

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

FORM 10-K

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

For the fiscal year ended December 31, 2000

OR

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

Commission File No. 0-25837

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

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

233 South Wacker Drive, Suite 4200, Chicago, Illinois 60606-6303
(Address of principal executive offices) (Zip Code)

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

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

Title of each class -----	Name of each exchange on which registered -----
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Common Stock, \$.01 par value	Nasdaq National Market
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Securities registered pursuant to Section 12(g) of the Act: None

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

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

The number of shares outstanding of the Company's Common Stock as of March 1, 2001 was 19,374,986 shares. The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant on March 1, 2001 (assuming that the Registrant's only affiliates are its officers, directors and 10% or greater stockholders) was approximately \$623,711,940 based upon the closing market price of \$35.31 on that date of a share of Common Stock as reported on the Nasdaq National Market.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2001 Annual Meeting of Stockholders scheduled to be held on June 5, 2001, are incorporated by reference into Part III of this Form 10-K.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

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PART I

ITEM 1. BUSINESS

General

Heidrick & Struggles International, Inc. ("HSI Group") is the world's premier provider of executive-level search and leadership consulting services. We partner with our clients with the objective to build the best leadership teams in the world by helping them hire, develop and retain the most effective leaders in their industries. We operate principally through two lines of business: Executive Search and LeadersOnline. Heidrick & Struggles Executive Search, specializing in chief executive, board member and senior-level management assignments, has been fulfilling the leadership needs of the world's largest and most complex organizations for more than 47 years. Through LeadersOnline, Inc., ("LeadersOnline") our Internet-enhanced search business, we target the recruitment market for mid-level executives and professionals. We provide executive search and leadership consulting services in every major business center in the world and mid-level management search primarily in the U.S. and Europe. We focus on identifying, evaluating and recommending qualified candidates for senior-level executive and mid-level management positions. Through our worldwide network of 1,178 professionals in 78 locations throughout North and South America, Europe, the Middle East, Africa and Asia Pacific, we provide our services to a broad range of clients. Our clients include the following:

- .Fortune 500 companies
- .major non-U.S. companies
- .middle market and emerging growth companies
- .governmental and not-for-profit organizations
- .other leading private and public entities

The Merger

Prior to 1984, we operated under a single ownership structure. In 1984, Heidrick & Struggles, Inc. ("H&S") spun off Heidrick & Struggles International, Inc. ("HSI") to its European partners while retaining a significant equity interest in it. Between 1984 and the effective date of the merger, HSI conducted primarily Europe-based operations, while H&S conducted operations in all other geographic regions. On February 26, 1999, H&S merged with HSI (the "Merger") to reunite the two companies in a single corporate structure, HSI Group.

Industry Overview

We operate in a rapidly changing and robust market of human capital management solutions including traditional executive-level search, Internet-enhanced recruiting and leadership consulting. The executive search industry is highly fragmented, consisting of more than 5,000 executive search firms worldwide. Executive search firms are generally separated into two broad categories: retained search firms and contingency search firms. Retained search firms fulfill their clients' senior leadership needs by identifying, evaluating, assessing and recommending qualified candidates for senior-level positions, typically with annual cash compensation of \$150,000 and above. Retained search firms generally are compensated for their services whether or not they are successful in placing a candidate, and are generally retained on an exclusive basis. On the other hand, contingency search firms typically focus primarily on positions with annual cash compensation of less than \$150,000. Contingency search firms are generally not retained on an exclusive basis and are compensated only upon successfully placing a recommended candidate. Both types of firms normally charge a fee for their services equal to approximately one-third of the first year's total cash compensation for the position being filled.

We believe that the following favorable trends are contributing to the growth of the executive search industry:

An Increase in Competition for Executive Talent. Historically, it was typical for executives to spend an entire career with one or two organizations. However, in today's rapidly changing business environment, companies aggressively seek outside talent and, as a result, successful executives are often recruited by a number of different organizations in various geographic locations over the course of their careers. There is a shortage of qualified executive-level candidates, which has made the recruitment of senior-level executives more difficult. This increase in competition for management talent and the resulting executive turnover forces many companies to seek assistance in recruiting executives more frequently. Increased competition has also caused compensation levels for executives to increase considerably over the past decade. Because fees for most executive search firms are based on cash compensation, higher cash compensation levels have translated into higher executive search fees.

A Growing Acceptance by Corporate Leaders of Executive Search Consultants. Many company management teams and boards of directors expect that their choices for senior executives will be under greater scrutiny than in the past, due to the influence of a number of factors including larger institutional shareholdings, a rise in shareholder activism and an increased concern for corporate governance. As a result of these trends, many boards of directors and company management teams hire outside executive search firms to advise them on their selection and recruitment of executives.

An Increasing Globalization of Business Driving the Demand for Executive Talent by Multinationals. The increasing globalization of business creates demand, particularly from multinational enterprises, for executives in parts of the world where such enterprises do not have significant prior operating experience. Because the process of identifying and evaluating candidates across national borders can be difficult, these enterprises turn to executive search firms with a worldwide presence for assistance.

A Greater Need for Executives with Diverse Leadership Skills. In response to a rapidly changing business environment, companies are setting more stringent hiring standards for senior executives. The process of identifying and evaluating such executives is therefore becoming more difficult. As a result, companies increasingly rely on executive search firms to help them meet their leadership needs.

A Decrease in the Number of Layers of Management Within a Company. The recent trend of corporate "right-sizing" at a number of companies, by eliminating layers of management, effectively reduces the internal pool from which such companies can draw talented managers. In lieu of the traditional practice of grooming leaders from within, companies increasingly use executive search firms to find appropriate talent from outside their organization.

Key Competitive Strengths

We possess several key competitive strengths that position us to capitalize on the growing demand for our services. Our strengths include the following:

Emphasis on Senior-Level Executive Search. We are an industry leader in placing senior-level executives within the world's largest and most complex organizations. More than two-thirds of our executive search revenue in 2000 was for chief executive officers, presidents, chief financial officers, chief operating officers, chief administrative officers, chief information officers, members of boards of directors and other senior management positions, such as division and department heads. Senior-level executive searches generally provide a higher level of revenue per search and greater visibility within the executive search industry. We believe that performing senior-level, high profile executive search assignments benefits us by:

- . strengthening our brand name recognition and contacts with leading decision makers, referral sources and highly talented candidates

.enhancing our ability to secure other senior-level executive searches

.enabling us to attract and retain highly qualified consultants

Experienced Team of Executive Search Consultants. As of December 31, 2000, we employed 510 executive search consultants. We estimate that our consultants, on average, have approximately 20 years of experience in executive search and/or other industries. We believe that this depth of experience is necessary to effectively perform senior-level executive searches. We attribute our success in attracting and retaining our high quality consultants to our premier reputation, unique team-oriented culture and performance-based compensation system. Our low turnover rate among our consultants reflects our attractiveness as an employer. In 2000, an annual average of approximately 4% of our consultants left to work somewhere else in the executive search industry. Under our compensation system, a portion of the credit for a particular assignment goes to the consultants who originate the executive search assignment, and a portion goes to the consultants who perform the executive search assignment. In addition, a portion of each consultant's annual compensation is based on management's assessment of that consultant's teamwork. This compensation component encourages our consultants to work as a team. A significant number of our executive searches are shared by two or more consultants. The incentive to utilize the differing talents of our consultants means that those who originate an assignment outside of their area of expertise often bring that assignment to those with a specific industry or functional skill to execute the search.

Expanding our Services Beyond Executive Search. Executive search has traditionally been our only area of focus. We have begun recently to expand our services beyond executive search by leveraging our access and influence with the world's business leaders. Our strategy is to offer our clients a suite of services that provides a natural complement to our best of class executive search services.

In 2000, we extended our management assessment service, Heidrick & Struggles Strategic Leadership Review, to a global platform. This service provides senior-level executives with objective assessments of the individuals and teams reporting to them. We believe management assessment will, over time, create an additional revenue stream to complement our core Executive Search business. In addition to management assessment, we are expanding our offering of interim executive management placement due to increasing demand from our clients.

Complementary Internet-Enhanced Recruiting Business. LeadersOnline, which was launched in March 1999 after approximately two years of development, utilizes the Internet and our proprietary candidate matching and tracking technology to recruit and place prescreened mid-level executives and professionals with annual compensation in the \$75,000 to \$150,000 range.

Global Presence. We have offices in 78 locations in major business centers in 37 countries around the world. With our global presence we can serve the needs of multinational companies and local businesses worldwide. Our global presence also provides us with access to an international network of candidates and referral sources. Our locations in North America, Europe, Asia Pacific and Latin America employed 281, 170, 39, and 20 executive search consultants, respectively, as of December 31, 2000. LeadersOnline employed 34 eConsultants in North America and 7 eConsultants in Europe as of December 31, 2000. Our global reach allows us to benefit from the increasing globalization of business and the demand, particularly from multinational enterprises, for assistance in identifying and evaluating candidates for executive and mid-level management positions across national borders.

Industry Practice Groups and Functional Specialties. We have seven core industry practice groups: technology, financial services, industrial, consumer products, health care, professional services, and higher education/not-for-profit. Many of our executive search consultants also specialize in searches for functional positions such as members of boards of directors, chief executive officers, chief financial officers, chief

information officers and e-commerce business leaders. Our structure enables us to better understand our clients' cultures, operations, business strategies and industries.

Global Support Platform. Our executive search consultants work with a team of 607 associates, and our 41 eConsultants at LeadersOnline work with a team of 20 eSearchers, all of whom have access to a sophisticated global technology infrastructure. This technology infrastructure includes internally developed proprietary global databases containing over 1 million candidate profiles and approximately 37,000 client records. This global platform also offers a broad range of on-line services and industry reference sources, and advanced Internet-enhanced technology to support the research needs of our professionals.

Our Growth Strategy

Our goal is to expand our leadership position as the global provider of choice for executive search and other leadership consulting services that complement our executive search business, while achieving sustainable revenue and earnings growth. We pursue a focused growth strategy with the following key elements:

Expand and Develop Client Relationships. We continually seek to expand relationships with existing clients and to develop new client relationships by:

- .aggressively pursuing the highest level executive search assignments
- .expanding the breadth and depth of our industry practice groups and functional specialties
- .offering services across a broad range of geographic locations
- .actively recruiting executive search consultants who demonstrate the ability to expand our client base

Pursue New, Complementary Lines of Business. We intend to continue to expand the range of services we offer senior management teams in helping them to address their human capital resource needs. These services include LeadersOnline, our Internet-enhanced recruiting business; Heidrick & Struggles Strategic Leadership Review, our management assessment business; and Protem, our interim management placement service.

Enhance Professional Productivity. We believe that our consultants generate one of the highest levels of average revenue per consultant in the industry. Our executive search consultants generated an average revenue per consultant of \$1.3 million in 2000 compared to \$1.2 million in 1999. We also believe that our infrastructure can be further leveraged to increase our consultants' productivity over time. We view LeadersOnline as our incubator of change, trying new concepts and innovative e-search capabilities as well as new delivery processes, using technology and the Internet. Our goal is to apply those innovative search capabilities and processes to our traditional executive search model. Specifically, we expect that our technology initiatives over time will enable our professionals to access a greater amount of information more quickly. They will be able to perform more sophisticated searches to identify candidates more efficiently and effectively.

Pursue Strategic Acquisitions and Alliances. We maintain an acquisition and alliance strategy designed to expand our leadership position in executive search as well as in other areas that complement executive search. This strategy allows us to increase our penetration in existing and new geographic markets and expand the depth and breadth of our industry practice groups and functional specialties.

Services

Executive Search. We provide executive search services primarily on a retained basis for a broad range of clients. Our executive search process typically consists of the following steps:

- . analyze the client's needs in order to determine the required set of skills for the position, understand its organizational structure, relationships and culture, define the required experience, and identify the other characteristics necessary for the successful candidate
- . interview and evaluate candidates on the basis of experience and potential cultural fit with the client organization

- .present confidential written reports on the candidates who most closely fit the position specification
- .schedule a mutually convenient meeting between the client and each candidate
- .collect references on the final candidate
- . assist in structuring of the compensation package and supporting the successful candidate's integration into the client team

Heidrick & Struggles Strategic Leadership Review. Through our management assessment service, we provide senior-level executives with objective assessments of the individuals and teams reporting to them. Management assessment provides a natural complement to our Executive Search business, leveraging our access and influence to the senior executives we place. This service is particularly critical for senior executives who want to establish a framework for managing human capital during times of change, such as during mergers, acquisitions or divestitures; when a new CEO joins an organization; or when a company shifts its strategic direction or revises its succession plan.

Protem. As the demand for interim professionals in pro-active roles has evolved, we have developed the capability to serve the strategic management needs of our clients, as well as filling temporary gaps in Board level talent. Through Protem, we offer placement of interim executive management in response to increasing demand from our clients.

LeadersOnline. We launched our LeadersOnline business in March 1999 to solve clients' recruitment needs for mid-level executives and professionals. Based on specific client requirements, LeadersOnline's eConsultants plan, develop and tailor the particular position specifications and the eConsulting search strategy. The eConsultants then coordinate the design of the Opportunity Page to be posted on the LeadersOnline web site. The Opportunity Page is a description of the available position with information including salary, location, promotion potential, and other facts about the opportunity. Only members who have been matched by LeadersOnline as appropriate candidates will be given access to view the Opportunity Page. LeadersOnline's eConsultants, supported by their team of eSearch associates, identify the job candidates that match the parameters of the position specifications. The Opportunity Page allows prospective job candidates to review the position description and to decide whether they are interested in proceeding with the hiring process.

Candidates register with LeadersOnline by completing a simple on-line profile that takes approximately eight to ten minutes. Candidates obtain confirmation of receipt within 24 hours of submitting their profile and are notified periodically as matching positions become available. Candidates are proactively identified through targeted advertising and referral of potential candidates that do not currently meet our clients' senior-level needs. We present a customized list of qualified and interested candidates according to the client's skill requirements and specifications.

