the performance obligations in the contract on a stand-alone selling price basis. The stand-alone selling price for the initial term of the enterprise agreement is outlined in the contract and is equal to the price paid by the client for the agreement over the initial term of the contract. The stand-alone selling price for the options to renew, or material right, are not directly observable and must be estimated. This estimate is required to reflect the discount the client would obtain when exercising the option to renew, adjusted for the likelihood that the option will be exercised. The Company estimates the likelihood of renewal using a historical analysis of client renewals. Access to SD Connect represents a right to access the Company's intellectual property that the client simultaneously receives and consumes as the Company performs under the agreement, and therefore the Company recognizes revenue over time. Given the continuous nature of this commitment, the Company utilizes straight-line ratable revenue recognition over the estimated subscription period as the Company's clients will receive and consume the benefits from SD Connect equally throughout the contract period. Revenue related to client renewals of enterprise agreements is recognized over the term of the renewal, which is generally twelve months. Enterprise agreements do not comprise a significant portion of the Company's revenue.

Contract Balances

Contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. Contract assets and liabilities are classified as current due to the nature of the Company's contracts, which are completed within one year. Contract assets are included within *Other Current Assets* on the Condensed Consolidated Balance Sheets.

Unbilled receivables: Unbilled revenue represents contract assets from revenue recognized over time in excess of the amount billed to the client and the amount billed to the client is solely dependent upon the passage of time. This amount includes revenue recognized in excess of billed executive search retainers and Heidrick Consulting fees.

Contract assets: Contract assets represent revenue recognized over time in excess of the amount billed to the client and the amount billed to the client is not solely subject to the passage of time. This amount primarily includes revenue recognized for upticks and contingent placement fees in executive search contracts.

Deferred revenue: Contract liabilities consist of deferred revenue, which is equal to billings in excess of revenue recognized.

The following table outlines the changes in our contract asset and liability balances during the period:

	December 31, 2018	September 30, 2019	Change
Contract assets			
Unbilled receivables	$ 8,684	$ 9,090	$ 406
Contract assets	15,291	13,686	(1,605)
Total contract assets	23,975	22,776	(1,199)
Contract liabilities			
Deferred revenue	$ 40,673	$ 40,434	$ (239)

During the nine months ended September 30, 2019, we recognized revenue of $33.8 million that was included in the contract liabilities balance at the beginning of the period. The amount of revenue recognized during the nine months ended September 30, 2019, from performance obligations partially satisfied in previous periods as a result of changes in the estimates of variable consideration was $17.8 million.

Each of the Company's contracts has an expected duration of one year or less. Accordingly, the Company has elected to utilize the available practical expedient related to the disclosure of the transaction price allocated to the remaining performance obligations under its contracts. The Company has also elected the available practical expedients related to adjusting for the effects of a significant financing component and the capitalization of contract acquisition costs. The Company charges and collects from its clients, sales tax and value added taxes as required by certain jurisdictions. The Company has made an accounting policy election to exclude these items from the transaction price in its contracts.

4. Allowance for Doubtful Accounts

The activity of the allowance for doubtful accounts is as follows:

Balance at December 31, 2018	$ 3,502
Provision charged to income	3,058
Write-offs, net of recoveries	(2,101)
Foreign currency translation	(72)
Balance at September 30, 2019	$ 4,387

5. Property and Equipment, net

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

	September 30, 2019	December 31, 2018
Leasehold improvements	$ 45,839	$ 48,455
Office furniture, fixtures and equipment	17,441	17,919
Computer equipment and software	27,243	27,063
Property and equipment, gross	90,523	93,437
Accumulated depreciation	(61,167)	(59,566)
Property and equipment, net	$ 29,356	$ 33,871

Depreciation expense for the three months ended September 30, 2019 and 2018 was $2.4 million and $2.7 million, respectively. Depreciation expense for the nine months ended September 30, 2019 and 2018 was $7.3 million and $8.3 million, respectively.

6. Leases

The Company's lease portfolio is comprised of operating leases for office space and equipment. The majority of the Company's leases include both lease and non-lease components, which the Company accounts for differently depending on the underlying class of asset. Certain of the Company's leases include one or more options to renew or terminate the lease at the Company's discretion. Generally, the renewal and termination options are not included in the right-of-use assets and lease liabilities as they are not reasonably certain of exercise. The Company regularly evaluates the renewal and termination options and when they are reasonably certain of exercise, includes the renewal or termination option in our lease term.

As most of the Company's leases do not provide an implicit interest rate, the Company utilizes its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Company has a centrally managed treasury function; therefore, a portfolio approach is applied in determining the incremental borrowing rate. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow on a fully collateralized basis over a similar term in an amount equal to the total lease payments in a similar economic environment.

Office leases have remaining lease terms that range from less than one year to 7 years, some of which also include options to extend or terminate the lease. Most office leases contain both fixed and variable lease payments. Variable lease costs consist primarily of rent escalations based on an established index or rate and taxes, insurance, and common area or other maintenance costs, which are paid based on actual costs incurred by the lessor. The Company has elected to utilize the available practical expedient to not separate lease and non-lease components for office leases.

Equipment leases, which are comprised of vehicle and office equipment leases, have remaining terms that range from less than one year to 4.7 years, some of which also include options to extend or terminate the lease. The Company's equipment leases do not contain variable lease payments. The Company separates the lease and non-lease components for its equipment leases. Equipment leases do not comprise a significant portion of the Company's lease portfolio.

Lease cost components included within *General and Administrative Expenses* in our Condensed Consolidated Statements of Comprehensive Income were as follows:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	$ 6,180	$ 18,660
Variable lease cost	2,128	6,042
Total lease cost	$ 8,308	$ 24,702

Supplemental cash flow information related to the Company's operating leases is as follows:

	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 26,879
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	$ 11,385

The weighted average remaining lease term and weighted average discount rate for our operating leases as of September 30, 2019 is as follows:

	September 30, 2019
Weighted Average Remaining Lease Term	
Operating leases	4.5 years
Weighted Average Discount Rate	
Operating leases	3.97%

The future maturities of the Company's operating lease liabilities as of September 30, 2019, for the years ended December 31 is as follows:

	Operating Lease Maturity
2019	$ 9,441
2020	30,518
2021	25,662
2022	22,097
2023	19,189
Thereafter	13,258
Total lease payments	120,165
Less: Interest	(12,631)
Present value of lease liabilities	$ 107,534

7. Financial Instruments and Fair Value

Cash, Cash Equivalents and Marketable Securities

The Company's investments in marketable debt securities, which consist of U.S. Treasury bills and commercial paper, are classified and accounted for as available-for-sale. The Company classifies its marketable debt securities as either short-term or long-term based on each instrument's underlying contractual maturity date. Unrealized gains and losses on marketable debt securities classified as available-for-sale are recognized in *Accumulated other comprehensive income* in the Condensed Consolidated Balance Sheets until realized.

The Company's cash, cash equivalents, and marketable securities by significant investment category are as follows:

	Fair Value				Balance Sheet Classification	
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities
Balance at September 30, 2019						
Cash					$ 114,467	$ —
Level 1(1):						
Money market funds	15,595	—	—	15,595	15,595	—
U.S. Treasury securities	82,386	12	—	82,398	46,310	36,088
Total Level 1	97,981	12	—	97,993	61,905	36,088
Level 2(2):						
Commercial paper	6,478	—	—	6,478	—	6,478
Total	$ 104,459	$ 12	$ —	$ 104,471	$ 176,372	$ 42,566

	Fair Value				Balance Sheet Classification	
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities
Balance at December 31, 2018						
Cash					$ 279,829	$ —
Level 1(1):						
Money market funds	77	—	—	77	77	—
Total	$ 77	$ —	$ —	$ 77	$ 279,906	$ —

(1) Level 1 – Quoted prices in active markets for identical assets and liabilities.
(2) 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.

Investments, Assets Designated for Retirement and Pension Plans and Associated Liabilities

The Company has a U.S. non-qualified deferred compensation plan that consists primarily of U.S. marketable securities and mutual funds. The aggregate cost basis for these investments was $16.5 million and $14.6 million as of September 30, 2019 and December 31, 2018, respectively.

The Company also 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. 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.

The following tables provide a summary of the fair value measurements for each major category of investments, assets designated for retirement and pension plans and associated liabilities measured at fair value on a recurring basis:

		Balance Sheet Classification				
	Fair Value	Other Current Assets	Assets Designated for Retirement and Pension Plans	Investments	Other Current Liabilities	Retirement and Pension Plans
Balance at September 30, 2019						
Level 1[(1)]:						
U.S. non-qualified deferred compensation plan	$ 23,807	$ —	$ —	$ 23,807	$ —	$ —
Level 2[(2)]:						
Retirement and pension plan assets	15,571	1,282	14,289	—	—	—
Pension benefit obligation	(19,870)	—	—	—	(1,282)	(18,588)
Total Level 2	(4,299)	1,282	14,289	—	(1,282)	(18,588)
Total	$ 19,508	$ 1,282	$ 14,289	$ 23,807	$ (1,282)	$ (18,588)

		Balance Sheet Classification				
	Fair Value	Other Current Assets	Assets Designated for Retirement and Pension Plans	Investments	Other Current Liabilities	Retirement and Pension Plans
Balance at December 31, 2018						
Level 1[(1)]:						
U.S. non-qualified deferred compensation plan	$ 19,442	$ —	$ —	$ 19,442	$ —	$ —
Level 2[(2)]:						
Retirement and pension plan assets	16,384	1,349	15,035	—	—	—
Pension benefit obligation	(20,908)	—	—	—	(1,349)	(19,559)
Total Level 2	(4,524)	1,349	15,035	—	(1,349)	(19,559)
Total	$ 14,918	$ 1,349	$ 15,035	$ 19,442	$ (1,349)	$ (19,559)

(1) Level 1 – Quoted prices in active markets for identical assets and liabilities.
(2) 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.

Contingent Consideration

The former owners of the Company's prior year acquisitions are eligible to receive additional cash consideration based on the attainment of certain operating metrics in the periods subsequent to acquisition. Contingent consideration is valued using significant inputs that are not observable in the market which are defined as Level 3 inputs pursuant to fair value measurement accounting. The Company determines the fair value of contingent consideration using discounted cash flow models.

The following table provides a reconciliation of the beginning and ending balance of Level 3 liabilities for the nine months ended September 30, 2019:

	Acquisition Earnout Accruals
Balance at December 31, 2018	$ (6,627)
Acquisition earnouts (Note 8)	(5,862)
Earnout accretion	(495)
Earnout payments	3,009
Earnout adjustments	(1,135)
Foreign currency translation	209
Balance at September 30, 2019	$ (10,901)

8. Acquisitions

In September 2019, the Company acquired 2GET Holdings Limited ("2GET"), a Brazil-based provider of executive search services, and its wholly owned subsidiaries. Under the terms of the purchase agreement, the Company paid $5.2 million of initial consideration for substantially all of the outstanding equity of 2GET subject to a final working capital settlement. The acquisition was funded with $4.1 million of existing cash at closing and $1.1 million of the Company's common stock to be transferred in October 2019. The former owners of 2GET are eligible to receive additional cash consideration, which the Company estimates to be between $5.0 million and $15.0 million, based on the achievement of certain revenue and EBITDA milestones for the period from acquisition through 2023. When estimating the present value of future cash consideration, the Company accrued $5.9 million as of the acquisition date. The Company recorded an estimated $3.0 million of intangible assets and $7.5 million of goodwill. The goodwill is primarily related to the acquired workforce and strategic fit. The fair value estimate of assets acquired and liabilities assumed, including the earnout liability, identifiable intangible assets and goodwill, is pending completion. The Company expects to finalize its estimates of fair value during the three months ended December 31, 2019.

9. Goodwill and Other Intangible Assets

Goodwill

The Company's goodwill by segment is as follows:

	September 30, 2019	December 31, 2018
Executive Search		
Americas	$ 96,012	$ 88,410
Europe	23,949	24,924
Asia Pacific	8,325	8,758
Total Executive Search	128,286	122,092
Heidrick Consulting	36,257	36,257
Goodwill, gross	164,543	158,349
Accumulated impairment	(36,257)	(36,257)
Goodwill, net	$ 128,286	$ 122,092

Changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2019, are as follows:

	Executive Search				
	Americas	Europe	Asia Pacific	Heidrick Consulting	Total
Gross goodwill at December 31, 2018	$ 88,410	$ 24,924	$ 8,758	$ 36,257	$ 158,349
Accumulated impairment	—	—	—	(36,257)	(36,257)
Net goodwill at December 31, 2018	88,410	24,924	8,758	—	122,092
2GET acquisition	7,504	—	—	—	7,504
Foreign currency translation	98	(975)	(433)	—	(1,310)
Net goodwill at September 30, 2019	$ 96,012	$ 23,949	$ 8,325	$ —	$ 128,286

In September 2019 the Company acquired 2GET and included an estimate of the fair value of the acquired assets and liabilities as of the acquisition date in the Condensed Consolidated Balance Sheets. The Company included an estimated $7.5 million of goodwill related the acquisition in the Americas segment. The Company's estimate of the fair value of the acquired assets and liabilities is pending completion and is expected to be finalized during the three months ended December 31, 2019.

Other Intangible Assets, net

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

	September 30, 2019	December 31, 2018
Executive Search		
Americas	$ 2,951	$ 52
Europe	1,412	2,086
Asia Pacific	65	78
Total Executive Search	4,428	2,216
Heidrick Consulting	—	—
Total other intangible assets, net	$ 4,428	$ 2,216

The Company recorded an estimate for customer relationships in the Americas segment of $3.0 million related to the acquisition of 2GET. The Company's estimate of the fair value of the acquired assets and liabilities is pending completion and is expected to be finalized during the three months ended December 31, 2019.

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

	Weighted Average Life (Years)	September 30, 2019			December 31, 2018		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	6.2	$ 18,628	$ (14,200)	$ 4,428	$ 15,910	$ (13,694)	$ 2,216

Intangible asset amortization expense for the three months ended September 30, 2019 and 2018 was $0.2 million and $0.4 million, respectively. Intangible asset amortization expense for the nine months ended September 30, 2019 and 2018 was $0.7 million and $1.2 million, respectively.

The Company's estimated future amortization expense related to intangible assets as of September 30, 2019, for the years ended December 31 is as follows:

	Estimated Future Amortization
2019	$ 287
2020	998
2021	833
2022	723
2023	632
Thereafter	955
Total	$ 4,428

10. Other Current Assets and Non-Current Liabilities

The components of other current assets are as follows:

	September 30, 2019	December 31, 2018
Contract assets	$ 22,776	$ 23,975
Other	5,190	5,623
Total other current assets	$ 27,966	$ 29,598

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

	September 30, 2019	December 31, 2018
Premise related costs	$ 2,557	$ 15,473
Accrued earnout payments	5,862	—
Other	2,089	1,950
Total other non-current liabilities	$ 10,508	$ 17,423

11. Line of Credit

On October 26, 2018, the Company entered into a new Credit Agreement (the "2018 Credit Agreement") to replace the Second Amended and Restated Credit Agreement (the "Restated Credit Agreement") executed on June 30, 2015. The 2018 Credit Agreement provides the Company with a senior unsecured revolving line of credit with an aggregate commitment of $175 million, which includes a sublimit of $25 million for letters of credit, and a $10 million swingline loan sublimit. The agreement also includes a $75 million expansion feature. The 2018 Credit Agreement will mature in October 2023. Borrowings under the 2018 Credit Agreement bear interest at the Company's election of the Alternate Base Rate (as defined in the 2018 Credit Agreement) or Adjusted LIBOR (as defined in the 2018 Credit Agreement) plus a spread as determined by the Company's leverage ratio.