Our LeadersOnline business provides the following consulting and other services in connection with our mid-management recruiting process. A typical contract could contain one or more of these services:

- . assess the client's human capital needs; evaluate and recommend necessary position skills and qualifications
- . develop content for the LeadersOnline web site which includes a client company's business overview and Opportunity Pages describing job specifications and requirements
- . match position specifications against the proprietary database and produce a customized list of candidates
- . notify matched candidates by e-mail to inform them about the position
- . conduct profile verification

- . forward a verified candidate list to the client, with the consent of the candidates
- . generate recruiting progress management reports throughout the process to track the progress of multiple searches and provide candidate feedback

The entire system is designed to ensure confidentiality to both clients and candidates.

Our Organization

We operate principally through two lines of business: Executive Search and LeadersOnline. Our operational structure is designed to provide high quality executive search and leadership consulting services to our clients worldwide. We organize our executive search consultants as follows:

- . geography, through our network of offices
- . industry practice groups
- . functional specialties

On a given search assignment, we will generally utilize the expertise of executive search consultants in more than one of our offices, industry practice groups and functional specialties. For example, an executive search for a CFO of a technology company located in Hong Kong may involve an executive search consultant in Hong Kong with an existing relationship with the client, another executive search consultant in Los Angeles with expertise in the technology practice group and a third executive search consultant in Singapore with expertise in CFO recruiting. By utilizing executive search consultants with varying geographic, industry and functional expertise, we believe that we can best ensure the successful completion of executive search assignments for our clients.

Industry Practice Groups. Our Executive Search business is organized around seven core industry practice groups, each focused on a specific industry. These core industry practice groups and their relative sizes, as measured by revenue for 2000, are as follows:

Industry Practice Group -----	Percentage of Revenue -----
Financial Services.....	29%
Technology.....	29
Industrial.....	14
Consumer Products.....	14
Health Care.....	6
Professional Services.....	5
Higher Education/Not-for-Profit.....	2
Other.....	1

	100%
	===

Executive search consultants from each of these industry practice groups may reside in any one of our locations. Certain markets have a significant concentration of companies within particular industry sectors, and we have staffed our locations accordingly. For example, our financial services practice group has our largest concentration of consultants in New York and London, the two largest financial centers in the world. Each industry practice group is coordinated by a Practice Managing Partner who establishes marketing and search strategies, identifies focused accounts and target clients, and facilitates and assists the marketing activities of the consultants in the group. We believe that this operational structure provides our clients with superior services by enabling our consultants to build relationships with candidates and referral sources within particular industries and to understand our clients' operations, business strategies, industry dynamics and culture. We believe that these factors are critical to the successful placement of a candidate.

Functional Specialties. We recognize that searching for candidates for certain executive positions often requires specialized skills in much the same way as a search for an executive in a particular industry. As a result, many of our executive search consultants specialize in searches for particular positions such as a board of directors member, CEO, CFO, CIO or e-commerce business leader. Typically, a consultant in a particular industry practice group who receives an assignment for a given functional position will consult with one or more colleagues with the appropriate functional expertise throughout the search assignment. This coordination benefits our clients because the best candidate for certain functional positions often will come from a different industry. For example, a client in the industrial sector seeking a new CIO may benefit from exposure to a candidate whose background is in the health care sector, even though that candidate may be less well known by the members of our industrial practice group. Because our functional specialists tend to have experience with appropriate candidates from many different industries, they can bring the necessary experience from a range of industry practice groups to the assignment.

Global Network. We are a major executive search presence through our global network of offices in 78 locations in 37 countries, and provide executive-level search and leadership consulting in nearly every major business center in the world. Each office is managed by an Office Managing Partner and staffed with consultants, associates, administrative assistants and other support staff. While certain administrative functions are centralized, each region has its own regional management as well as research and support functions. In addition, eConsultants from LeadersOnline are located in many of our large executive search offices in order for us to provide our global, regional and local clients with a broader range of services.

Listed below are the countries and locations in which we operate as of December 31, 2000. The segment designations follow the way we report our Executive Search business. LeadersOnline shares offices with Executive Search in many of our major locations.

Segment	Country	Location
Americas		
United States	United States	Atlanta, GA
		Austin, TX
		Boston, MA
		Charlotte, NC
		Chicago, IL
		Cleveland, OH
		Dallas, TX
		Denver, CO
		Emeryville, CA
		Foster City, CA
		Greenwich, CT
		Houston, TX
		Irvine, CA
		Jacksonville, FL
		Los Angeles, CA (2 offices)
		Menlo Park, CA
		Miami, FL
		New York, NY (2 offices)
		Philadelphia, PA
		San Diego, CA
San Francisco, CA		
Seattle, WA		
Tysons Corner, VA		
Washington, D.C.		
Wellesley, MA		
Other	Canada	Montreal Toronto
	Argentina	Buenos Aires
	Brazil	Sao Paulo
	Chile	Santiago
	Colombia	Bogota
	Mexico	Mexico City
	Peru	Lima
	Venezuela	Caracas

Segment	Country	Location
International		
Europe	Austria	Vienna
	Belgium	Brussels
	Czech Republic	Prague
	Denmark	Copenhagen
	Estonia	Tallin
	Finland	Helsinki
	France	Paris
	Germany	Berlin
		Dresden
		Dusseldorf
		Frankfurt
		Hamburg
		Munich (3 offices)
	Italy	Milan
		Rome
	Latvia	Riga
	The Netherlands	Amsterdam
	Norway	Oslo
	Poland	Warsaw
	Portugal	Lisbon
Russia	Moscow	
Spain	Barcelona	
	Madrid	

	Sweden	Stockholm
	Switzerland	Geneva Zurich
	United Kingdom	London Manchester
	Israel	Tel Aviv
	South Africa	Capetown Johannesburg
Asia Pacific	Australia	Melbourne Sydney
	China	Hong Kong Shanghai
	India	New Delhi
	Japan	Tokyo
	Korea	Seoul
	Singapore	Singapore
	Taiwan	Taipei

Executive Search

Americas--United States

We have 27 locations in the United States. At December 31, 2000, we employed a total of 273 executive search consultants in this segment. Approximately 57% of our worldwide revenue in 2000 was generated in the United States. The largest offices in the United States in terms of revenue are New York, Chicago and Silicon Valley.

Americas--Other

We have 9 locations in the Americas--Other segment which includes Canada and Latin America. At December 31, 2000, we employed 28 executive search consultants. Approximately 4% of our worldwide revenue in 2000 was generated in this segment.

International--Europe

We have 30 locations in 19 European countries, one location in the Middle East and two locations in South Africa. At December 31, 2000, we employed 170 executive search consultants in this segment. Approximately 30% of our worldwide revenue in 2000 was generated by this segment. Our locations in Germany, the United Kingdom and France generate the highest revenue in this segment.

International--Asia Pacific

We have 9 locations in Asia Pacific. At December 31, 2000, we employed 39 executive search consultants and approximately 6% of our worldwide revenue in 2000 was generated in the Asia Pacific segment.

LeadersOnline

LeadersOnline, headquartered in Aliso Viejo, California, as of January 26, 2001, had 84 full-time employees as of December 31, 2000, including 41 eConsultants, 20 eSearchers, and 23 administrative and corporate management staff. Of these employees, 71 were located in North America and 13 were located outside North America. Approximately 3% of our worldwide revenue in 2000 was generated by LeadersOnline.

For financial information relating to each segment, see Note 17 of our Consolidated Financial Statements.

Clients and Marketing

We have a diverse group of clients in a variety of industries throughout the world. Our clients include Fortune 500 companies, major non-U.S. companies, middle market and emerging growth companies, governmental and not-for-profit organizations, and other leading private and public entities. No single client accounted for over 3% of our revenue in 2000. Historically, we have been successful both in adding to our client base and in generating repeat business from existing clients.

Our consultants market the firm's Executive Search and LeadersOnline services through two principal means: targeted client calling and industry networking with clients and referral sources. These efforts are assisted by our databases which provide all our consultants with up to date information as to contacts made by their colleagues with particular referral sources, candidates and clients.

In addition to our active marketing, we benefit from a significant number of referrals generated by our reputation for successfully completed assignments. To build on this advantage, we seek to develop an enhanced awareness of the Heidrick & Struggles and LeadersOnline brand names. As a result of our efforts, we are more frequently invited to make presentations to prospective clients, often competing for executive search and online recruiting engagements with major competitors in the industry. In 2000, we succeeded in obtaining executive search and mid-level recruiting engagements from a majority of the presentations which we conducted.

We also publish a quarterly leadership journal, Taking Charge, which is distributed to senior executives. It features interviews with business leaders and management-related articles, and publicizes the Heidrick & Struggles brand name.

In April 2000, LeadersOnline entered into a strategic five-year alliance with Business Week, under which The Business Week Online Careers Channel and the LeadersOnline site were linked to form a comprehensive online career destination for professional and managerial talent.

In October 2000, Business Week launched a magazine called "LeadersOnline," with an initial circulation of 300,000. It is a magazine custom-published by Business Week designed to be the premier career management resource for the next generation of corporate leaders. Two issues were published in 2000 and six issues are anticipated to be published in 2001.

One of the limitations of our executive search marketing has been the existence or anticipated existence of off-limits arrangements. In recent years off-limits arrangements have become narrower in scope and shorter in duration. Either by agreement with clients or for client relations purposes, executive search firms sometimes refrain from recruiting employees of a client, and possibly other entities affiliated with that client, for a specified period, generally not more than one year from the commencement of a search. We actively manage these blocking arrangements and seek to mitigate adverse effects of off-limits by strengthening our long-term relationships with focused accounts.

Assignment Research and Information Management

Our technology infrastructure consists of internally developed global databases containing over 1 million candidate profiles and approximately 37,000 client records, coupled with a broad range of online services and industry reference sources. Our professionals use our information technology infrastructure to do the following:

- .gather business intelligence regarding clients' businesses, industries, competitors and strategies
- .develop and manage company and candidate profiles
- .identify market needs and new business opportunities
- .coordinate and implement marketing, communication, financial and administrative functions

Given the importance of technology to the search process, we are committed to improving our information management by implementing new technology initiatives. Our technology infrastructure is designed to enhance the functionality, speed and quality of our information management, and to improve the efficiency and effectiveness of completing searches.

Our technology initiatives represent a long-term strategic plan for the deployment of technology and are designed to support our rapid growth. Our financial management system provides us with an integrated accounting and financial reporting system in the U.S. and certain other regions of the world. We are upgrading and globalizing our search system. Our search systems allow our employees to efficiently and effectively manage complex search assignments, while keeping them informed about client and candidate contacts. Our technology infrastructure upgrades also enhance the ease and speed of use of all information processing including the Internet, one of our most valuable information tools. In addition to our proprietary eSearch capabilities at LeadersOnline, we use Internet technology in three other primary ways:

- .as an external source of information through a broad range of online information resources
- . through our intranet, as a tool for organizing and accessing our internally generated information, as well as sharing knowledge
- . through our extranet, as a means of communicating with clients, and of connecting clients and candidates on a secure network where each can review information about the other

Our information technology infrastructure and development is overseen by a technology management team that, among other services, provides our employees with support and training programs. To address issues of data security associated with increasingly remote access to our network and our proprietary applications, we use encrypted VPN, industry-leading firewalls and password protection. In addition, we currently utilize video-conferencing technology in many of our locations. This technology facilitates candidate interviews and presentations to client search committee members in different locations. We intend to continue to develop our technology infrastructure as our, and our clients', needs evolve.

Professional Staff and Employees

Our executive search professionals are categorized either as consultants or associates. Associates assist consultants by performing research and other functions. As of December 31, 2000, we had 2,087 full time employees, of whom 510 were executive search consultants, 607 were associates, 886 were search support and corporate staff, and 84 worked for LeadersOnline. In each of the past five years, no single consultant accounted for any material portion of our revenues. We are not a party to any collective bargaining agreement and we consider relations with our employees to be excellent.

Executive Search Competition

The executive search industry is highly competitive. It is estimated that there are more than 5,000 executive search firms worldwide. There are relatively few barriers to entry and new competitors frequently enter the market. While we face competition to some degree from all firms in the industry, we believe our most direct competition comes from other established retained search firms. In particular, we compete against other large search firms specializing in senior-level executive search, including Spencer Stuart & Associates, Egon Zehnder International, Russell Reynolds Associates, Inc., Korn/Ferry International and TMP Worldwide Inc. To a lesser extent, we also face competition from smaller boutique or specialty firms that specialize in certain regional markets or industry segments. Each firm with which we compete is also a competitor in seeking to attract the most effective consultants. In our experience, the executive search business is more quality-sensitive than price-sensitive. As a result, we compete on the level of service we offer, reflected by our industry practice groups, functional specialties and client focus, and, ultimately, on the quality of our search results.

LeadersOnline Competition

The market for LeadersOnline is intensely competitive, highly fragmented and quickly evolving. We face competition from a number of sources, including Internet-enhanced recruiting services, such as Korn Ferry International's Futurestep and TMP Worldwide Inc.; traditional, regional and specialized contingency-based search firms; alternative recruiting services, such as Internet job boards and print advertising; internal resources of current or potential employers; and large Internet information hubs or portals.

Recent Strategic Acquisitions and Mergers

Over the past four years, we have successfully completed the strategic acquisition of nine executive search firms and a merger with one executive search firm:

AMROP-Finland. On December 29, 2000 we acquired three executive search companies: the Finnish, Russian and Baltic executive search companies of the AMROP worldwide network. These acquisitions establish us as the largest executive search firm in Finland and strengthen our presence in the emerging markets of Estonia, Latvia and Russia.

Lynch Miller Moore O'Hara. On May 1, 2000, we acquired Lynch Miller Moore O'Hara, Inc., a Chicago-based executive search firm that specialized in the venture capital and high tech markets.

T.A.O. Group. On April 1, 2000, we acquired T.A.O. Group, an executive recruitment firm based in Seoul, Korea, with offices in Taipei, Shanghai and Singapore, expanding our presence in Asia Pacific.

Argonaut Search Group. On March 1, 2000, we acquired Argonaut Search Group, LLC, a San Francisco-based executive search firm that specialized in the real estate and financial services industries.

Redelinghuys. On December 28, 1999, we completed the acquisition of Redelinghuys & Partners, a senior-level executive search firm with offices in Capetown and Johannesburg in the Republic of South Africa. Prior to this acquisition, we had an alliance with Redelinghuys which allowed us to expand our services in South Africa.

Sullivan. On September 1, 1999, we merged with Sullivan & Company, an executive search firm that specialized in the financial services industry. This transaction expanded our reach in the investment banking, investment management and specialty finance sectors.