Borrowings under the 2018 Credit Agreement may be used for working capital, capital expenditures, Permitted Acquisitions (as defined in the 2018 Credit Agreement) and for other general purposes of the Company and its subsidiaries. The obligations under the 2018 Credit Agreement are guaranteed by certain of the Company's subsidiaries.

The Company capitalized approximately $1.0 million of loan acquisition costs related to the 2018 Credit Agreement, which will be amortized over the term of the agreement.

Before October 26, 2018, the Company was party to the Restated Credit Agreement, which was executed on June 30, 2015. The Restated Credit Agreement provided a single senior unsecured revolving line of credit with an aggregate commitment of up to $100 million, which included a sublimit of $25 million for letters of credit, and a $50 million expansion feature (the “Replacement Facility”). Borrowings under the Restated Credit Agreement bore interest at the Company's election of the existing Alternate Base Rate (as defined in the Restated Credit Agreement) or Adjusted LIBOR Rate (as defined in the Restated Credit Agreement) plus a spread as determined by the Company's leverage ratio.

During the three months ended March 31, 2018, the Company borrowed $20 million under the Restated Credit Agreement and elected the Adjusted LIBOR Rate. The Company subsequently repaid $8 million during the three months ended March 31, 2018 and $12 million during the three months ended June 30, 2018.

As of September 30, 2019, and December 31, 2018, the Company had no outstanding borrowings. The Company was in compliance with the financial and other covenants under both facilities and no event of default existed.

12. Stock-Based Compensation

The Company’s Second Amended and Restated 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. On May 24, 2018, 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 850,000 shares. As of September 30, 2019, 2,495,928 awards have been issued under the 2012 Program and 1,032,494 shares remain available for future awards, including 678,422 forfeited awards. The 2012 Program provides that no awards can be granted after May 24, 2028.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Salaries and benefits (1)	$ 3,294	$ 2,911	$ 7,941	$ 6,200
General and administrative expenses	—	—	460	563
Income tax benefit related to stock-based compensation included in net income	870	771	2,219	1,792

(1) Includes $0.8 million and $1.2 million of expense related to cash settled restricted stock units for the three and nine months ended September 30, 2019, respectively. Includes $0.4 million of expense related to cash settled restricted stock units for the three and nine months ended September 30, 2018.

Restricted Stock Units

Restricted stock units are generally subject to ratable vesting over a three-year period. Beginning in 2018, a portion of the Company's restricted stock units are subject to ratable vesting over a four-year period. Compensation expense related to service-based restricted stock units is recognized on a straight-line basis over the vesting period.

Restricted stock unit activity for the nine months ended September 30, 2019 is as follows:

	Number of Restricted Stock Units		Weighted-Average Grant-Date Fair Value
Outstanding on December 31, 2018	512,446	$	28.83
Granted	270,488		33.55
Vested and converted to common stock	(175,792)		24.19
Forfeited	(3,453)		34.43
Outstanding on September 30, 2019	603,689	$	32.27

As of September 30, 2019, there was $11.4 million of pre-tax unrecognized compensation expense related to unvested restricted stock units, which is expected to be recognized over a weighted average of 2.8 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% and 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.

During the nine months ended September 30, 2019, performance stock units were granted to certain employees of the Company and are subject to a cliff vesting period of three years and certain other performance conditions. Half of award is based on the achievement of certain operating margin thresholds and half of the award is based on the Company's total shareholder return, relative to a peer group. The fair value of the awards based on total shareholder return was determined using the Monte-Carlo simulation model. A Monte Carlo simulation model uses stock price volatility and other variables to estimate the probability of satisfying the performance conditions and the resulting fair value of the award.

Performance stock unit activity for the nine months ended September 30, 2019 is as follows:

	Number of Performance Stock Units		Weighted-Average Grant-Date Fair Value
Outstanding on December 31, 2018	197,117	$	27.58
Granted	64,701		37.62
Vested and converted to common stock	(99,219)		25.04
Forfeited	—		—
Outstanding on September 30, 2019	162,599	$	33.13

As of September 30, 2019, there was $3.4 million of pre-tax unrecognized compensation expense related to unvested performance stock units, which is expected to be recognized over a weighted average of 2.1 years.

Phantom Stock Units

Phantom stock units are grants of phantom stock with respect to shares of the Company's common stock that are settled in cash and are subject to various restrictions, including restrictions on transferability, vesting and forfeiture provisions. Shares of phantom stock that do not vest for any reason will be forfeited by the recipient and will revert to the Company.

Phantom stock units were granted to certain employees of the Company and are subject to vesting over a period of four years and certain other conditions, including continued service to the Company. As a result of the cash-settlement feature of the awards, the Company considers the awards to be liability awards, which are measured at fair value at each reporting date and the vested portion of the award is recognized as a liability to the extent that the service condition is deemed probable. The fair value of the phantom stock awards on the balance sheet date, was determined using the closing share price of the Company's common stock on that date.

The Company recorded phantom stock-based compensation expense of $0.8 million and $1.2 million during the three and nine months ended September 30, 2019, respectively. The Company recorded phantom stock-based compensation expense of $0.4 million during the three and nine months ended September 30, 2018.

Phantom stock unit activity for the nine months ended September 30, 2019 is as follows:

	Number of Phantom Stock Units
Outstanding on December 31, 2018	111,673
Granted	154,387
Vested and converted to common stock	—
Forfeited	—
Outstanding on September 30, 2019	266,060

As of September 30, 2019, there was $5.2 million of pre-tax unrecognized compensation expense related to unvested phantom stock units, which is expected to be recognized over a weighted average of 3.6 years.

13. Restructuring

During the three months ended September 30, 2019, the Company recorded restructuring charges of $4.1 million related to the closing of the Company's legacy Brazil operations due to the acquisition of 2GET (see Note 8, *Acquisitions*). The restructuring charges primarily consist of employee-related costs for the Company's existing Brazil operations. The America's incurred $4.1 million in restructuring charges, while Global Operations Support incurred less than $0.1 million.

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 included: the elimination of two executive officer roles for a flatter leadership structure, a workforce reduction as the firm aligned 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.

Changes to the accrual for restructuring charges for the nine months ended September 30, 2019, are as follows:

	Employee Related	Other	Total
Outstanding on December 31, 2018	$ 1,269	$ 17	$ 1,286
Restructuring charges	4,130	—	4,130
Cash payments	(1,554)	—	(1,554)
Non cash write offs	—	(17)	(17)
Other	4	—	4
Exchange rate fluctuations	(74)	—	(74)
Outstanding on September 30, 2019	$ 3,775	$ —	$ 3,775

14. Income Taxes

The Company reported income before taxes of $14.8 million and an income tax provision of $4.9 million for the three months ended September 30, 2019. The Company reported income before taxes of $23.2 million and an income tax provision of $6.7 million for the three months ended September 30, 2018. The effective tax rates for the three months ended September 30, 2019 and 2018, were 32.9% and 29.0%, respectively. The effective tax rate for the three months ended September 30, 2019 was impacted by one-time items and the mix of income. The effective tax rate for the three months ended September 30, 2018 was impacted by one-time items and the Tax Cuts and Jobs Act enacted on December 22, 2017 in the United States.

The Company reported income before taxes of $53.1 million and an income tax provision of $16.8 million for the nine months ended September 30, 2019. The Company reported income before taxes of $54.5 million and an income tax provision of $16.4 million for the nine months ended September 30, 2018. The effective tax rates for the nine months ended September 30, 2019 and 2018, were 31.7% and 30.1%, respectively. The effective tax rate for the nine months ended September 30, 2019 was impacted by one-time items and the mix of income. The effective tax rate for the nine months ended September 30, 2018 was impacted by one-time items and the Tax Cuts and Jobs Act enacted on December 22, 2017 in the United States.

The Company estimates that its effective tax rate for the year ended December 31, 2019, will be between 31% and 34%. The full year effective rate for 2019 is primarily the result of one-time items and the mix of income.