Fenwick. On June 26, 1998, we acquired Fenwick Partners, Inc., a Boston-based executive search firm. This transaction expanded the reach of our technology group into a third key technology center in the United States.

Mulder. On October 1, 1997, we acquired Mulder Partner GmbH & Co. KG. As a result of this transaction we became the largest executive search firm in Germany.

OUR EXECUTIVE OFFICERS

Name	Age	Position with Company
----	---	-----
Patrick S. Pittard.....	55	Chairman, President and Chief Executive Officer; Director
Donald M. Kilinski.....	41	Chief Financial Officer; Treasurer
Stephanie W. Abramson.....	56	Chief Legal Officer and Chief Corporate Development Officer; Secretary
David C. Anderson.....	58	President and Chief Executive Officer, Heidrick & Struggles Executive Search; Director
Piers Marmion.....	42	Chief Operating Officer and President--International, Heidrick & Struggles Executive Search; Director
Richard D. Nelson.....	61	Former Chief Administrative Officer, Counsel and Secretary

Our executive officers serve at the discretion of our board of directors. There are no family relationships between any executive officer or director. The following information sets forth the business experience for at least the past five years for each of our executive officers as of March 15, 2001.

Patrick S. Pittard has been our Chairman of the Board of Directors since June 27, 2000, and President and Chief Executive Officer since the Merger. Prior to the Merger, he had been President and Chief Executive Officer of Heidrick & Struggles, Inc. since 1997 and had been a member of the Board of Directors of Heidrick & Struggles, Inc. since 1986. After joining Heidrick & Struggles, Inc. in 1983, Mr. Pittard held the positions of Office Managing Partner for the Atlanta and Jacksonville offices, and North America Managing Partner. Mr. Pittard is also a member of the Board of Directors of Jefferson Pilot Corporation.

Donald M. Kilinski has been our Chief Financial Officer and Treasurer since the Merger. Prior to the Merger, he had been Chief Financial Officer of Heidrick & Struggles, Inc. since he joined Heidrick & Struggles, Inc. in 1997, and Chief Financial Officer and Treasurer of HSI since 1998. Prior to joining Heidrick & Struggles, Inc., Mr. Kilinski was Chief Financial Officer of BBDO Asia Pacific Ltd. from September 1995 to April 1997, and Vice President of Finance of BBDO Worldwide Inc. from July 1992 to August 1995 and from April 1997 through November 1997.

Stephanie W. Abramson has been our Chief Legal Officer and Chief Corporate Development Officer and Secretary since February 12, 2001. Prior to joining us, Ms. Abramson was Executive Vice President, General Counsel and Secretary of Young & Rubicam Inc. From 1980 to 1995, she was a partner in the law firm of Morgan, Lewis and Bockius.

David C. Anderson has been the President and Chief Executive Officer of Heidrick & Struggles Executive Search, a division of Heidrick & Struggles International, Inc., since June 27, 2000, and a member of our Board of Directors since the Merger. Mr. Anderson also has been President--Americas since September 23, 1999. He was North America Managing Partner from November 1998 to September 23, 1999, and he held the position of Office Managing Partner of our Dallas office since joining the firm in 1992 until November 1998. He was a member of the Board of Directors of Heidrick & Struggles, Inc. from 1992 until the Merger.

Piers Marmion has been the Chief Operating Officer and President--International of Heidrick & Struggles Executive Search, a division of Heidrick & Struggles International, Inc., since August 1, 2000, and a member of our Board of Directors since March 6, 2001. Prior to joining Heidrick & Struggles International, Inc., Mr. Marmion was Chief Operating Officer Worldwide and Head of Europe and Asia for Spencer Stuart & Associates from 1994 to 2000.

Richard D. Nelson resigned from the positions of Chief Administrative Officer, Counsel and Secretary in February 2001. He had held those offices since the Merger. He joined Heidrick & Struggles, Inc. in 1981, and prior to the Merger had been Chief Administrative Officer, Secretary and Counsel of Heidrick & Struggles, Inc. and a member of the Board of Directors of HSI from 1981 until the time of the Merger. He held the position of Chief Financial Officer from 1981 until 1997.

ITEM 2. PROPERTIES

Our corporate office is located in Chicago, Illinois. We have 78 locations in 37 countries around the world and we lease space for all of our locations. A list of our locations is set forth in Part I, Item I of this Report. The aggregate square footage of office space under such leases was approximately 770,717 as of December 31, 2000. The leases for these offices call for future minimum lease payments of approximately \$223 million and have terms which will expire between 2001 and 2020 exclusive of renewal options that we can exercise. We believe that our facilities are adequate for our current needs and that we will not have difficulty leasing additional office space to satisfy anticipated future needs.

ITEM 3. LEGAL PROCEEDINGS

From time to time we have been involved in litigation which is incidental to our business. We currently are not a party to any litigation, the adverse resolution of which, in management's opinion, would be likely to have a material adverse effect on our business, financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the last quarter of 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is listed on the Nasdaq National Market under the symbol "HSII." The following table sets forth the high and low intra-day stock price per share of the common stock for the periods indicated, as reported on the Nasdaq National Market since trading began on April 27, 1999:

Year Ended December 31, 2000 -----	High	Low
First Quarter.....	\$42.50	\$31.44
Second Quarter.....	64.75	32.50
Third Quarter.....	75.00	42.75
Fourth Quarter.....	62.31	33.50
Year Ended December 31, 1999 -----		
First Quarter.....	N/A	N/A
Second Quarter.....	20.13	12.75
Third Quarter.....	19.50	14.63
Fourth Quarter.....	46.00	17.25

As of March 1, 2001, the last reported stock price on the Nasdaq National Market for our common stock was \$35.31 per share and there were approximately 383 shareholders of record of the common stock.

We have never paid cash dividends on our common stock and do not anticipate paying any cash dividends on our common stock in the foreseeable future. We intend to retain all of our earnings for the future operations and expansion of our business. Any determination to pay dividends in the future will be at the discretion of our board of directors and will be dependent upon our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors deemed relevant by the board of directors. Our revolving credit facility prohibits us from declaring and paying cash dividends on the common stock without the consent of our lenders. Future indebtedness and loan facilities also may prohibit or restrict our ability to pay dividends and make distributions to our stockholders.

On February 9, 2000, we completed a follow-on public offering under a Registration Statement on Form S-1 effective February 3, 2000 (File No. 333-94017) of an aggregate of 3,450,000 shares of common stock at \$33.00 per share, which included 450,000 shares from the exercise of the over-allotment option granted to certain underwriters of the offering. We offered 2,458,306 shares and the selling stockholders offered 991,694 shares. This offering resulted in net proceeds (after deducting the underwriting discount and estimated offering expenses) of \$76.2 million to us and \$31.0 million to the selling stockholders. We did not receive any of the proceeds resulting from the sale by selling stockholders. We used and will continue to use the net proceeds from this offering for general corporate purposes including funding the development of LeadersOnline and other growth initiatives, hiring of additional executive search consultants, expanding our technology infrastructure and funding acquisitions.

During the month of October 2000, we issued 63,403 shares of our common stock, in addition to cash, to certain of our employees and employees of LeadersOnline in exchange for LeadersOnline stock options. We received no proceeds for such issuance of stock for which exemption from registration is provided by Rule 506 of Regulation D and Regulation S of the Securities Act of 1933.

Pursuant to the terms and conditions of the AMROP-Finland acquisition on December 29, 2000, we issued an aggregate of 23,378 shares of our common stock, in addition to cash, for one of our subsidiaries to purchase all of the outstanding common stock of Koik & Partners SIA, Stahlber & Partner OY/Juha Pekka Ahtikari OY, and Koik & Partners OU, the Latvian, Finnish and Estonian acquired companies, respectively. Pursuant to such acquisitions, we received no proceeds from the issuance of stock to the stockholders for which exemption from registration is claimed under Regulation S of the Securities Act of 1933.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below for each of the five years in the period ended December 31, 2000 have been derived from the audited consolidated financial statements of HSI Group which were audited by Arthur Andersen LLP, independent public accountants. The data set forth are qualified in their entirety by, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, the notes thereto, and the other financial data and statistical information included in this Form 10-K.

Selected Financial Data

	Year Ended December 31,				
	2000	1999(1)	1998	1997	1996
	(in thousands, except per share and other operating data)				
Statement of Operations Data:					
Revenue.....	\$ 594,394	\$ 415,847	\$ 216,836	\$ 193,052	\$ 147,428
Operating expenses:					
Salaries and employee benefits:					
Salaries and employee benefits.....	395,105 (2)	277,580	161,870	135,473	105,544
Nonrecurring compensation charges..	12,222 (4)	14,448 (5)(6)	12,748 (3)	--	--
General and administrative expenses:					
General and administrative expenses.....	156,242	104,144	53,557	44,736	30,344
Nonrecurring general and administrative charges.....	1,753 (4)	772 (5)	--	--	--
Total operating expenses.....	565,322	396,944	228,175	180,209	135,888
Operating income (loss).....	29,072	18,903	(11,339)	12,843	11,540
Non-operating income (expense):					
Interest income.....	8,723	3,513	1,585	1,626	1,394
Interest expense.....	(209)	(1,504)	(505)	(150)	(180)
Minority interest.....	208	--	--	--	--
Other income (expense).....	7,369	630	(2,212)(7)	486	(94)
Net non-operating income (expense).....	16,091	2,639	(1,132)	1,962	1,120
Equity in net income (loss) of affiliate...	--	(630)	(3,417)	20	775
Income (loss) before income taxes.....	45,163	20,912	(15,888)	14,825	13,435
Provision for income taxes.....	25,746	15,120	1,302	7,999	6,216
Net income (loss).....	\$ 19,417	\$ 5,792	\$ (17,190)	\$ 6,826	\$ 7,219
Basic earnings (loss) per common share.....					
	\$ 1.02	\$ 0.42	\$ (5.85)	\$ 2.31	\$ 2.54
Weighted average common shares outstanding....					
	18,979	13,642	2,940	2,949	2,847
Diluted earnings (loss) per common share.....					
	\$ 0.95	\$ 0.42	\$ (5.85)	\$ 2.31	\$ 2.54
Diluted average common					

shares outstanding....	20,389	13,889	2,940	2,950	2,847
	=====	=====	=====	=====	=====
Balance Sheet Data (at end of period):					
Working capital.....	\$ 120,340	\$ 54,007	\$ 7,954	\$ 25,570	\$ 21,414
Total assets.....	523,644	334,749	128,775	96,222	70,826
Long-term debt, less current maturities....	610	--	6,350	1,636	993
Mandatorily redeemable common stock.....	--	--	44,422	48,153	39,950
Stockholders' equity...	287,677	167,880	--	--	--
Other Operating Data:					
Number of locations (at end of period).....	78	69	33	29	26
Average number of consultants during the period.....	441	347	207	164	142

- (1) Because H&S acquired HSI on February 26, 1999, the historical results of operations of HSI have been included in H&S's financial statements subsequent to the date of acquisition. See Part I--Item I Business--"The Merger."
- (2) Includes a non-cash compensation charge of \$2.7 million (\$0.13 per share on a diluted basis). This charge is due to the issuance of options by LeadersOnline, at a price below the deemed fair market value for accounting purposes, at the time of issuance.
- (3) Includes \$12.7 million of nonrecurring charges (\$4.34 per share on a diluted basis) comprised of (a) \$9.9 million of salaries and employee benefits expense arising from the difference between the issuance price of shares issued by the Company to certain of our directors in December 1998 and the fair market value of such shares at the date of grant and (b) \$2.8 million of salaries and benefits expense relating to the early settlement of profit sharing arrangements upon the acquisition of certain Latin American locations.
- (4) The Company incurred a \$14.0 million nonrecurring charge (\$0.60 per share on a diluted basis) during the third quarter of 2000 as a result of the withdrawal of LeadersOnline's proposed initial public offering. This included a non-cash compensation charge of \$12.2 million which represents the remainder of the non-cash compensation charge related to the issuance of options by LeadersOnline, at a price below the deemed fair market value for accounting purposes, at the time of issuance. The remaining \$1.8 million is due to the write-off of expenses related to the planning of the proposed initial public offering and is included in nonrecurring general and administrative charges.
- (5) The Company incurred merger costs of \$2.8 million (\$0.14 per share on a diluted basis) during the third quarter of 1999 as a result of the merger with Sullivan & Company on September 1, 1999. The merger costs consist of (1) a \$2.0 million non-cash compensation charge for accelerated vesting of an employee equity ownership program in place at Sullivan and (2) \$0.8 million of transaction-related costs, including legal, accounting and advisory fees which are included in nonrecurring general and administrative charges.
- (6) The Company incurred a \$12.4 million nonrecurring compensation charge (\$0.89 per share on a diluted basis) during the first quarter of 1999 as a result of the modification of the terms of the Mulder acquisition agreement, including the termination of all employment contingencies. This nonrecurring charge represents the write-off of \$2.9 million of deferred compensation assets, the settlement of the remaining cash due of \$4.3 million, and the issuance of 428,452 common shares (worth \$5.2 million) to the previous owners of Mulder.
- (7) Includes a nonrecurring \$2.5 million (\$0.53 per share on a diluted basis) charge incurred in connection with the costs of the postponement of an initial public offering in September 1998.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations as well as other sections of this Annual Report on Form 10-K contain forward-looking statements. The forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate and management's beliefs and assumptions regarding general economic trends. Forward-looking statements may be identified by the use of words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and similar expressions. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, forecasted or implied in the forward-looking statements. Factors that may affect the outcome of the forward-looking statements include, among other things, our ability to attract and retain qualified executive search consultants; a material economic downturn in the United States or Europe, or social or political instability in overseas markets; bad debt write-offs far in excess of allowances for doubtful accounts; continued increased acceptance of online recruiting; losses in our venture capital investments; an inability to control expenses; and delays in the development and/or implementation of new technology and systems.

General

Heidrick & Struggles International, Inc. ("HSI Group") is the world's premier provider of executive-level search and leadership consulting services. Based on revenue derived from placing senior-level executives, we believe we are one of the largest senior-level executive search firms in the world. We provide executive-level search and leadership consulting services through our global network of offices to a broad range of clients, including Fortune 500 companies, major non-U.S. companies, middle market and emerging growth companies, governmental and not-for-profit organizations, and other leading private and public entities. Through our Internet-enhanced search business, LeadersOnline, Inc. ("LeadersOnline"), we target the recruitment market for mid-level executives and professionals. We also provide other human capital management services that complement our core executive search business, including management assessment and placement of interim executive management.