15. Changes in Accumulated Other Comprehensive Income

The changes in *Accumulated other comprehensive income* ("AOCI") by component for the nine months ended September 30, 2019 is summarized below:

	Available-for-Sale Securities	Foreign Currency Translation	Pension	AOCI
Balance at December 31, 2018	$ —	$ 5,258	$ (1,196)	$ 4,062
Other comprehensive income before classification, net of tax	12	(1,024)	—	(1,012)
Net current period other comprehensive income	12	(1,024)	—	(1,012)
Balance at September 30, 2019	$ 12	$ 4,234	$ (1,196)	$ 3,050

16. Segment Information

In 2018, the Company completed the integration of its Leadership Consulting and Culture Shaping businesses into one combined service offering, Heidrick Consulting. In conjunction with the integration, the Company reorganized its Management Committee, which the Company considers to be its chief operating decision maker, so as to regularly assess performance and make resource allocations decisions for the Heidrick Consulting business. Therefore, the Company now reports its former Leadership Consulting and Culture Shaping operating segments as one operating segment, Heidrick Consulting.

The Company has four operating segments. The executive search business operates in the Americas, Europe (which includes Africa) and Asia Pacific (which includes the Middle East), and the Heidrick Consulting business operates globally.

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, more appropriately reflect its core operations.

The revenue and operating income (loss) by segment are as follows:

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Revenue				
Executive Search				
Americas	$ 108,878	$ 106,504	$ 308,700	$ 295,499
Europe	34,827	37,452	103,244	110,419
Asia Pacific	22,784	28,095	71,394	78,460
Total Executive Search	166,489	172,051	483,338	484,378
Heidrick Consulting	15,685	15,537	43,552	46,340
Revenue before reimbursements (net revenue)	182,174	187,588	526,890	530,718
Reimbursements	4,344	4,753	14,075	13,970
Total revenue	$ 186,518	$ 192,341	$ 540,965	$ 544,688

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Operating income (loss)				
Executive Search				
Americas (1)	$ 23,211	$ 23,341	$ 74,211	$ 69,988
Europe	466	904	3,788	6,453
Asia Pacific	2,421	6,414	10,642	13,608
Total Executive Search	26,098	30,659	88,641	90,049
Heidrick Consulting	(3,150)	(1,761)	(12,770)	(10,988)
Total segment operating income	22,948	28,898	75,871	79,061
Global Operations Support (1)	(8,476)	(8,315)	(26,655)	(26,896)
Total operating income	$ 14,472	$ 20,583	$ 49,216	$ 52,165

(1) 2019 includes restructuring charges of $4.1 million in the Americas and less than $0.1 million in Global Operations Support.

17. Guarantees

The Company has utilized letters of credit to support certain obligations, primarily for its office lease agreements in Europe and Asia Pacific. The letters of credit were made to secure the respective agreements and are for the terms of the agreements, which extend through 2024. For each letter of credit issued, the Company would have to use cash to fulfill the obligation if there is a default on a payment. The maximum amount of undiscounted payments the Company would be required to make in the event of default on all outstanding letters of credit is approximately $2.6 million as of September 30, 2019. The Company has not accrued for these arrangements as no event of default exists or is expected to exist.

18. Commitments and Contingencies

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.

ITEM 2. 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 report on Form 10-Q 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.

Factors that may affect the outcome of the forward-looking statements include, among other things, leadership changes, our ability to attract, integrate, develop, manage and retain qualified consultants and senior leaders; our ability to prevent our consultants from taking our clients with them to another firm; our ability to maintain our professional reputation and brand name; the fact that our net revenue may be affected by adverse economic conditions; our clients’ ability to restrict us from recruiting their employees; the aggressive competition we face; our heavy reliance on information management systems; the fact that we face the risk of liability in the services we perform; the fact that data security, data privacy and data protection laws and other evolving regulations and cross-border data transfer restrictions may limit the use of our services and adversely affect our business; social, political, regulatory and legal risks in markets where we operate; the impact of foreign currency exchange rate fluctuations; the fact that we may not be able to align our cost structure with net revenue; unfavorable tax law changes and tax authority rulings; our ability to realize our tax losses; the timing of the establishment or reversal of valuation allowance on deferred tax assets; any impairment of our goodwill, other intangible assets and other long-lived assets; our ability to execute and integrate future acquisitions; the fact that we have anti-takeover provisions that make an acquisition of us difficult and expensive; our ability to access additional credit; and the increased cybersecurity requirements, vulnerabilities, threats and more sophisticated and targeted cyber-related attacks that could pose a risk to our systems, networks, solutions, services and data. For more information on the factors that could affect the outcome of forward-looking statements, refer to our Annual Report on Form 10-K for the year ended December 31, 2018, under Risk Factors in Item 1A. We caution the reader that the list of factors may not be exhaustive. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Overview

Our Business. We are a leadership advisory firm providing executive search and consulting services. We help our clients build leadership teams by facilitating the recruitment, management and development of senior executives. In addition to executive search, our consulting services include executive leadership assessment, leadership, team and board development, succession planning, talent strategy, people performance, inter-team collaboration, culture shaping and organizational transformation. 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 engagement, 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.

We provide our services to a broad range of clients through the expertise of over 450 consultants located in major cities around the world.

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 executive 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.

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. Our executive search services are provided on a retained basis. 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.

For each assignment, we enter into a contract with our client 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, 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. We refer to this excess compensation billing as uptick revenue. We also bill our clients for indirect expenses, which are calculated as a percentage of the retainer with certain dollar limits per search. Revenue before reimbursements of out-of-pocket expenses (“net revenue”) consists of retainers, an estimate of uptick revenue and indirect expenses billed to clients. 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 with uptick revenue billed upon the completion of the engagement.

Heidrick Consulting. In 2018, we combined our Leadership Consulting and Culture Shaping businesses to create Heidrick Consulting, a comprehensive offering of the firm's leadership advisory services. Our consulting services include leadership assessment and development, executive coaching and on-boarding, succession planning, team and board effectiveness, organizational performance acceleration, workforce planning and culture shaping. Our 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.

Key Performance Indicators

We manage and assess the Company's 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 Heidrick Consulting performance is also measured using consultant headcount and consultant productivity. 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 consulting engagements and the average revenue per search or engagement. 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 engagements completed, productivity levels and the average revenue per search or engagement 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.

At the Heidrick Consulting consultant level, there are also fixed and variable components of compensation. Overall compensation is determined based on the total economic contribution of the Heidrick Consulting segment to the business as a whole. Individual consultant compensation can vary, and is derived from credits earned for delivering client work plus credits earned for contributions of intellectual and human capital, client relationship development and consulting practice development. Each quarter, we review and update the expected annual performance of all Heidrick Consulting consultants and accrue variable compensation accordingly.

The mix of individual consultants who generate revenue in Executive Search and economic contributions in Heidrick Consulting 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 benefits* in the Condensed Consolidated Balance Sheets.

Fourth Quarter 2019 Outlook

We are currently forecasting 2019 fourth quarter net revenue of between $170 million and $180 million. Our 2019 fourth 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 in September 2019.

Our 2019 guidance is subject to a number of risks and uncertainties, including those discussed under Item 1A - *Risk Factors* in our 2018 Annual Report on Form 10-K. As such, actual results could vary from these projections.

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue				
Revenue before reimbursements (net revenue)	100.0 %	100.0%	100.0%	100.0%
Reimbursements	2.4	2.5	2.7	2.6
Total revenue	102.4	102.5	102.7	102.6
Operating expenses				
Salaries and benefits	71.6	71.4	70.6	70.3
General and administrative expenses	18.2	17.6	19.3	19.9
Restructuring charges	2.3	—	0.8	—
Reimbursed expenses	2.4	2.5	2.7	2.6
Total operating expenses	94.4	91.6	93.3	92.8
Operating income	7.9	11.0	9.3	9.8
Non-operating income (expense)				
Interest, net	0.4	0.1	0.4	0.1
Other, net	(0.3)	1.3	0.4	0.3
Net non-operating income	0.2	1.4	0.7	0.4
Income before income taxes	8.1	12.4	10.1	10.3
Provision for income taxes	2.7	3.6	3.2	3.1
Net income	5.5 %	8.8%	6.9%	7.2%

Note: Totals and sub-totals 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 our Heidrick Consulting services globally (See Note 16, *Segment Information*).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue				
Executive Search				
Americas	$ 108,878	$ 106,504	$ 308,700	$ 295,499
Europe	34,827	37,452	103,244	110,419
Asia Pacific	22,784	28,095	71,394	78,460
Total Executive Search	166,489	172,051	483,338	484,378
Heidrick Consulting	15,685	15,537	43,552	46,340
Revenue before reimbursements (net revenue)	182,174	187,588	526,890	530,718
Reimbursements	4,344	4,753	14,075	13,970
Total revenue	$ 186,518	$ 192,341	$ 540,965	$ 544,688

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Operating income (loss)				
Executive Search				
Americas (1)	$ 23,211	$ 23,341	$ 74,211	$ 69,988
Europe	466	904	3,788	6,453
Asia Pacific	2,421	6,414	10,642	13,608
Total Executive Search	26,098	30,659	88,641	90,049
Heidrick Consulting	(3,150)	(1,761)	(12,770)	(10,988)
Total segment operating income	22,948	28,898	75,871	79,061
Global Operations Support (1)	(8,476)	(8,315)	(26,655)	(26,896)
Total operating income	$ 14,472	$ 20,583	$ 49,216	$ 52,165

(1) 2019 includes restructuring charges of $4.1 million in the Americas and less than $0.1 million in Global Operations Support.

Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

Total revenue. Consolidated total revenue decreased $5.8 million, or 3.0%, to $186.5 million for the three months ended September 30, 2019, from $192.3 million for the three months ended September 30, 2018. The decrease in total revenue was primarily due to the decrease in revenue before reimbursements (net revenue).

Revenue before reimbursements (net revenue). Consolidated net revenue decreased $5.4 million, or 2.9%, to $182.2 million for the three months ended September 30, 2019 from $187.6 million for the three months ended September 30, 2018. Foreign exchange rate fluctuations negatively impacted results by $2.5 million, or 1.3%. Executive Search net revenue was $166.5 million for the three months ended September 30, 2019, a decrease of $5.6 million, or 3.2%, compared to the three months ended September 30, 2018. Heidrick Consulting net revenue increased $0.1 million, or 1.0%, to $15.7 million for the three months ended September 30, 2019, from $15.5 million for the three months ended September 30, 2018.

The number of Executive Search and Heidrick Consulting consultants was 380 and 71, respectively, as of September 30, 2019, compared to 346 and 66, respectively, as of September 30, 2018. Executive Search productivity, as measured by annualized net Executive Search revenue per consultant, was $1.8 million and $2.0 million for the three months ended September 30, 2019 and 2018, respectively. The number of confirmed searches decreased 3.1% compared to 2018. The average revenue per executive search decreased to $133,500 for the three months ended September 30, 2019, compared to $133,700 for the three months ended September 30, 2018. The decrease in Heidrick Consulting net revenue is primarily due to a decrease in revenue per consulting engagement, partially offset by an increase in engagements.

Salaries and benefits. Consolidated salaries and benefits expense decreased $3.5 million, or 2.6%, to $130.5 million for the three months ended September 30, 2019 from $133.9 million for the three months ended September 30, 2018. The decrease was due to lower fixed compensation of $0.6 million and lower variable compensation of $2.8 million. Fixed compensation decreased primarily due to talent acquisition and retention costs, and deferred compensation plan expenses related to participant contributions and market fluctuations, partially offset by increases in base salaries and payroll taxes, retirement and benefits, and stock compensation. Variable compensation decreased due to a decline in consultant productivity. Foreign exchange rate fluctuations positively impacted results by $1.8 million, or 1.4%.

For the three months ended September 30, 2019, we had an average of 1,692 employees compared to an average of 1,584 employees for the three months ended September 30, 2018.

As a percentage of net revenue, salaries and benefits expense was 71.6% for the three months ended September 30, 2019, compared to 71.4% for the three months ended September 30, 2018.

General and administrative expenses. Consolidated general and administrative expenses was consistent at $33.1 million for the three months ended September 30, 2019, and 2018. General and administrative expenses were impacted by increases in bad debt, and internal travel expenses, offset by decreases in professional fees, amortization and accretion, and office occupancy. Foreign exchange rate fluctuations positively impacted results by $0.5 million, or 1.4%.

As a percentage of net revenue, general and administrative expenses were 18.2% for the three months ended September 30, 2019, compared to 17.6% for the three months ended September 30, 2018.

Restructuring charges The Company incurred approximately $4.1 million in restructuring charges during the three months ended September 30, 2019 in connection with initiatives to integrate the Company's existing Brazil operations into the 2GET business operation. The expenses are primarily employee-related including the elimination of duplicative positions in the Company's existing Brazil operations.

Operating income. Consolidated operating income was $14.5 million for the three months ended September 30, 2019, compared to $20.6 million for the three months ended September 30, 2018. Excluding restructuring charges, the Company reported operating income of $18.6 million. Foreign exchange rate fluctuations negatively impacted operating income by $0.2 million, or 1.1%.

Net non-operating income (expense). Net non-operating income was $0.4 million for the three months ended September 30, 2019, compared to $2.6 million for the three months ended September 30, 2018.

Interest, net, was $0.8 million for the three months ended September 30, 2019, compared to $0.3 million for the three months ended September 30, 2018. The increase was primarily due to interest earned on marketable securities, which are primarily comprised of investments in U.S. Treasury Bills.

Other, net, was expense of $0.5 million and income of $2.3 million for the three months ended September 30, 2019 and 2018, respectively. The increase was the result of losses on the disposal of assets and a decrease in realized gains on the deferred compensation plan assets.

Income taxes. See Note 14, *Income Taxes*.

Executive Search

Americas

The Americas segment reported net revenue of $108.9 million for the three months ended September 30, 2019, an increase of 2.2% from $106.5 million for the three months ended September 30, 2018. The increase in net revenue was driven by an increase in average revenue per executive search. The Consumer, Industrial, and Global Technology and Services practice groups exhibited growth over the prior year. Foreign exchange rate fluctuations did not impact results. There were 201 Partner and Principal consultants as of September 30, 2019, compared to 174 as of September 30, 2018.

Salaries and benefits expense decreased $2.1 million, or 2.9%, compared to the three months ended September 30, 2018. Fixed compensation decreased $0.7 million, primarily due to talent acquisition and retention costs, and deferred compensation plan expenses related to participant contributions and market fluctuations, partially offset by increases in base salaries and payroll taxes, retirement and benefits, and stock compensation. Variable compensation decreased $1.4 million due to lower consultant productivity.

General and administrative expenses increased $0.5 million, or 4.5%, compared to the three months ended September 30, 2018, primarily due to internal travel, and office occupancy, partially offset by decreases in the use of external third-party consultants.

Restructuring charges The Company incurred approximately $4.1 million in restructuring charges during the three months ended September 30, 2019 in connection with initiatives to integrate the Company's existing Brazil operations into the 2GET business operation. The expenses are primarily employee-related including the elimination of duplicative positions in the Company's existing Brazil operations.

Operating income was $23.2 million for the three months ended September 30, 2019, a decrease of $0.1 million compared to $23.3 million for the three months ended September 30, 2018. Excluding restructuring charges, the Company reported operating income of $27.3 million.

Europe

Europe reported net revenue of $34.8 million for the three months ended September 30, 2019, a decrease of 7.0% from $37.5 million for the three months ended September 30, 2018. The decrease in net revenue was due to a 7.6% decrease in the revenue per search. The Global Technology and Services, Financial Services, and Life Science practice groups exhibited growth over the prior year. Foreign exchange rate fluctuations negatively impacted results by $1.7 million, or 4.6%. There were 108 Partner and Principal consultants as of September 30, 2019, compared to 100 as of September 30, 2018.