Prior to 1984, we operated under a single ownership structure. In 1984, Heidrick & Struggles, Inc. ("H&S") spun off Heidrick & Struggles International, Inc. ("HSI") to its European partners while retaining a significant equity interest in it. Between 1984 and February 26, 1999, HSI operated primarily in Europe, while H&S operated in all other regions of the world. On February 26, 1999, H&S merged with HSI ("the Merger") to reunite the two companies into a single corporate structure, HSI Group.

We completed several other acquisitions and mergers in the past three years. On December 29, 2000, we acquired the Finnish, Russian and Baltic executive search companies of the AMROP worldwide network. On May 1, 2000, we acquired Lynch Miller Moore O'Hara, Inc., a Chicago-based executive search firm that specialized in the venture capital and high tech markets. On April 1, 2000, we acquired T.A.O. International Group, a senior-level executive search firm with offices in Asia. On March 1, 2000, we acquired Argonaut Search Group, LLC, a San Francisco-based executive search firm that specialized in the real estate and financial services industries. In December 1999, we acquired Redelinguys & Partners, a senior-level executive search firm in the Republic of South Africa. In June 1998, we acquired Fenwick Partners, Inc., a Boston-based executive search firm. These acquisitions were accounted for using the purchase method of accounting, with the results of the acquired companies included in the Consolidated Statements of Income and Comprehensive Income beginning on the date of each acquisition. In September 1999, we merged with Sullivan & Company ("Sullivan"), an executive search firm that specialized in the financial services industry. This transaction was accounted for using pooling of interests accounting, with the results of Sullivan being included in the Consolidated Statements of Income and Comprehensive Income for all periods presented.

With offices in 78 locations in 37 countries throughout North and South America, Europe, the Middle East, Africa and Asia Pacific we conduct business using various currencies. Revenue earned in each country is generally matched with the associated expenses incurred, thereby reducing currency risk to earnings. However, because certain assets and liabilities are denominated in non-U.S. currencies, changes in currency rates may cause fluctuations in the valuation of such assets and liabilities. For financial information by geographic segment, see Note 17 of our Consolidated Financial Statements.

Revenue

We generate revenue primarily by providing executive search and leadership consulting services to our clients. Our executive search revenue growth is largely a function of increasing the revenue per consultant and the number of consultants employed (based on number of months employed during the period). Average revenue per executive search consultant is a function of the number of searches performed per consultant and the fee earned per search. Revenue largely consists of fees earned from our Executive Search business and indirect expenses, as well as fees earned from LeadersOnline, management assessment, and placement of interim executive management.

Revenue from client services is recognized when such services are earned and realizable. Revenue consists of retainers and indirect expenses billed to clients. Typically, we are paid a retainer for our services equal to approximately one-third of the estimated guaranteed first year compensation for the position to be filled. In addition, if the actual compensation of a placed candidate exceeds the estimated compensation, we often will be authorized to bill the client for one-third of the excess. Indirect expenses are calculated as a percentage of the retainer with certain dollar limits per search. We generally bill our clients for our retainer and indirect expenses in one-third increments over a three-month period commencing in the month of the acceptance of the contract by our client. For each executive search assignment, we and our client enter into a contract, which outlines the general terms and conditions of the assignment.

We receive warrants for equity securities in our client companies, in addition to our cash fee, for services rendered on some searches. When the warrants are received, revenue is recorded equal to the estimated fair market value of the investment received.

Hiring new executive search consultants requires a large initial investment in signing bonuses, guaranteed bonuses, and salaries and benefits for associated support staff and does not tend to immediately provide proportionately higher revenues. As a result of new hires, our average revenue per consultant and overall profitability are typically negatively affected in the short term.

Operating Expenses

Our operating expenses are divided into two general categories: salaries and employee benefits, and general and administrative expenses.

Salaries and employee benefits. The largest components of our operating expenses are compensation and benefits paid to consultants, executive officers, and administrative and support personnel, of which the most significant elements are salaries and annual bonuses. Other items included in this category are signing bonuses and guaranteed bonuses (often incurred in connection with the hiring of new executive search consultants), payroll taxes, profit sharing and retirement benefits, and employee insurance benefits. An executive search consultant's base salary represents, on average, less than one-half of the consultant's total annual compensation, which is performance based and derived from origination and execution credits. Typically, a portion of the credit for a particular assignment goes to the consultants who originate the assignment, and a portion goes to the consultants who perform the assignment. In addition, a portion of each consultant's annual compensation is based on management's assessment of that consultant's partnership and work quality. At LeadersOnline, our eConsultant's base salary represents, on average, more than one-half of the eConsultant's total annual compensation.

General and administrative expenses. The key components of general and administrative expenses include rent, information systems costs, general office expenses and professional service costs (including legal, accounting and third party professional services). In addition, general and administrative expenses include depreciation, amortization and bad debt expense.

Nonrecurring Charges

In the third quarter of 2000, we decided to retain proprietary control of LeadersOnline and its Internet-enhanced recruiting methods. As a result, LeadersOnline withdrew its registration statement with the Securities and Exchange Commission relating to a proposed initial public offering. Accordingly, we recorded nonrecurring charges in the third quarter, including a non-cash compensation charge of \$12.2 million, which represents the remainder of a \$14.9 million non-cash compensation charge related to the issuance of options by LeadersOnline at a price below the deemed fair market value for accounting purposes at the time of issuance. The difference of \$2.7 million was recorded as a recurring charge over the first three quarters of 2000. The resulting amount of \$14.9 million was recorded to additional paid in capital. Also, a \$1.8 million charge was recorded for the write-off of expenses related to planning the proposed initial public offering.

In addition, we charged to additional paid in capital \$10.0 million to compensate management and employees for the value of their LeadersOnline options and \$3.1 million to repurchase LeadersOnline stock from our employees and VerticalNet, Inc.

In connection with the acquisition of Sullivan, we recorded merger-related costs of \$2.8 million during 1999. The merger costs consist of a \$2.0 million non-cash charge for accelerated vesting of an employee equity ownership plan in place at Sullivan and \$772,000 of transaction-related costs, including legal, accounting and advisory fees.

During the first quarter of 1999, we incurred a nonrecurring charge of \$12.4 million. This charge was the result of our agreement to modify the terms of the Mulder Partner GmbH & Co. KG ("Mulder") acquisition agreement, including the termination of all employment contingencies. HSI acquired 100% of Mulder on October 1, 1997, for a combination of cash and 32,000 shares of HSI common stock. On October 1, 1997, HSI delivered 4,000 shares of HSI common stock, paid \$8.7 million to the partners of Mulder and incurred \$298,000 of associated transaction costs. Under the original Mulder acquisition agreement an additional \$5.2 million (plus interest at an annual rate of 4%) was due to the partners of Mulder in five equal annual installments, the first of which was paid on October 1, 1998. The remaining shares were to be issued in four annual installments beginning January 1, 1999. Because the total purchase price was contingent upon the continued employment of the Mulder consultants, the cost of the acquisition was accounted for as compensation expense to be recognized over a five-year period beginning October 1, 1997. In connection with the Merger, the Mulder acquisition agreement was amended such that the remaining cash (plus interest) would be paid within 90 days of the completion of the Merger and 428,452 shares (reflecting a split of 15.8217 for 1) of our common stock (which were valued, based upon the estimated fair market value of our company, at \$5.2 million) were issued to the Mulder partners immediately after the Merger. During 1999, we paid the remaining \$4.3 million cash due, issued 428,452 shares of our common stock and wrote off \$2.9 million of deferred compensation assets resulting in a total compensation charge of \$12.4 million.

In 1998, we incurred nonrecurring compensation charges of \$9.9 million arising from the difference between the issuance price of shares issued by us in December 1998 and the fair market value of such shares at the date of grant, and \$2.8 million arising from the early settlement of profit sharing arrangements relating to the acquisition of certain Latin American locations.

Non-Operating Income (Expense)

Non-operating income (expense) consists of interest income, interest expense, realized gains from the sale of equity securities, net of consultants' bonuses and administrative and other costs, and other income and

expenses. We receive warrants for equity securities in some of our client companies, in addition to our cash fee, for services rendered on some searches. Realized net gains from the sale of equity securities from our warrant program are recorded in other income.

Equity in Net Income (Loss) of Affiliate

Prior to the Merger, we held a significant interest in HSI. Equity in net income (loss) of affiliate relates to the income earned or loss incurred from our investment in HSI after giving effect to currency translation adjustments.

Taxes

We are subject to U.S. federal, state and non-U.S. income taxes. Income generated outside of the United States may be subject to higher tax rates than U.S. income. As a result, our effective tax rate may be higher than prevailing U.S. tax rates. Historically, certain non-deductible expenses have increased our effective tax rate. Our provision for income taxes reflects our best judgment as to the likely effective tax rate for a given period.

Results of Operations

The following table sets forth, for the periods indicated, our selected statements of operations data as a percentage of revenue:

	Year Ended December 31,		
	2000	1999	1998
Revenue.....	100.0%	100.0%	100.0%
Operating expenses:			
Salaries and employee benefits:			
Salaries and employee benefits.....	66.5	66.8	74.7
Nonrecurring compensation charges.....	2.1	3.5	5.8
General and administrative expenses:			
General and administrative expenses.....	26.3	25.0	24.7
Nonrecurring general and administrative charges.....	0.3	0.2	--
Total operating expenses.....	95.2	95.5	105.2
Operating income (loss).....	4.8	4.5	(5.2)
Non-operating income (expense):			
Interest income.....	1.5	0.8	0.7
Interest expense.....	--	(0.4)	(0.2)
Minority interest.....	--	--	--
Other, net.....	1.2	0.2	(1.0)
Net non-operating income (expense).....	2.7	0.6	(0.5)
Equity in net loss of affiliate.....	--	(0.2)	(1.6)
Income (loss) before income taxes.....	7.5	4.9	(7.3)
Provision for income taxes.....	4.3	3.6	0.6
Net income (loss).....	3.2%	1.3%	(7.9)%

The following table sets forth, for the periods indicated, our revenue and operating income (loss) by segment. We operate principally through two lines of business: Executive Search and LeadersOnline. We break out revenue and operating income in our core Executive Search business into two broad geographic segments: Americas and International. The Americas segment consists of the United States and Other (Canada and Latin America). The International segment consists of Europe (which includes Africa and the Middle East) and Asia Pacific.

	Year Ended December 31,		
	2000	1999	1998
Revenue:			
Americas			
United States.....	\$341,553	\$256,394	\$190,855
Other.....	21,858	17,342	11,833
International			
Europe.....	176,431	118,880	--
Asia Pacific.....	34,361	20,614	14,148
Total Executive Search.....	574,203	413,230	216,836
LeadersOnline.....	20,191	2,617	--
Total.....	\$594,394	\$415,847	\$216,836
Operating income (loss):			
Americas			
United States.....	\$ 58,552	\$ 38,638	\$ 8,871
Other.....	2,556	3,466	(6,435)
International			
Europe.....	17,926	(1,614)	--
Asia Pacific.....	5,367	2,944	(308)
Total Executive Search.....	84,401	43,434	2,128
LeadersOnline.....	(27,178)	(5,157)	(1,539)
Corporate.....	(28,151)	(19,374)	(11,928)
Total.....	\$ 29,072	\$ 18,903	\$(11,339)

2000 Compared to 1999

Revenue. Our revenue increased \$178.6 million, or 42.9%, to \$594.4 million for 2000 from \$415.8 million in 1999, due to continued strong demand for our services across a number of industries and disciplines, especially the financial services, technology and consumer practice groups, and an increase in the number of executive search consultants, which resulted in an increase in the number of confirmed searches. Fees per search in Executive Search were higher as our strategic focus on working at the most senior level of executive search continued to drive performance. In addition, the increase in revenue was partially due to the Merger that occurred on February 26, 1999. As a result of the Merger, the full twelve months of HSI revenue is included in the year ended December 31, 2000, whereas only approximately ten months of HSI revenue is included in the year ended December 31, 1999. Excluding HSI from both periods, revenue increased 40.7%.

We experienced significant revenue growth in all of our geographic segments within Executive Search during 2000. In the United States, our revenue increased \$85.2 million, or 33.2%, to \$341.6 million for 2000 from \$256.4 million in 1999, with particular strength in the financial services, technology, consumer products and health care practice groups. We opened offices in Denver, Austin, Emeryville, and Foster City during 2000. In the Americas--Other segment, revenue rose 26.0% to \$21.9 million for 2000 from \$17.3 million in 1999, primarily due to the growth of our technology and financial services practice groups in Latin America and Canada. We opened an office in Bogota, Colombia during 2000. In Europe, our revenue for 2000 increased

\$57.5 million, or 48.4%, to \$176.4 million from \$118.9 million in 1999, due primarily to an increase in the number of searches, with particular strength in the financial services practice group. In addition, the increase in Europe's revenue was partially due to the Merger. Excluding the effect of foreign currency translations into U.S. dollars, revenue grew 68.1% in Europe. In addition, we acquired a company with offices in Estonia and Latvia during 2000. In Asia Pacific, revenue for 2000 increased 66.7% to \$34.4 million from \$20.6 million in 1999, primarily due to strong performance in the financial services and technology practice groups. We acquired a company with offices in Seoul, Taipei and Shanghai during 2000.

LeadersOnline generated \$20.2 million of revenue in 2000 compared to \$2.6 million of revenue in 1999 due to increased demand for our services. LeadersOnline began generating revenue in the 1999 second quarter. During the 12 months ended December 31, 2000, LeadersOnline entered into contracts for 485 new searches worldwide, with an average annual compensation level of \$135,900 per placement.

Salaries and employee benefits. Our salaries and employee benefits increased \$117.5 million, or 42.3%, to \$395.1 million for 2000 from \$277.6 million for 1999. As a percentage of revenue, salaries and employee benefits decreased slightly to 66.5% in 2000 from 66.8% in 1999. The improvement was primarily because under our variable compensation structure our consultants do not earn compensation on what is not collected and we wrote off a greater amount of bad debts compared to 1999, particularly in the 2000 fourth quarter, due partially to failed dot-com start ups. In addition, the salaries and employee benefits margin improved partially because we were able to leverage the fixed component of our salaries against higher revenue.