Salaries and benefits expense decreased $0.9 million, or 3.4%, compared to the three months ended September 30, 2018. Fixed compensation increased $0.2 million for the three months ended September 30, 2019. The increase in fixed compensation was primarily due to talent acquisition and retention costs, and stock compensation, partially offset by decreases in retirement and benefits and separation. Variable compensation decreased $1.2 million due to a decline in consultant productivity.

General and administrative expense decreased $1.3 million, or 13.5%, compared to the three months ended September 30, 2018, primarily due to decreases in professional fees, office occupancy, and internal travel, partially offset by a change in estimate related to earnout liabilities.

The Europe segment reported operating income of $0.5 million for the three months ended September 30, 2019, a decrease of $0.4 million compared to $0.9 million for the three months ended September 30, 2018.

Asia Pacific

Asia Pacific reported net revenue of $22.8 million for the three months ended September 30, 2019, a decrease of 18.9% compared to $28.1 million for the three months ended September 30, 2018. The decrease in net revenue was due to a 9.7% decrease in the number of executive search confirmations over the prior year. Foreign exchange rate fluctuations negatively impacted results by $0.4 million, or 1.8%. There were 71 Partner and Principal consultants as of September 30, 2019, compared to 72 as of September 30, 2018.

Salaries and benefits expense decreased $1.4 million, or 8.3%, compared to the three months ended September 30, 2018. Fixed compensation decreased $0.6 million due to talent acquisition and retention costs, and base salaries and payroll taxes, partially offset by increases in retirement and benefits and stock compensation. Variable compensation decreased $0.8 million due to a decline in consultant productivity.

General and administrative expenses increased $0.1 million, or 1.7%, compared to the three months ended September 30, 2018, primarily due to an increase in bad debt.

The Asia Pacific segment reported operating income of $2.4 million for the three months ended September 30, 2019, a decrease of $4.0 million compared to the three months ended September 30, 2018.

Heidrick Consulting

Heidrick Consulting reported net revenue of $15.7 million for the three months ended September 30, 2019, an increase of 1.0% compared to $15.5 million for the three months ended September 30, 2018. The increase in Heidrick Consulting net revenue is primarily due to a decrease in revenue per consulting engagement, partially offset by an increase in the number of engagements executed. Foreign exchange rate fluctuations negatively impacted results by $0.3 million, or 2.0%. There were 71 Heidrick Consulting Partner and Principal consultants at September 30, 2019, compared to 66 at September 30, 2018.

Salaries and benefits expense increased $1.2 million, or 9.9%, compared to the three months ended September 30, 2018. Fixed compensation increased $0.7 million due to base salaries and payroll taxes, and retirement and benefits, partially offset by a decrease in talent acquisition and retention costs. Variable compensation increased $0.6 million due to an increase in consultant productivity.

General and administrative expenses increased $0.3 million, or 6.3%, compared to the three months ended September 30, 2018, primarily due to the use of external third-party consultants, internal travel, and professional fees, partially offset by decreases in information technology and office occupancy.

The Heidrick Consulting segment reported an operating loss of $3.2 million for the three months ended September 30, 2019, an increase of $1.4 million compared to an operating loss of $1.8 million for the three months ended September 30, 2018.

Global Operations Support

Global Operations Support expenses for the three months ended September 30, 2019, increased $0.2 million, or 1.9%, to $8.5 million from $8.3 million for the three months ended September 30, 2018.

Salaries and benefits expense decreased $0.3 million, or 4.7%, due to stock compensation, partially offset by an increase in retirement and benefits.

General and administrative expenses increased $0.4 million, or 13.1%, primarily due to professional fees and information technology, partially offset by decreases in office occupancy and internal travel.

Restructuring charges The Company incurred less than $0.1 million in restructuring charges during the three months ended September 30, 2019.

Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018

Total revenue. Consolidated total revenue decreased $3.7 million, or 0.7%, to $541.0 million for the nine months ended September 30, 2019, from $544.7 million for the nine months ended September 30, 2018. The decrease in total revenue was primarily due to the decrease in revenue before reimbursements (net revenue).

Revenue before reimbursements (net revenue). Consolidated net revenue decreased $3.8 million, or 0.7%, to $526.9 million for the nine months ended September 30, 2019 from $530.7 million for the nine months ended September 30, 2018. Foreign exchange rate fluctuations negatively impacted results by $10.3 million, or 1.9%. Executive Search net revenue was $483.3 million for the nine months ended September 30, 2019, a decrease of $1.0 million, or 0.2% compared to the nine months ended September 30, 2018. Heidrick Consulting net revenue decreased $2.8 million, or 6.0%, to $43.6 million for the nine months ended September 30, 2019, from $46.3 million for the nine months ended September 30, 2018.

The number of Executive Search and Heidrick Consulting consultants was 380 and 71, respectively, as of September 30, 2019, compared to 346 and 66, respectively, as of September 30, 2018. Executive Search productivity, as measured by annualized net Executive Search revenue per consultant, was $1.7 million and $1.8 million for the nine months ended September 30, 2019 and 2018, respectively. The number of confirmed searches decreased 3.5% compared to 2018. The average revenue per executive search increased to $127,100 for the nine months ended September 30, 2019, compared to $122,800 for the nine months ended September 30, 2018. The decrease in Heidrick Consulting net revenue is primarily due to a decrease in revenue per consulting engagement, partially offset by an increase in engagements.

Salaries and benefits. Consolidated salaries and benefits expense decreased $1.1 million, or 0.3%, to $371.9 million for the nine months ended September 30, 2019 from $373.0 million for the nine months ended September 30, 2018. The decrease was due to lower variable compensation of $7.9 million, partially offset by higher fixed compensation of $6.8 million. Fixed compensation increased primarily due to retirement and benefits, the deferred compensation plan expenses related to participant contributions and market fluctuations, and stock compensation, partially offset by a decrease in talent acquisition and retention costs. Variable compensation decreased primarily due to a decline in consultant productivity. Foreign exchange rate fluctuations positively impacted results by $7.3 million, or 1.9%.

For the nine months ended September 30, 2019, we had an average of 1,653 employees compared to an average of 1,613 employees for the nine months ended September 30, 2018.

As a percentage of net revenue, salaries and benefits expense was 70.6% for the nine months ended September 30, 2019, compared to 70.3% for the nine months ended September 30, 2018.

General and administrative expenses. Consolidated general and administrative expenses decreased $3.9 million, or 3.7%, to $101.6 million for the nine months ended September 30, 2019, from $105.5 million for the nine months ended September 30, 2018. The decrease is primarily due to lower professional fees, intangible amortization, earnout accretion, and office occupancy partially offset by increases in the use of external third-party consultants by Heidrick Consulting, internal travel, bad debt, and taxes and licenses. Foreign exchange rate fluctuations positively impacted results by $1.9 million, or 1.8%.

As a percentage of net revenue, general and administrative expenses were 19.3% for the nine months ended September 30, 2019, compared to 19.9% for the nine months ended September 30, 2018.

Restructuring charges The Company incurred approximately $4.1 million in restructuring charges during the three months ended September 30, 2019 in connection with initiatives to integrate the Company's existing Brazil operations into the 2GET business operation. The expenses are primarily employee-related including the elimination of duplicative positions in the Company's existing Brazil operations.

Operating income. Consolidated operating income was $49.2 million for the nine months ended September 30, 2019, compared to $52.2 million for the nine months ended September 30, 2018. Foreign exchange rate fluctuations negatively impacted operating income by $1.1 million, or 2.3%. Excluding the impact of restructuring charges in 2019, operating income increased $1.2 million, or 2.3%, to $53.3 million from $52.2 million.

Net non-operating income (expense). Net non-operating income was $3.9 million for the nine months ended September 30, 2019, compared to $2.3 million for the nine months ended September 30, 2018.

Interest, net, was $2.0 million for the nine months ended September 30, 2019, and $0.5 million for the nine months ended September 30, 2018. The increase was primarily due to interest earned on marketable securities, which are primarily comprised of investments in U.S. Treasury Bills.

Other, net, was $1.9 million and $1.8 million for the nine months ended September 30, 2019 and 2018, respectively. The increase was primarily the result of gains on the deferred compensation plan assets and a decrease in foreign exchange losses.

Income taxes. See Note 14, *Income Taxes*.

Executive Search

Americas

The Americas segment reported net revenue of $308.7 million for the nine months ended September 30, 2019, an increase of 4.5% from $295.5 million for the nine months ended September 30, 2018. The increase in net revenue was driven by a 2.6% increase in the number of executive search confirmations coupled with an increase in average revenue per executive search. All industry practice groups contributed to net revenue growth, with the exception of the Education and Social Enterprises, and Financial Services practice groups. There were 201 Partner and Principal consultants as of September 30, 2019, compared to 174 as of September 30, 2018.

Salaries and benefits expense increased $3.6 million, or 1.9%, compared to the nine months ended September 30, 2018. Fixed compensation increased $8.0 million, primarily due to base salaries and payroll taxes, deferred compensation plan expenses related to participant contributions and market fluctuations, retirement and benefits, and stock compensation, partially offset by a decrease in talent acquisition and retention costs. Variable compensation decreased $4.4 million primarily lower consultant productivity.

General and administrative expenses increased $1.2 million, or 3.5%, compared to the nine months ended September 30, 2018, primarily due to internal travel expenses, office occupancy, and taxes and licenses, partially offset by a decrease in professional fees.

Restructuring charges The Company incurred approximately $4.1 million in restructuring charges during the three months ended September 30, 2019 in connection with initiatives to integrate the Company's existing Brazil operations into the 2GET business operation. The expenses are primarily employee-related including the elimination of duplicative positions in the Company's existing Brazil operations.

Operating income was $74.2 million for the nine months ended September 30, 2019, an increase of $4.2 million compared to $70.0 million for the nine months ended September 30, 2018. Excluding the impact of restructuring charges in 2019, operating income increased $8.3 million, or 11.9%, to $78.3 million from $70.0 million.

Europe

Europe reported net revenue of $103.2 million for the nine months ended September 30, 2019, a decrease of 6.5% from $110.4 million for the nine months ended September 30, 2018. The decrease in net revenue was due to a decrease in the number of executive search confirmations as well as a decrease in average revenue per executive search. The Global Technology and Services practice group exhibited growth over the prior year. Foreign exchange rate fluctuations negatively impacted results by $6.3 million, or 5.8%. There were 108 Partner and Principal consultants as of September 30, 2019, compared to 100 as of September 30, 2018.

Salaries and benefits expense decreased $1.7 million, or 2.2%, compared to the nine months ended September 30, 2018. Fixed compensation decreased $0.1 million for the nine months ended September 30, 2019. The decrease in fixed compensation was primarily due to base salaries and payroll taxes, partially offset by increases in talent acquisition and retention costs, separation, and stock compensation. Variable compensation decreased $1.6 million due to a decline in consultant productivity.

General and administrative expense decreased $2.8 million, or 10.8%, compared to the nine months ended September 30, 2018, primarily due to professional fees, internal travel, intangible amortization, and earnout accretion.

The Europe segment reported operating income of $3.8 million for the nine months ended September 30, 2019, a decrease of $2.7 million compared to $6.5 million for the nine months ended September 30, 2018.

Asia Pacific

Asia Pacific reported net revenue of $71.4 million for the nine months ended September 30, 2019, a decrease of 9.0% compared to $78.5 million for the nine months ended September 30, 2018. The decrease in net revenue was due to a decrease in the number of executive search confirmations, partially offset by an increase in average revenue per executive search. All industry practice groups contributed to the decline in net revenue. Foreign exchange rate fluctuations negatively impacted results by $2.5 million, or 3.4%. There were 71 Partner and Principal consultants as of September 30, 2019, compared to 72 as of September 30, 2018.

Salaries and benefits expense decreased $3.9 million, or 7.8%, compared to the nine months ended September 30, 2018. Fixed compensation decreased $3.4 million due to base salaries and payroll taxes, and talent acquisition and retention costs, partially offset by an increase in stock compensation. Variable compensation decreased $0.5 million due to a decline in consultant productivity.

General and administrative expenses decreased $0.2 million, or 1.4%, compared to the nine months ended September 30, 2018, primarily due to lower office occupancy and professional fees, partially offset by increases in bad debt, and internal travel.

The Asia Pacific segment reported operating income of $10.6 million for the nine months ended September 30, 2019, a decrease of $3.0 million compared to the nine months ended September 30, 2018.

Heidrick Consulting

Heidrick Consulting reported net revenue of $43.6 million for the nine months ended September 30, 2019, a decrease of 6.0% compared to $46.3 million for the nine months ended September 30, 2018. The decrease in Heidrick Consulting net revenue is primarily due to a decrease in revenue per consulting engagement, partially offset by an increase in the number of engagements executed. Foreign exchange rate fluctuations negatively impacted results by $1.0 million, or 2.2%. There were 71 Heidrick Consulting Partner and Principal consultants at September 30, 2019, compared to 66 at September 30, 2018.

Salaries and benefits expense increased $0.8 million, or 2.0%, compared to the nine months ended September 30, 2018. Fixed compensation increased $2.5 million due to increases in base salaries and payroll taxes, retirement and benefits, talent acquisition and retention costs, and stock compensation. Variable compensation decreased $1.8 million due to a decline in consultant productivity.

General and administrative expenses decreased $1.8 million, or 9.8%, compared to the nine months ended September 30, 2018, primarily due to a reduction in professional fees, information technology, office occupancy, intangible amortization, and earnout accretion, partially offset by an increase in the use of external third-party consultants and internal travel.

The Heidrick Consulting segment reported an operating loss of $12.8 million for the nine months ended September 30, 2019, an increase of $1.8 million compared to an operating loss of $11.0 million for the nine months ended September 30, 2018.

Global Operations Support

Global Operations Support expenses for the nine months ended September 30, 2019, decreased $0.2 million, or 0.9%, to $26.7 million from $26.9 million for the nine months ended September 30, 2018. Excluding the impact of restructuring charges in 2019, expenses decreased $0.3 million, or 1.0%, to $26.6 million from $26.9 million.

Salaries and benefits expense was consistent with the prior year, due to increases in variable compensation, retirement and benefits, and base salaries and payroll taxes, offset by decreases in separation and stock compensation.

General and administrative expenses decreased $0.3 million, or 2.7%, primarily due to lower professional fees, including audit and legal fees, internal travel, and office occupancy, partially offset by increases in information technology and taxes and licenses.

Restructuring charges The Company incurred less than $0.1 million in restructuring charges during the nine months ended September 30, 2019.

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, 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 October 26, 2018, we entered into a new Credit Agreement (the "2018 Credit Agreement") to replace the Second Amended and Restated Credit Agreement (the "Restated Credit Agreement") executed on June 30, 2015. The 2018 Credit Agreement provides us with a senior unsecured revolving line of credit with an aggregate commitment of $175 million, which includes a sublimit of $25 million for letters of credit and a $10 million swingline loan sublimit. The agreement also includes a $75 million expansion feature. The 2018 Credit Agreement will mature in October 2023. Borrowings under the 2018 Credit Agreement bear interest at our election of the Alternate Base Rate (as defined in the 2018 Credit Agreement) or Adjusted LIBOR (as defined in the 2018 Credit Agreement) plus a spread as determined by our leverage ratio.

Borrowings under the 2018 Credit Agreement may be used for working capital, capital expenditures, Permitted Acquisitions (as defined in the 2018 Credit Agreement) and for other general purposes. The obligations under the 2018 Credit Agreement are guaranteed by certain of our subsidiaries.

We capitalized approximately $1.0 million of loan acquisition costs related to the 2018 Credit Agreement, which will be amortized over the remaining term of the agreement.