Nonrecurring compensation charges. During the third quarter of 2000, we incurred a nonrecurring compensation charge of \$12.2 million as a result of our decision to retain proprietary control of LeadersOnline. This charge represented the remainder of the non-cash compensation charge related to the issuance of options by LeadersOnline at a price below the deemed fair market value for accounting purposes at the time of issuance. During the third quarter of 1999, we incurred compensation-related merger costs of \$2.0 million arising from the merger with Sullivan, which consisted of a non-cash charge for accelerated vesting of an employee equity ownership program in place at Sullivan. During the first quarter of 1999, we incurred a \$12.4 million nonrecurring compensation charge related to the modification of the terms of the Mulder acquisition agreement.

General and administrative expenses. Our general and administrative expenses increased \$52.1 million, or 50.0%, to \$156.2 million for 2000 from \$104.1 million for 1999. As a percentage of revenue, general and administrative expenses increased to 26.3% in 2000 from 25.0% in 1999. This percentage increase was primarily due to investment spending for LeadersOnline and for other complementary growth initiatives. In addition, depreciation expense was higher as we continued to invest in the growth of our company. Lastly, bad debt expense was higher due to increased write-offs of bad debts in 2000 compared to 1999, particularly in the 2000 fourth quarter, due partially to failed dot-com start ups.

Nonrecurring general and administrative charges. During the third quarter of 2000, we incurred a \$1.8 million nonrecurring general and administrative charge as a result of the write-off of expenses related to the planning of the proposed initial public offering of LeadersOnline. During the third quarter of 1999, we incurred general and administrative-related merger costs of \$772,000 arising from the merger with Sullivan. This consisted of transaction-related costs including legal, accounting and advisory fees.

Operating Income. Our operating income increased \$10.2 million, or 53.8%, to \$29.1 million in 2000 from \$18.9 million in 1999. Within Executive Search, operating income increased in all geographic segments, except Americas--Other, primarily because of higher revenue growth. In the United States, our operating income increased \$20.0 million, or 51.5% to \$58.6 million in 2000 from \$38.6 million in 1999. In the Americas--Other segment, operating income decreased \$910,000, or 26.3%, to \$2.6 million in 2000 from \$3.5 million in 1999. In Europe, operating income in 2000 was \$17.9 million, compared to an operating loss of \$1.6 million in 1999. In Asia Pacific, operating income rose \$2.5 million, or 82.3%, to \$5.4 million in 2000 from

\$2.9 million in 1999. LeadersOnline reported an operating loss of \$27.2 million in 2000, compared to an operating loss of \$5.2 million in 1999 because of increased investment spending required to grow the business during its early stages of operation. Unallocated corporate expenses increased \$8.8 million, or 45.3%, to \$28.2 million in 2000 from \$19.4 million in 1999, due primarily to building the infrastructure of a growing, public company, and investment spending in complementary growth initiatives.

Net non-operating income (expense). Our net non-operating income increased \$13.5 million to \$16.1 million for 2000 from \$2.6 million for 1999. This increase was primarily due to a \$7.2 million gain, net of consultants' bonuses and administrative and other costs, from the sale of equity securities obtained as part of our warrant program, under which we receive warrants for equity securities in certain client companies, in addition to our normal cash fee, when executing searches for such clients. Other items which increased net non-operating income included higher interest income arising from the investment of the net proceeds received from our initial public offering in April 1999 and our follow-on public offering in February 2000, and a decrease in interest expense due to a lower average debt balance.

1999 Compared to 1998

Revenue. Our revenue increased \$199.0 million, or 91.8%, to \$415.8 million for 1999 from \$216.8 million for 1998. This increase was primarily the result of the Merger, which contributed \$118.9 million in revenue for 1999. Excluding HSI, revenue increased by 37.0%. Strong demand for our services across a number of industries and disciplines, especially technology, e-commerce, financial services and industrial, aggressive business development activities, and an increase in the average number of consultants employed during the period all contributed to the revenue growth as the number of confirmed searches increased. In addition, average revenue per executive search consultant was higher due to higher fees per search and better leveraging of technology to enhance consultant productivity.

We experienced revenue growth in all of our geographic segments within Executive Search during 1999. In the United States, our revenue increased \$65.5 million, or 34.3%, to \$256.4 million for 1999 from \$190.9 million for 1998. We opened offices in West Los Angeles, Seattle and San Diego during 1999. In the Americas--Other segment, revenue rose 46.6% to \$17.3 million from \$11.8 million. We opened a new office in Montreal during 1999. The Merger in February 1999 added \$118.9 million of revenue to the Europe segment. The Merger would have added \$125.2 million of revenue were it not for the effects of foreign currency translation, predominantly in Germany, France and the United Kingdom. We opened an office in Vienna, Austria, and purchased a business in South Africa during 1999, both of which are included in the Europe segment. Our revenue in Asia Pacific increased \$6.5 million, or 45.7%, to \$20.6 million for 1999 from \$14.1 million for 1998. We opened an office in Seoul during 1999. LeadersOnline began generating revenue in the second quarter of 1999 and had revenue of \$2.6 million for 1999.

Salaries and employee benefits. Our salaries and employee benefits increased \$115.7 million, or 71.5%, to \$277.6 million for 1999 from \$161.9 million for 1998. This increase was primarily the result of the Merger, which contributed \$78.3 million in salaries and employee benefits for 1999. Excluding HSI, salaries and employee benefits decreased as a percentage of revenue from 74.7% in 1998 to 67.1% in 1999. The decrease was due to increased search consultant productivity as a result of our technology initiatives, lower costs related to the hiring of consultants, better leveraging of our support staff, and a change in the bonus structure for management that replaced a portion of cash incentive compensation with stock options in 1999.

Nonrecurring compensation charges. During the third quarter of 1999, we incurred compensation-related merger costs of \$2.0 million arising from the merger with Sullivan, which consisted of a non-cash charge for accelerated vesting of an employee equity ownership program in place at Sullivan. During the first quarter of 1999, we incurred a \$12.4 million nonrecurring compensation charge related to the modification of the terms of the Mulder acquisition agreement. In 1998, we incurred nonrecurring compensation charges of \$9.9 million arising from the difference between the issuance price of shares issued by us in December 1998 and the fair market value of such shares at the date of grant, and \$2.8 million arising from the early settlement of profit sharing arrangements relating to the acquisition of certain Latin American locations.

General and administrative expenses. Our general and administrative expenses increased \$50.5 million, or 94.5%, to \$104.1 million for 1999 from \$53.6 million for 1998. This increase was primarily the result of the Merger, which contributed \$31.2 million in general and administrative expenses for 1999. Excluding HSI, general and administrative expenses remained relatively flat as a percentage of revenue, decreasing from 24.7% to 24.6%. Additional spending for our technology initiatives and investment spending for LeadersOnline offset the increase in revenue in 1999.

Nonrecurring general and administrative charges. During the third quarter of 1999, we incurred general and administrative-related merger costs of \$772,000 arising from the merger with Sullivan. These consisted of transaction-related costs including legal, accounting and advisory fees.

Operating Income. Our operating income increased \$30.2 million to \$18.9 million in 1999 from an operating loss of \$11.3 million in 1998. Within Executive Search, operating income increased in all geographic segments, except Europe, primarily because of higher revenue growth. In the United States, our operating income increased \$29.7 million to \$38.6 million in 1999 from \$8.9 million in 1998. In the Americas--Other segment, operating income grew by \$9.9 million to \$3.5 million in 1999 from an operating loss of \$6.4 million in 1998. Europe reported an operating loss of \$1.6 million in 1999 due to the Merger. In Asia Pacific, operating income rose \$3.2 million to \$2.9 million in 1999 from an operating loss of \$308,000 in 1998. LeadersOnline reported an operating loss of \$5.2 million in 1999 compared to \$1.5 million in 1998 because of investment spending required to grow the business during its early stages of operation. Unallocated corporate expenses increased \$7.5 million, or 62.4%, to \$19.4 million in 1999 from \$11.9 million in 1998, due to building the infrastructure of a growing, public company.

Net non-operating income (expense). Our net non-operating income increased to \$2.6 million for 1999 from a net non-operating expense of \$1.1 million for 1998. This change was primarily due to a \$2.5 million charge incurred in 1998 in connection with the costs of postponing our initial public offering in September 1998, and an increase in interest income arising from the investment of the net proceeds from our initial public offering in April 1999, partially offset by an increase in interest expense due to a higher average outstanding debt balance during 1999. In addition, we recorded a \$782,000 gain, net of consultants' bonuses and administrative and other costs, from the sale of equity securities obtained as part of our warrant program. We receive warrants for equity securities in certain client companies, in addition to our cash fee, when executing searches for such clients.

Pro Forma Combined Results of Operations

The following table provides our pro forma combined results of operations and such data as a percentage of revenue for the years ended December 31, 2000 and 1999.

	Year Ended December 31,			
	2000(3)		1999(1)(2)	
	(dollars in thousands)			
Revenue	\$594,394	100.0%	\$435,832	100.0%
Operating expenses:				
Salaries and employee benefits(4).....	395,105	66.5	292,496	67.1
General and administrative expenses(5).....	156,242	26.3	110,585	25.4
Total operating expenses.....	551,347	92.8	403,081	92.5
Operating income.....	43,047	7.2	32,751	7.5
Non-operating income (expense):				
Interest income.....	8,723	1.5	3,513	0.8
Interest expense.....	(209)	--	(1,560)	(0.4)
Minority interest	208	--	--	--
Other, net.....	7,369	1.2	630	0.1
Net non-operating income.....	16,091	2.7	2,583	0.5
Income before income taxes(6).....	59,138	9.9	35,334	8.0
Provision for income taxes.....	26,499	4.5	15,741	3.6
Net income.....	\$ 32,639	5.4%	\$ 19,593	4.4%
Basic earnings per common share.....	\$ 1.72		\$ 1.20	
Basic weighted average common shares outstanding(7).....	18,979		16,326	
Diluted earnings per common share.....	\$ 1.60		\$ 1.18	
Diluted weighted average common shares outstanding(7)(8).....	20,389		16,596	

(1) The consolidated statement of income for the year ended December 31, 1999 has been adjusted by the following amounts to reflect the historical operations of HSI from January 1, 1999 through the Merger date:

Revenue.....	\$19,985
Salaries and employee benefits.....	15,836
General and administrative expenses.....	6,209
Net non-operating expense.....	(56)
Benefit from income taxes.....	(520)

(2) Amounts exclude the \$15.2 million of nonrecurring charges for 1999. The charges are comprised of \$12.4 million for the renegotiation of the Mulder acquisition agreement and \$2.8 million of merger costs for the Sullivan merger. In addition, amortization of deferred compensation expense of \$0.9 million relating to the acquisition of Mulder has been eliminated from salaries and employee benefits for 1999.

(3) Amounts exclude the \$14.0 million of nonrecurring charges for 2000. The charges are a result of the decision to retain proprietary control of LeadersOnline and withdrawal of the proposed initial public offering. The charges are comprised of \$12.2 million, which represents the remainder of the non-cash compensation charge related to the issuance of options by LeadersOnline, at a price below the deemed fair market value for accounting purposes, at the time of issuance. The remaining \$1.8 million is due to the write-off of expenses related to planning the proposed LeadersOnline initial public offering.

(4) Amount includes a non-cash compensation charge of \$2.7 million for 2000, due to the issuance of options by LeadersOnline, at a price below the deemed fair market value for accounting purposes, at the time of issuance.

(5) Adjustments have been made to reflect the impact of allocating the difference between the fair market value and the book value of the interests in HSI acquired (less the related deferred tax liability) to intangible assets and goodwill of HSI, based upon the determination of the respective fair values of these assets. For 1999, \$0.2 million of amortization related to acquired intangibles and goodwill has been charged to general and administrative expenses.

- (6) Equity in net loss of affiliate has been eliminated for all periods shown to reflect 100% ownership of HSI after the Merger.
- (7) Amount has been adjusted to give effect to the initial public offering of 3.7 million shares as of January 1, 1999.
- (8) Amounts have been adjusted to give effect to the issuance of options pursuant to our employee incentive plans equivalent to 0.3 million shares for 1999.

The following table sets forth, for the years ended December 31, 2000 and 1999, our proforma revenue and operating income (loss) by segment. We operate principally through two lines of business: Executive Search and LeadersOnline. We break out revenue and operating income in our core Executive Search business into two broad geographic segments: Americas and International. The Americas segment consists of the United States and Other (Canada and Latin America). The International segment consists of Europe (which includes Africa and the Middle East) and Asia Pacific.

	Year Ended December 31,	
	2000	1999
	(in thousands)	
Revenue:		
Americas		
United States.....	\$341,553	\$256,394
Other.....	21,858	17,342
International		
Europe.....	176,431	138,865
Asia Pacific.....	34,361	20,614
Total Executive Search.....	574,203	433,215
LeadersOnline.....	20,191	2,617
Total.....	\$594,394	\$435,832
	=====	=====
Operating income (loss):		
Americas		
United States.....	\$ 58,552	\$ 38,638
Other.....	2,556	3,466
International		
Europe.....	17,926	9,666
Asia Pacific.....	5,367	2,944
Total Executive Search.....	84,401	54,714
LeadersOnline.....	(13,203)	(5,157)
Corporate.....	(28,151)	(16,806)
Total.....	\$ 43,047	\$ 32,751
	=====	=====

Pro Forma Combined Results of Operations for 2000 Compared to 1999

Revenue. Our revenue increased \$158.6 million, or 36.4%, to \$594.4 million for 2000 from \$435.8 million for 1999. Excluding the effect of foreign currency translations into the U.S. dollar, revenue grew 41.9%. This increase was due to continued strong demand for our executive search services across a number of industries and disciplines, especially the financial services, technology and consumer practice groups. In 2000, we hired 119 executive search consultants, net of departures, bringing the total to 510 at December 31, 2000. This represented a 30% increase over the 391 consultants we employed at the beginning of the year. Our average fee per search for 2000 was \$73,500, an increase of 4% over our 1999 average fee per search of \$70,900. This increase was due to a general increase in compensation levels coupled with our strategic focus of working at the most senior levels of executive search.