Before October 26, 2018, we were party to the Restated Credit Agreement, which was executed on June 30, 2015. The Restated Credit Agreement provided a single senior unsecured revolving line of credit with an aggregate commitment of up to $100 million, which included a sublimit of $25 million for letters of credit, and a $50 million expansion feature (the “Replacement Facility”). Borrowings under the Restated Credit Agreement bore interest at our election of the existing Alternate Base Rate (as defined in the Restated Credit Agreement) or Adjusted LIBOR Rate (as defined in the Restated Credit Agreement) plus a spread as determined by our leverage ratio.

During the three months ended March 31, 2018, we borrowed $20 million under the Restated Credit Agreement and elected the Adjusted LIBOR Rate. We subsequently repaid $8 million during the three months ended March 31, 2018 and $12 million during the three months ended June 30, 2018.

As of September 30, 2019, and December 31, 2018, we had no outstanding borrowings and were in compliance with the financial and other covenants under both facilities and no event of default existed.

Cash, cash equivalents and marketable securities. Cash, cash equivalents and marketable securities at September 30, 2019, December 31, 2018, and September 30, 2018 were $218.9 million, $279.9 million and $164.2 million, respectively. The $218.9 million of cash, cash equivalents and marketable securities at September 30, 2019, includes $93.7 million held by our foreign subsidiaries. A portion of the $93.7 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 U.S. income taxes or foreign withholding taxes.

Cash flows used in operating activities. For the nine months ended September 30, 2019, cash used in operating activities was $35.4 million. This use of cash was primarily the result of cash bonus payments related to 2018 and prior year cash bonus deferrals partially offset by an increase in 2019 bonus accruals, and an increase in accounts receivable of $37.0 million, partially offset by net income of $36.3 million.

Cash used in operating activities was $22.9 million for the nine months ended September 30, 2018, primarily due to cash bonus payments related to 2017 and prior year cash bonus deferrals, an increase in accounts receivable of $60.1 million and restructuring payments of $10.8 million, partially offset by net income of $38.1 million.

Cash flows used in investing activities. Cash used in investing activities was $50.1 million for the nine months ended September 30, 2019, primarily due to purchases of available for sale investments of $83.1 million, the $3.5 million acquisition of 2GET and capital expenditures of $2.6 million for office build-outs, partially offset by proceeds from available for sale investments of $39.2 million.

Cash used in investing activities was $7.2 million for the nine months ended September 30, 2018, primarily due to the $3.1 million acquisition of Amrop, capital expenditures of $4.9 million, and purchases of available for sale investments of $2.0 million, partially offset by proceeds from sales available for sale investments of $2.9 million.

Cash flows used in financing activities. Cash used by financing activities was $15.3 million for the nine months ended September 30, 2019, primarily due to dividend payments of $8.9 million, employee tax withholding payments on equity transactions of $4.6 million, and the final earnout payments for the Scambler MacGregor and DSI acquisitions of $1.9 million.

Cash used by financing activities for the nine months ended September 30, 2018, was $9.8 million primarily due to dividend payments of $7.6 million and employee tax withholding payments on equity transactions of $2.2 million. Gross borrowings and payments on the Company's line of credit were each $20.0 million during the nine months ended September 30, 2018.

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.

Application of Critical Accounting Policies and Estimates

Management’s Discussion and Analysis of Financial Condition and Results of Operations is based upon our Condensed 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 included in our Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the U.S. Securities and Exchange Commission (“SEC”) on February 26, 2019, and in Note 2, *Summary of Significant Accounting Policies*, in the Notes to Condensed Consolidated Financial Statements included in Item 1. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. If actual amounts are ultimately different from previous estimates, the revisions are included in our results of operations for the period in which the actual amounts become known.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or if changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. Management believes its critical accounting policies that reflect its more significant estimates and assumptions relate to revenue recognition, income taxes, interim effective tax rate and assessment of goodwill and other intangible assets for impairment. See *Application of Critical Accounting Policies and Estimates* in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC on February 26, 2019.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in *Operating Lease Right-of-Use Assets*, *Operating Lease Liabilities - Current* and *Operating Lease Liabilities - Non-Current* in our Condensed Consolidated Balance Sheets. The Company does not have any finance leases.

Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease right-of-use asset also includes any lease payments made in advance and any accrued rent balances. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

We have lease agreements with lease and non-lease components. For office leases, we account for the lease and non-lease components as a single lease component. For equipment leases, such as vehicles and information technology hardware, we account for the lease and non-lease components separately.

Recently Adopted Financial Accounting Standards

On January 1, 2019, the Company adopted Accounting Standards Update ("ASU") No. 2016-02, Leases, ASU No. 2018-10, Codification Improvements to Topic 842 (Leases) and ASU No. 2018-11, Targeted Improvements to Topic 842 (Leases). The guidance is intended to increase transparency and comparability among companies for leasing transactions, including a requirement for companies that lease assets to recognize on their balance sheets the assets and liabilities for the rights and obligations created by those leases. The guidance also provides for disclosures that allow the users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted the guidance on January 1, 2019 using the modified retrospective method without restatement of comparative periods. As such, periods prior to the date of adoption are presented in accordance with ASC 840 - Leases. The Company utilized the available practical expedient that allowed for the Company to not reassess whether existing contracts contain a lease under the new definition of a lease, lease classification for existing leases and whether previously capitalized initial direct costs would qualify for capitalization under the new guidance.

The adoption of this guidance had a material impact on the Condensed Consolidated Balance Sheet as of September 30, 2019 due to the recognition of equal right-of-use assets and lease liabilities for the Company's portfolio of operating leases. The right-of-use asset balance was then adjusted by the reclassification of pre-existing prepaid and accrued rent balances from other line items within the Condensed Consolidated Balance Sheet. The adoption had an immaterial impact on the Condensed Consolidated Statement of Comprehensive Income and Condensed Consolidated Statement of Cash Flows for the three and six months ended September 30, 2019. The adoption had no impact on the Condensed Consolidated Statement of Changes in Stockholders' Equity for the three and nine months ended September 30, 2019.

On January 1, 2019, the Company adopted ASU No. 2018-02, Income Statement - Reporting Comprehensive Income, which is intended to improve the usefulness of information reported as a result of the Tax Cuts and Jobs Act. The new guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

ITEM 3. 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. A 10% change in the average exchange rate for currencies of all foreign countries in which we operate would have increased or decreased our net income for three months ended September 30, 2019 by approximately $1.0 million. 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. Based on balances exposed to fluctuation in exchange rates as of September 30, 2019, a 10% increase or decrease equally in the value of currencies could result in a foreign exchange gain or loss of approximately $1.8 million. In addition, 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. For financial information by geographic segment, see Note 16, *Segment Information*, in the Notes to Condensed Consolidated Financial Statements.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures as defined in the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) Rule 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 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 September 30, 2019. 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 September 30, 2019.

(b) Changes in Internal Control Over Financial Reporting

Effective January 1, 2019, the Company adopted ASU 2016-02, Leases, and implemented changes to the relevant business processes, and related control activities within them, in order to monitor and maintain appropriate controls over financial reporting. There were no other changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information presented in Note 18, *Commitments and Contingencies*, to our Condensed Consolidated Financial Statements within this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 6. Exhibits

Exhibit No.	Description
*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 Executive Vice President and 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 Executive Vice President and 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.

SIGNATURE

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

Date: October 28, 2019

Heidrick & Struggles International, Inc.
(Registrant)

/s/ Stephen A. Bondi

Stephen A. Bondi
Vice President, Controller

Exhibit 31.1

CERTIFICATION

I, Krishnan Rajagopalan, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: October 28, 2019

/s/ Krishnan Rajagopalan

Krishnan Rajagopalan

President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Mark R. Harris, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: October 28, 2019	/s/ Mark R. Harris
	Mark R. Harris
	Executive Vice President and Chief Financial Officer

Exhibit 32.1

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 Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (the “Form 10-Q”) 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-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated:	October 28, 2019	/s/ Krishnan Rajagopalan
		Krishnan Rajagopalan
		President and 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 Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (the "Form 10-Q") 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-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 28, 2019

/s/ Mark R. Harris

Mark R. Harris
Executive Vice President and Chief Financial Officer