Salaries and employee benefits. Our salaries and employee benefits increased \$102.6 million, or 35.1% to \$395.1 million for 2000 from \$292.5 million for 1999. As a percentage of revenue, salaries and employee

benefits decreased to 66.5% from 67.1%. The improvement was primarily because under our variable compensation structure our consultants do not earn compensation on what is not collected and we wrote off a greater amount of bad debts compared to 1999, particularly in the 2000 fourth quarter, due partially to failed dot-com start ups. In addition, the salaries and employee benefits margin improved partially because we were able to leverage the fixed component of our salaries against higher revenue.

General and administrative expenses. Our general and administrative expenses increased \$45.6 million, or 41.3%, to \$156.2 million for 2000 from \$110.6 million for 1999. As a percentage of revenue, general and administrative expenses increased to 26.3% from 25.4%. This percentage increase was primarily due to investment spending for LeadersOnline and for other complementary growth initiatives. In addition, depreciation expense was higher as we continued to invest in the growth of our company. Lastly, bad debt expense was higher due to increased write offs of bad debts in 2000 compared to 1999, particularly in the 2000 fourth quarter, due partially to failed dot-com start ups.

Net non-operating income (expense). Our net non-operating income increased to \$16.1 million for 2000 from \$2.6 million for 1999. This increase was primarily due to a \$7.2 million gain, net of consultants' bonuses and administrative and other costs, from the sale of equity securities obtained as part of our warrant program. We receive warrants for equity securities in certain client companies, in addition to our cash fee, when executing searches for such clients. The increase also was due to an increase in interest income arising from the investment of the net proceeds from our initial public offering in April 1999 and our follow-on public offering in February 2000, and a decrease in interest expense due to a lower average debt balance.

Liquidity and Capital Resources

We periodically evaluate our liquidity requirements, capital needs and availability of capital resources in view of plans for expansion and operating cash needs. We have historically financed our operations primarily through internally generated funds and periodic borrowings under our credit facilities. In addition, we received \$51.8 million from our initial public offering in April 1999 and \$76.2 million from our follow-on public offering in February 2000. We pay a portion of our bonuses in December and the remainder is paid in March. Employee bonuses are accrued when earned and are based on our performance and the performance of the respective employee.

We believe that the net proceeds from our common stock offerings, together with funds expected to be generated from operations and our lines of credit, will be sufficient to finance our operations for the foreseeable future. However, if we undertake significant acquisitions or other investment activities, we may need access to additional sources of debt or equity financing.

On April 10, 2000, LeadersOnline filed a registration statement with the Securities and Exchange Commission relating to a proposed initial public offering of its Class A common stock. In April 2000, LeadersOnline sold a total of 609,000 shares of its common stock to VerticalNet, Inc. and to certain of our employees for \$5 per share. The net cash proceeds, after expenses, were \$2.9 million and we recorded a gain in stockholders' equity of \$2.7 million as a result of this transaction.

In the third quarter of 2000, we made a decision to retain proprietary control of LeadersOnline and its Internet-enhanced recruiting methods. As a result, LeadersOnline withdrew its registration statement with the Securities and Exchange Commission relating to the proposed initial public offering and paid \$3.1 million to repurchase the stock sold to VerticalNet, Inc. and to certain of our employees. In addition, we paid \$10.0 million to compensate option holders for the cancellation of their options.

We maintained cash and cash equivalents at December 31, 2000, 1999, and 1998 totaling \$184.8 million, \$76.8 million and \$11.5 million, respectively. For 2000, cash flows from operating activities contributed \$89.4 million, reflecting net income and non-cash expenses for stock-based compensation and nonrecurring

charges, depreciation and amortization, as well as a decrease in working capital. For 1999, cash flows from operating activities contributed \$54.8 million, reflecting net income and non-cash expenses such as depreciation and amortization and nonrecurring charges, as well as a decrease in working capital. For 1998, cash flows from operating activities contributed \$1.0 million of cash reflecting the net loss offset by non-cash expenses such as stock-based compensation and depreciation and amortization, as well as a decrease in working capital.

During 2000, we acquired six executive search firms for an aggregate of \$19.4 million in cash and notes payable and an additional \$5.1 million of our common stock. During 1999, we acquired an executive search firm and merged with Sullivan and HSI for an aggregate of \$1.5 million in cash and an additional \$43.1 million in stock. During 1998, we acquired two executive search firms for an aggregate of \$8.1 million of cash and notes. These acquisitions resulted in a use of cash, net of cash acquired, of \$15.6 million in 2000, \$1.5 million in 1999 and \$4.1 million in 1998.

During 1999, we began selling equity securities obtained as part of our warrant program. The amount of cash received during 2000 and 1999 as a result of the sale of these equity securities, was \$7.2 million and \$782,000, respectively, net of consultants' bonuses and administrative and other costs.

Capital expenditures were \$17.9 million, \$21.5 million and \$16.0 million for 2000, 1999 and 1998, respectively. These expenditures were primarily for office furniture and fixtures, leasehold improvements, and computer equipment and software. We anticipate that our capital expenditures for 2001 will be approximately \$20 million to \$25 million.

On October 26, 2000, we announced that we had entered into an alliance with and invested \$10.0 million in ETF Group, a global venture capital firm that helps emerging companies expand into international markets. We are the preferred global executive search firm for senior-level executives for ETF Group's portfolio companies.

On June 29, 2000, we announced that we formed a strategic alliance with Silicon Valley Internet Capital ("SVIC"), a newly formed, San Francisco-based operating company that creates and provides operating support for Internet infrastructure companies. We are the preferred global executive search firm for SVIC's companies. We invested \$10.0 million in SVIC's first round of financing during 2000.

Cash flows provided by financing activities were \$64.8 million for 2000, resulting from the net proceeds raised in the follow-on public offering, proceeds from stock options exercised and the sales of LeadersOnline stock, partially offset by payments for the repurchase of LeadersOnline options and stock and payment on debt related to the Fenwick acquisition. Cash flows provided by financing activities were \$25.3 million for 1999, resulting primarily from the net proceeds raised in the initial public offering of \$51.8 million and the related sales of shares to employees pursuant to our employee incentive plans of \$9.3 million, offset by net repayments under our lines of credit. Cash flows from financing activities were \$23.6 million for 1998. Our financing activities consisted principally of sales of our treasury stock to employees and net borrowings under our line of credit.

We have a \$40.0 million reducing revolving credit facility. This facility will terminate on December 31, 2001 but we expect to replace it with a similar or larger facility. There were no borrowings outstanding under this line of credit at December 31, 2000 and December 31, 1999. At our discretion, we may borrow either U.S. dollars on deposit in the United States, or U.S. dollars or foreign currencies on deposit outside the United States. Non-U.S. borrowings bear interest at the then-existing LIBOR plus a margin as determined by certain tests of our financial condition. U.S. borrowings bear interest at the then-existing prime rate. There was \$22.0 million outstanding under the line of credit at December 31, 1998 and the interest rate on the debt was LIBOR plus the applicable margin, the sum of which equaled 6.8%. This line of credit replaced a \$25.0 million line of credit which had been in effect since October 1, 1997.

The current line of credit has certain financial covenants we must meet relating to consolidated net worth, liabilities, and debt in relation to cash flows. At December 31, 2000 and 1999, we were in compliance with these financial covenants.

On December 16, 1999, we announced that our board of directors approved the formation of H&S Capital, a separate entity that will raise capital to establish venture funds that invest in early stage companies, primarily in the technology sector. We may invest up to \$25 million of cash in H&S Capital. Although we expect to make investments in increments over the next three years, the full investment may be made at any time.

Recently Issued Financial Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 1999, the FASB issued Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133." In June 2000, the FASB issued Statement 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133." SFAS 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS 133, as amended, is effective for fiscal years beginning after June 15, 2000.

We receive warrants for equity securities in our client companies, in addition to our cash fee, for services rendered on some searches. These warrants are carried at fair value. Unrealized gains and losses on warrants are currently excluded from earnings and are reported as a component of other comprehensive income. Some of these warrants meet the definition of a derivative under SFAS 133. As of January 1, 2001, SFAS 133 requires that these warrants be accounted for at their fair value with subsequent changes in fair value reported in earnings, not as a component of other comprehensive income. On January 1, 2001, we recorded a transition adjustment to income of \$4.5 million, net of consultants' bonuses, administrative and other costs, and taxes, as a result of the adoption of SFAS 133. Going forward, each quarter's earnings are anticipated to be affected by the fluctuations in the fair value of these warrants. The unrealized gains or losses will be reported on a separate line of the income statement.

During 2000, the FASB issued FASB Interpretation (FIN) No. 44 "Accounting for Certain Transactions Involving Stock Compensation--an Interpretation of APB Opinion No. 25." It clarifies a number of issues concerning the accounting for stock-based compensation. The standard is effective for periods beginning after July 1, 2000 and was adopted by us as of that date. Adoption of FIN 44 resulted in a change from fixed to variable accounting for stock options issued to individuals now considered to be non-employees under the standard's definitions. Adoption of FIN 44 has, at present, had no material impact on our financial condition or results of operations.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements," as amended by SAB 101A, which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the SEC. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. In June 2000, the SEC issued SAB 101B which deferred the effective date of SAB 101 until the last quarter of fiscal years beginning after December 15, 1999. The adoption of SAB 101 had no material impact on our financial condition or results of operations.

Quarterly Comparisons

The following table sets forth certain financial information for each quarter of 2000 and 1999. The information is derived from our quarterly consolidated financial statements which are unaudited but which, in the opinion of management, have been prepared on the same basis as the consolidated financial statements included in this document and include all adjustments, consisting only of normal recurring items, necessary for the fair presentation of the information for the periods presented. The consolidated financial data shown below should be read in conjunction with the consolidated financial statements and notes thereto. The operating results for any quarter are not necessarily indicative of results for any future period.

	Quarter Ended							
	2000				1999(1)			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
	(in thousands)							
Revenue.....	\$131,936	\$166,416	\$148,081	\$147,961	\$74,601	\$113,046	\$114,936	\$113,264
Operating income (loss).....	3,726	13,220	652 (2)	11,474	(7,556) (3)	8,804	9,147 (4)	8,508
Net income (loss).....	3,515	9,998	(2,428)	8,332	(10,148)	4,849	5,427	5,664

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- (1) Because H&S acquired HSI on February 26, 1999, the historical results of operations of HSI have been included in H&S's financial statements subsequent to the date of acquisition.
 - (2) Includes a \$14.0 million nonrecurring charge as a result of the withdrawal of LeadersOnline's proposed initial public offering.
 - (3) Includes a \$12.4 million nonrecurring charge arising from the modification of the Mulder acquisition agreement.
 - (4) Includes \$2.8 million of merger costs arising from the merger with Sullivan.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Derivatives

We receive warrants for equity securities in our client companies, in addition to our cash fee, for services rendered on some searches. When the warrants are received, revenue is recorded equal to the estimated fair market value of the instrument received. Upon a value event, such as an initial public offering or acquisition, the warrants, and any equity securities arising from their exercise, are accounted for as available-for-sale investments. During 1999, we entered into a collar agreement to hedge the impact of market value changes of one of these equity securities. Collars consist of the sale of call options along with a corresponding purchase of put options, with the effect of establishing the highest and lowest prices at which the equity securities will be sold during a certain time period. The collar had been designated and was effective as a hedge of the equity security. Unrealized gains and losses on both the equity security and the collar were recorded in equity and comprehensive income. When realized, gains and losses on the equity security and the collar were recorded in income. Beginning in the fourth quarter of 1999, we had the right to put and the counterparty had the right to call a portion of the shares on a quarterly basis in accordance with an established schedule. During the third quarter of 2000, we terminated the options and sold the underlying equity security.

Currency Market Risk

Historically, we have not experienced significant gains or losses on transactions involving U.S. dollars and other currencies. Revenue earned in each country is generally matched with the associated expenses incurred, thereby reducing currency risk to the operating income generated in each respective country.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Consolidated Financial Statements beginning on page 37 of this Annual Report on Form 10-K.

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

None.

PART III

ITEM 10. OUR DIRECTORS AND EXECUTIVE OFFICERS

The information required by this Item will be included under the captions "Election of Directors," "Nominees for Director," "Class 2002 Directors," and "Class 2003 Directors" in our 2001 Proxy Statement, and is incorporated herein by reference. See also "Our Executive Officers" included in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item will be included under the captions "Executive Compensation--Summary Compensation Table," "Executive Compensation--Option Grant Table," "Executive Compensation--Aggregated Option Exercises and Year-End Option Values" and "Employment Agreements" in our 2001 Proxy Statement, and is incorporated herein by reference.

ITEM 12. VOTING SECURITIES OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item will be included under the caption "Voting Securities of Certain Beneficial Owners and Management" in our 2001 Proxy Statement, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item will be included under the caption "Certain Relationships and Related Transactions" in our 2001 Proxy Statement, and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

1. Index to Consolidated Financial Statements:

See Consolidated Financial Statements included as part of this Form 10-K beginning at page 37

2. Financial Statement Schedules:

Report of Independent Public Accountants.....	62
Schedule II--Valuation and Qualifying Accounts.....	63

3. Exhibits:

Exhibit No. Description

2.01	Agreement and Plan of Merger of Heidrick & Struggles, Inc. and Heidrick & Struggles International, Inc. (Incorporated by reference to Exhibit 2.01 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023))
3.01	Form of Amended and Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.02 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023))
3.02	Form of Amended and Restated By-laws of the Registrant (Incorporated by reference to Exhibit 3.03 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023))

Exhibit No. Description

4.01	Specimen Stock Certificate (Incorporated by reference to Exhibit 4.01 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023))
*10.01	Employment Agreement of Richard D. Nelson (Incorporated by reference to Exhibit 10.01 of the Registrant's Registration Statement on Form S-4 (File No. 333-61023))
*10.02	Employment Agreement of Patrick S. Pittard (Incorporated by reference to Exhibit 10.02 of the Registrant's Registration Statement on Form S-4 (File No. 333-61023))
*10.03	Employment Agreement of Donald M. Kilinski (Incorporated by reference to Exhibit 10.03 of the Registrant's Registration Statement on Form S-4 (File No. 333-61023))
*10.04	Employment Agreement of Jurgen B. Mulder (Incorporated by reference to Exhibit 10.04 of the Registrant's Registration Statement on Form S-4 (File No. 333-61023))
*10.05	Amended and Restated Employment Agreement of Patrick S. Pittard (Incorporated by reference to Exhibit 10.06 of the Registrant's Registration Statement on Form S-1/A (File No. 333-59931))
*10.06	Amendment to Employment Agreement of Jurgen B. Mulder (Incorporated by reference to Exhibit 10.07 of the Registrant's Registration Statement on Form S-1/A (File No. 333-59931))
*10.07	Employment Agreement of David C. Anderson (Incorporated by reference to Exhibit 10.08 of the Registrant's Registration Statement on Form S-1/A (File No. 333-94017))
10.08	Employment Agreement of Piers Marmion
21.01	Subsidiaries of the Registrant

* Management contracts or compensatory plans or arrangements required to be filed as an exhibit to this form pursuant to Item 14(c) of this report.

(b) REPORTS ON FORM 8-K

During the quarter ended December 31, 2000, no reports on Form 8-K were filed by the Registrant

(c) SEE EXHIBIT INDEX ABOVE

(d) FINANCIAL STATEMENTS NOT PART OF ANNUAL REPORT

None

SIGNATURES

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

By Donald M. Kilinski
 Chief Financial Officer and
 Treasurer
 Title _____

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

Signature -----	Title -----	Date ----
<u>/s/ Patrick S. Pittard</u> Patrick S. Pittard (principal executive officer)	Chairman, President, Chief Executive Officer and Director	March 29, 2001
<u>/s/ Donald M. Kilinski</u> Donald M. Kilinski (principal financial and accounting officer)	Chief Financial Officer and Treasurer	March 29, 2001
<u>/s/ David C. Anderson</u> David C. Anderson	Director	March 29, 2001
<u>/s/ Thomas J. Friel</u> Thomas J. Friel	Director	March 29, 2001
<u>/s/ Bengt Lejsved</u> Bengt Lejsved	Director	March 29, 2001
<u>/s/ Robert Louis-Dreyfus</u> Robert Louis-Dreyfus	Director	March 29, 2001
<u>/s/ Piers Marmion</u> Piers Marmion	Director	March 29, 2001

Signature -----	Title -----	Date -----
/s/ Dr. Jurgen B. Mulder ----- Dr. Jurgen B. Mulder	Director	March 29, 2001
/s/ Gerard R. Roche ----- Gerard R. Roche	Director	March 29, 2001
/s/ Robert W. Shaw ----- Robert W. Shaw	Director	March 29, 2001
/s/ Dr. John C. Viney ----- Dr. John C. Viney	Director	March 29, 2001
/s/ Carlene M. Ziegler ----- Carlene M. Ziegler	Director	March 29, 2001
/s/ Robert E. Knowling, Jr ----- Robert E. Knowling, Jr	Director	March 29, 2001

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Statements of Stockholders' Equity For the Years Ended December 31, 2000, 1999 and 1998.....	42
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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of
Heidrick & Struggles International, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES (a Delaware corporation) as of December 31, 2000 and 1999, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heidrick & Struggles International, Inc. and Subsidiaries as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Chicago, Illinois
February 6, 2001

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share figures)

	December 31,	
	2000	1999
Current assets:		
Cash and cash equivalents.....	\$184,836	\$ 76,848
Accounts receivable--		
Trade, less allowance for doubtful accounts of \$16,452 and \$12,435 at December 31, 2000 and 1999, respectively.....	106,334	83,162
Other.....	7,357	4,241
Prepaid expenses.....	11,783	7,583
Deferred income taxes, net.....	26,071	19,881
	-----	-----
Total current assets.....	336,381	191,715
	-----	-----
Property and equipment:		
Leasehold improvements.....	23,904	19,123
Office furniture and fixtures.....	27,160	22,358
Automobiles.....	2,221	2,227
Computer equipment and software.....	39,192	38,947
	-----	-----
	92,477	82,655
Less--Accumulated depreciation and amortization.....	(39,817)	(30,303)
	-----	-----
Property and equipment, net.....	52,660	52,352
	-----	-----
Other assets:		
Cash and investments designated for nonqualified retirement plans.....	16,506	32,702
Investments and other assets.....	45,097	11,772
Goodwill and other intangibles, net.....	66,208	45,832
Deferred income taxes, net.....	6,792	376
	-----	-----
Total other assets.....	134,603	90,682
	-----	-----
Total assets.....	\$523,644	\$334,749
	=====	=====

The accompanying notes to consolidated financial statements are an integral part of these statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share figures)

	December 31,	
	2000	1999
Current liabilities:		
Current maturities of long-term debt.....	\$ 1,135	\$ 3,039
Accounts payable.....	10,051	8,052
Accrued expenses--		
Salaries and employee benefits.....	150,187	93,606
Payroll taxes.....	10,365	7,156
Other.....	27,888	14,964
Income taxes payable.....	16,415	10,891
Total current liabilities.....	216,041	137,708
Long-term debt, less current maturities.....	610	--
Liability for nonqualified retirement plans.....	19,316	29,161
Stockholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, no shares issued at December 31, 2000 and 1999.....	--	--
Common stock, \$.01 par value, 100,000,000 shares authorized, of which 19,373,286 and 16,663,151 shares were issued and outstanding at December 31, 2000 and 1999, respectively.....	194	167
Additional paid in capital.....	234,619	124,363
Retained earnings.....	56,862	37,445
Cumulative foreign currency translation adjustment.....	(1,879)	(591)
Unrealized gain on available-for-sale investments, net of tax.....	3,737	6,496
Deferred compensation.....	(5,856)	--
Total stockholders' equity.....	287,677	167,880
Total liabilities and stockholders' equity.....	\$523,644	\$334,749

The accompanying notes to consolidated financial statements are an integral part of these statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share figures)

	Year Ended December 31,		
	2000	1999	1998
Revenue.....	\$594,394	\$415,847	\$216,836
Operating expenses:			
Salaries and employee benefits:			
Salaries and employee benefits.....	395,105	277,580	161,870
Nonrecurring compensation charges.....	12,222	14,448	12,748
General and administrative expenses:			
General and administrative expenses.....	156,242	104,144	53,557
Nonrecurring general and administrative charges.....	1,753	772	--
Total operating expenses.....	565,322	396,944	228,175
Operating income (loss).....	29,072	18,903	(11,339)
Non-operating income (expense):			
Interest income.....	8,723	3,513	1,585
Interest expense.....	(209)	(1,504)	(505)
Minority interest.....	208	--	--
Other, net.....	7,369	630	(2,212)
Net non-operating income (expense).....	16,091	2,639	(1,132)
Equity in net loss of affiliate.....	--	(630)	(3,417)
Income (loss) before income taxes.....	45,163	20,912	(15,888)
Provision for income taxes.....	25,746	15,120	1,302
Net income (loss).....	\$ 19,417	\$ 5,792	\$(17,190)
Basic earnings (loss) per common share.....	\$ 1.02	\$ 0.42	\$ (5.85)
Weighted average common shares outstanding.....	18,979	13,642	2,940
Diluted earnings (loss) per common share.....	\$ 0.95	\$ 0.42	\$ (5.85)
Diluted weighted average common shares outstanding.....	20,389	13,889	2,940
Net income (loss).....	\$ 19,417	\$ 5,792	\$(17,190)
Other comprehensive income (loss), before income taxes:			
Foreign currency translation adjustment.....	(2,299)	927	(475)
Unrealized gain (loss) on available-for-sale investments.....	(4,885)	8,294	1,626
Total other comprehensive income (loss), before income taxes.....	(7,184)	9,221	1,151
Income tax expense (benefit) related to items of other comprehensive income (loss).....	(3,137)	3,913	494
Other comprehensive income (loss), net of income taxes.....	(4,047)	5,308	657
Comprehensive income (loss).....	\$ 15,370	\$ 11,100	\$(16,533)

The accompanying notes to consolidated financial statements are an integral part of these statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock	Treasury Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Deferred Compensation	Total
Balance at December 31, 1997.....	\$ 82	\$(15,179)	\$ 14,466	\$ 691	\$ (60)	\$ --	\$ --
Treasury stock transactions:							
Stock issued.....	--	857	14,095	--	--	--	14,952
Stock repurchased.....	--	(2,149)	--	--	--	--	(2,149)
Net loss.....	--	--	--	(17,190)	--	--	(17,190)
Unrealized gain on available-for-sale investments, net of tax.....	--	--	--	--	933	--	933
Foreign currency translation adjustment.	--	--	--	--	(276)	--	(276)
Retained earnings allocable to mandatorily redeemable common stock.....	--	--	--	3,730	--	--	3,730
Balance at December 31, 1998.....	82	(16,471)	28,561	(12,769)	597	--	--
Treasury and common stock transactions:							
Stock issued for Merger.....	34	16,471	26,576	--	--	--	43,081
Stock issued in initial public offering.....	42	--	51,783	--	--	--	51,825
Stock issued to employees.....	7	--	14,408	--	--	--	14,415
Stock issued for termination of Sullivan employee equity ownership plan.....	2	--	3,035	--	--	--	3,037
Release of book value restriction.....	--	--	--	44,422	--	--	44,422
Net income.....	--	--	--	5,792	--	--	5,792
Unrealized gain on available-for-sale investments, net of tax.....	--	--	--	--	4,810	--	4,810
Foreign currency translation adjustment.....	--	--	--	--	498	--	498
Balance at December 31, 1999.....	167	--	124,363	37,445	5,905	--	167,880
Common stock transactions:							
Stock issued for acquisitions.....	1	--	6,166	--	--	--	6,167
Stock issued to employees.....	1	--	2,997	--	--	--	2,998
Stock issued in follow- on public offering....	25	--	76,160	--	--	--	76,185
Issuance of restricted stock.....	--	--	20,225	--	--	(7,117)	13,108
Amortization of deferred compensation.	--	--	--	--	--	1,222	1,222
Forfeitures of restricted stock.....	--	--	(459)	--	--	39	(420)
Exercise of options....	--	--	553	--	--	--	553
Gain on sale of subsidiary stock.....	--	--	2,711	--	--	--	2,711
Subsidiary stock repurchase and							

cancellation of options.....	--	--	1,903	--	--	--	1,903
Net income.....	--	--	--	19,417	--	--	19,417
Unrealized loss on available-for-sale investments, net of tax.....	--	--	--	--	(2,759)	--	(2,759)
Foreign currency translation adjustment.....	--	--	--	--	(1,288)	--	(1,288)
Balance at December 31, 2000.....	\$194	\$ --	\$234,619	\$ 56,862	\$ 1,858	\$(5,856)	\$287,677
	====	=====	=====	=====	=====	=====	=====

The accompanying notes to consolidated financial statements are an integral part of these statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2000	1999	1998
Cash flows from operating activities			
Net income (loss).....	\$ 19,417	\$ 5,792	\$(17,190)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization.....	19,064	10,591	4,028
Loss on sale of property and equipment.....	538	63	578
Gain on sale of equity securities.....	(7,159)	(782)	--
Deferred income taxes.....	(12,672)	2,004	(2,230)
Equity in net loss of affiliate.....	--	630	1,667
Minority interest in loss of consolidated subsidiary.....	(208)	--	--
Nonrecurring charges.....	13,975	15,220	--
Stock-based compensation expense.....	3,920	252	10,166
Changes in assets and liabilities:			
Trade and other receivables.....	(26,435)	(23,326)	(2,885)
Accounts payable.....	1,341	1,058	299
Accrued expenses.....	75,175	37,860	10,711
Income taxes payable.....	5,720	6,930	1,128
Nonqualified retirement plan liability.....	923	1,936	250
Other, net.....	(4,240)	(3,449)	(5,508)
Net cash provided by operating activities.....	89,359	54,779	1,014
Cash flows from investing activities			
Acquisitions, net of cash acquired.....	(15,648)	(1,466)	(4,060)
Purchases of securities for nonqualified retirement plan.....	(239)	(482)	(1,488)
Purchases of property and equipment.....	(17,885)	(21,519)	(15,979)
Purchases of long-term investments.....	(23,417)	--	--
Proceeds from sales of equity securities, net ..	7,159	782	--
Cash acquired in merger transaction with HSI....	--	8,166	--
Other, net.....	3,994	445	12
Net cash used in investing activities.....	(46,036)	(14,074)	(21,515)
Cash flows from financing activities			
Proceeds from sales of common stock and treasury stock.....	76,185	61,158	4,875
Proceeds from sale of subsidiary stock.....	2,919	--	--
Proceeds from stock options exercised.....	553	--	--
Purchases of treasury stock.....	--	--	(68)
Repurchase of subsidiary options and stock.....	(13,018)	--	--
Proceeds from debt.....	--	17,700	28,648
Payments on debt.....	(1,822)	(53,512)	(9,834)
Net cash provided by financing activities.....	64,817	25,346	23,621
Effect of foreign currency exchange rates on cash and cash equivalents.....	(152)	(724)	(2,249)
Net increase in cash and cash equivalents.....	107,988	65,327	871
Cash and cash equivalents:			
Beginning of period.....	76,848	11,521	10,650
End of period.....	\$184,836	\$ 76,848	\$ 11,521
Supplemental disclosures of cash flow information			
Cash paid for--			
Interest.....	\$ 118	\$ 1,626	\$ 402
Income taxes.....	33,400	10,172	8,669
Supplemental schedule of noncash financing and investing activities			
Unrealized gain (loss) on available-for-sale investments.....	\$ (4,885)	\$ 8,294	\$ 1,626
Issuance of notes payable for the purchase of treasury stock.....	--	--	2,081
Debt from the acquisition of net assets.....	1,745	--	4,358

Receipt of note receivable for stock sale.....	--	--	98
Conversion of note receivable to equity.....	--	--	1,750
Issuance of stock for merger and acquisitions ..	5,084	43,081	--
Issuance of stock related to the Sullivan equity ownership plan.....	--	3,037	--
Issuance of stock related to debt from acquisition.....	1,083	--	--

The accompanying notes to consolidated financial statements are an integral part of these statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

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

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Heidrick & Struggles International, Inc. and Subsidiaries (the "Company") are engaged in providing executive-level search and leadership consulting services to clients on a retained basis. The Company operates throughout North and South America, Europe, the Middle East, Africa and Asia Pacific.

Principles of Consolidation and Basis of Preparation

On February 26, 1999, Heidrick & Struggles, Inc. merged with and into Heidrick & Struggles International, Inc. (prior to the merger "HSI"), (the "Merger"). For accounting purposes, Heidrick & Struggles, Inc. was treated as the acquiring company and Heidrick & Struggles International, Inc. was treated as the acquired company. The resulting company was renamed Heidrick & Struggles International, Inc.

The consolidated financial statements include Heidrick & Struggles International, Inc. and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in the consolidated financial statements. Financial data for all periods presented reflect the retroactive effect of the merger, accounted for as a pooling of interests, with Sullivan & Company ("Sullivan"), consummated in September 1999. (See Note 3.)

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Recently Issued Financial Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 1999, the FASB issued Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133." In June 2000, the FASB issued Statement 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133." SFAS 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS 133, as amended, is effective for fiscal years beginning after June 15, 2000.

The Company receives warrants for equity securities in its client companies, in addition to its cash fee, for services rendered on some searches. These warrants are carried at fair value. Unrealized gains and losses on warrants are currently excluded from earnings and are reported as a component of other comprehensive income. Some of these warrants meet the definition of a derivative under SFAS 133. As of January 1, 2001, SFAS 133 requires that these warrants be accounted for at their fair value with subsequent changes in fair value reported in earnings, not as a component of other comprehensive income. On January 1, 2001, the Company recorded a transition adjustment to income of \$4.5 million, net of consultants' bonuses, administrative and other costs, and taxes, as a result of the adoption of SFAS 133.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

During 2000, the FASB issued FASB Interpretation (FIN) No. 44 "Accounting for Certain Transactions Involving Stock Compensation--an Interpretation of APB Opinion No. 25." It clarifies a number of issues concerning the accounting for stock-based compensation. The standard is effective for periods beginning after July 1, 2000 and was adopted by the Company as of that date. Adoption of FIN 44 resulted in a change from fixed to variable accounting for stock options issued to individuals now considered to be non-employees under the Standard's definitions. Adoption has, at present, had no material impact on the Company's financial condition or results of operations.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements" as amended by SAB 101A, which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the SEC. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. In June 2000, the SEC issued SAB 101B which deferred the effective date of SAB 101 until the last quarter of fiscal years beginning after December 15, 1999. The adoption of SAB 101 had no material impact on our financial condition or results of operations.

Cash and Cash Equivalents

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

Concentration of Credit Risk

Financial instruments that potentially expose the Company to concentration of credit risk consist primarily of accounts receivable. Concentrations of credit risk with respect to accounts receivable are limited due to the Company's large number of customers and their dispersion across many different industries and geographies. At December 31, 2000, the Company had no significant concentrations of credit risk.

Property and Equipment

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

Office furniture and fixtures.....	8-10 years
Computer equipment and software.....	3-8 years
Automobiles.....	3-4 years

Depreciation for financial statement purposes for the years ended December 31, 2000, 1999 and 1998 totaled \$16.1 million, \$8.8 million, and \$3.9 million, respectively. Depreciation is calculated for tax purposes using accelerated methods, where applicable.

Goodwill and Other Intangibles

At December 31, 2000 and 1999 goodwill and other intangible assets consisted of the following:

	2000	1999
	-----	-----
Goodwill and other intangibles.....	\$72,670	\$49,492
Accumulated amortization.....	(6,462)	(3,660)
	-----	-----
Goodwill and other intangibles, net.....	\$66,208	\$45,832
	=====	=====

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Goodwill and other intangible assets are stated at cost and amortized using the straight-line method over the estimated economic useful life. The Company continually evaluates whether subsequent events and circumstances have occurred that indicate the remaining estimated useful life of goodwill or an intangible asset may warrant revision, or that the remaining balance of goodwill or an intangible asset may not be recoverable. The Company evaluates the recoverability of goodwill and intangible assets by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. At the time such evaluations indicate that the future undiscounted cash flows of such assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. There were no adjustments to the carrying value of goodwill or intangible assets in 2000. Amortization expense for the years ended December 31, 2000, 1999 and 1998 totaled \$3.0 million, \$1.8 million, and \$122,000, respectively.

Computer Equipment and Software

In accordance with Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," system development costs are capitalized. Once the software is placed in service, it is depreciated using the straight-line method over a three-to-eight year period.

Investments

Investments designated for the nonqualified retirement plan are carried at fair value in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Investments designated for the nonqualified retirement plans are debt and equity securities that are classified as available-for-sale securities as more fully described in Note 14.

The Company's warrants and equity securities in publicly traded and private companies are also carried at fair value. Upon a value event such as an initial public offering or acquisition, the warrants, and any equity securities arising from their exercise, are accounted for as available-for-sale investments. These investments are more fully described in Note 6.

Revenue Recognition

Revenue from client services is recognized when such services are earned and realizable. Revenue consists of retainers and indirect expenses billed to clients. Typically, the Company is paid a retainer for its services equal to approximately one-third of the estimated guaranteed first year compensation for the position to be filled. In addition, if the actual compensation of a placed candidate exceeds the estimated compensation, the Company often will be authorized to bill the client for one-third of the excess. Indirect expenses are calculated as a percentage of the retainer with certain dollar limits per search. The Company generally bills its clients for its retainer and indirect expenses in one-third increments over a three-month period commencing in the month of acceptance of the contract by its client. For each executive search assignment, the Company and its client enter into a contract which outlines the general terms and conditions of the assignment.

The Company receives warrants for equity securities in its client companies, in addition to its cash fee, for services rendered on some searches. When the warrants are received, revenue is recorded equal to the estimated fair market value of the instrument received.

Income Taxes

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Earnings (Loss) per Common Share

Basic earnings (loss) per common share is computed by dividing net income (loss) by weighted average common shares outstanding for the year. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted. See Note 8 for the reconciliation of basic and diluted earnings per share.

Translation of Foreign Currencies

The translation of financial statements into U.S. dollars has been performed in accordance with SFAS No. 52, "Foreign Currency Translation." The local currency for all subsidiaries has been designated as the functional currency. Assets and liabilities have been translated into U.S. dollars at the current rate of exchange prevailing at the balance sheet date. Revenues and expenses have been translated at the average exchange rates for the period. Translation adjustments are reported as a component of other comprehensive income.

Reclassifications

Certain amounts in previously issued financial statements have been reclassified to conform to 2000 classifications.

2. Investment in HSI

Prior to February 26, 1999, the Company had an investment in HSI which was accounted for under the equity method. Based on an agreement between the Company and HSI, effective January 1, 1995, 65% of the net income of HSI was allocated to Class A shares and 35% of the net income of HSI was allocated to Class B shares, regardless of the exact percentage of each class holding. The Company owned all Class B shares of HSI. As a result of this investment, the Company recorded equity in net loss of affiliates of \$630,000 and \$3.4 million for 1999 and 1998, respectively.

3. Business Combinations

Acquisitions Accounted for Using the Purchase Method

During 2000, the Company completed a total of six acquisitions of executive search firms. On December 29, 2000, the Company acquired the Finnish, Russian and Baltic executive search companies of the AMROP worldwide network. The AMROP network is a group of independent loosely linked companies operating throughout the world. The Company purchased Stahlber & Partner OY/Juha Pekka Ahtikari OY, Koik & Partners SIA and Koik & Partners OU. These acquisitions established the Company as the largest executive search firm in Finland and strengthened its presence in the emerging markets of Estonia, Latvia and Russia. On May 1, 2000, the Company acquired Lynch Miller Moore O'Hara, Inc., a Chicago-based executive search firm that specialized in the venture capital and high tech markets. On April 1, 2000, the Company acquired T.A.O. International Group, a senior-level executive search firm with offices in Asia. On March 1, 2000, the Company acquired Argonaut Search Group, LLC, a San Francisco-based executive search firm that specialized in the real estate and financial services industries. The aggregate purchase price of these acquisitions was \$24.5 million, consisting of the Company's stock valued at \$5.1 million, notes payable of \$1.7 million and cash of \$17.7 million. These acquisitions were accounted for under the purchase method and resulted in a preliminary allocation to goodwill of \$23.2 million. The operating results of these entities have been included in the consolidated financial statements from their acquisition dates.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

On February 26, 1999, the Company merged with and into HSI. The Merger combined the operations of the Company which operated in all regions of the world except Europe, with HSI, a Europe-based company. The transaction was accounted for using purchase accounting and the excess purchase price was allocated to identifiable intangible assets and goodwill on February 26, 1999, as follows:

Asset Classification	Fair Value	Weighted Average Useful Life in Years
Intangible assets.....	\$12,478	17
Goodwill.....	\$23,152	40

During 1999, the Company purchased selected assets and liabilities of Redelinghuys & Partners. The purchase price of \$1.5 million was paid in cash. On October 1, 1998, the Company purchased selected assets of Heidrick Partners, Inc. The purchase price was \$2 million. On June 26, 1998, the Company purchased selected assets and liabilities of Fenwick Partners, Inc. The purchase price was \$6.1 million. Each acquisition above was accounted for as a purchase. Goodwill is being amortized over 15 to 40 years using the straight-line method. Results of operations of the acquired companies are included in the consolidated statements of income and comprehensive income since the date of acquisition.

Acquisition Accounted for Using Pooling of Interests Method

On September 1, 1999, the Company completed its merger with Sullivan which provided for the exchange of all the outstanding stock of Sullivan for 964,000 shares of the Company's common stock. Sullivan was an executive search firm that specialized in the financial services industry and had revenue of \$12.8 million in 1998.

The consolidated financial statements of the Company for all periods presented have been restated to give retroactive effect to the merger with Sullivan on September 1, 1999, which has been accounted for using the pooling of interests method and, as a result, the financial position, results of operations, stockholders' equity and cash flows are presented as if the combining companies had been consolidated for all periods presented and, as if the additional common stock issued in connection with the merger had been issued for all periods presented.

Certain key employees of Sullivan participated in a Phantom Stock Plan, the shares of which vested over an eight-year period. Upon consummation of the merger with the Company, the vesting of the Phantom Shares accelerated to 100% and the Phantom Shares were converted into Sullivan shares which were then exchanged for the Company's common stock.

4. Nonrecurring Charges

On April 10, 2000, LeadersOnline, Inc. ("LeadersOnline") filed a registration statement with the Securities and Exchange Commission relating to a proposed initial public offering of its common stock. In the third quarter of 2000, the Company decided to retain proprietary control of LeadersOnline, and its Internet-enhanced recruiting methods. As a result, LeadersOnline withdrew its registration statement with the Securities and Exchange Commission relating to the proposed initial public offering. In connection with the withdrawal of the registration statement, the Company recorded nonrecurring charges in the third quarter. These included a non-cash compensation charge of \$12.2 million, which represents the remainder of a \$14.9 million non-cash compensation charge related to the issuance of options by LeadersOnline at a price below the deemed fair market value, for accounting purposes, at the time of issuance. The difference of \$2.7 million was recorded

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

as a recurring charge over the first three quarters of 2000. The resulting amount of \$14.9 million was recorded to additional paid in capital. Also, a \$1.8 million charge was recorded for the write-off of expenses related to planning the proposed initial public offering.

In addition, there were two types of payments that were charged to additional paid in capital. These included \$10.0 million to compensate management and employees for the value of their LeadersOnline options and \$3.1 million to repurchase LeadersOnline stock from Company employees and VerticalNet, Inc.

In connection with the acquisition of Sullivan, the Company recorded merger-related costs of \$2.8 million during 1999. The merger costs consisted of a \$2.0 million non-cash charge for accelerated vesting of an employee equity ownership plan in place at Sullivan and \$772,000 of transaction-related costs, including legal, accounting and advisory fees.

During the first quarter of 1999, the Company incurred a nonrecurring charge of \$12.4 million. This charge was the result of the Company's agreement to modify the terms of the Mulder & Partner GmbH & Co. KG ("Mulder") acquisition agreement, including the termination of all employment contingencies. HSI acquired 100% of Mulder on October 1, 1997, for a combination of cash and 32,000 shares of HSI common stock. On October 1, 1997, HSI delivered 4,000 shares of HSI common stock, paid \$8.7 million to the partners of Mulder and incurred \$298,000 of associated transaction costs. Under the original Mulder acquisition agreement an additional \$5.2 million (plus interest at an annual rate of 4%) was due to the partners of Mulder in five equal annual installments, the first of which was paid on October 1, 1998. The remaining shares were to be issued in four annual installments beginning January 1, 1999. Because the total purchase price was contingent upon the continued employment of the Mulder consultants, the cost of the acquisition was accounted for as compensation expense to be recognized over a five-year period beginning October 1, 1997. In connection with the Merger, the Mulder acquisition agreement was amended such that during 1999, the remaining cash due (plus interest) of \$4.3 million was paid, 428,452 shares (reflecting a split of 15.8217 for 1) of the Company's common stock (which were valued, based upon the estimated fair market value of the Company, at \$5.2 million) were issued to such Mulder partners, and \$2.9 million of deferred compensation assets were written off resulting in a total compensation charge of \$12.4 million. All employment contingencies relating to the Mulder consultants have been eliminated.

In 1998, the Company incurred nonrecurring compensation charges of \$9.9 million arising from the difference between the issuance price of shares issued in December 1998 and the fair market value of such shares at the date of grant, and \$2.8 million arising from the early settlement of profit sharing arrangements relating to the acquisition of certain Latin American locations.

5. Public Offerings

On April 26, 1999, the SEC declared effective the Company's Registration Statement on Form S-1 (File No. 333-59931) relating to the initial public offering of 4.2 million shares of the Company's common stock and on April 27, 1999, the Company's common stock began trading on the Nasdaq National Market under the symbol "HSII."

On April 30, 1999, the Company completed the initial public offering of an aggregate of 4.2 million shares of common stock at \$14.00 per share, of which 3.7 million shares were offered by the Company and 500,000 shares were offered by selling stockholders. In addition, on June 1, 1999, the Company completed the offering of an additional 505,000 shares of common stock which arose from the exercise of a portion of the over-allotment option granted to certain underwriters of the initial public offering. These offerings resulted in net proceeds (after deducting the underwriting discount and estimated offering expenses) of \$51.8 million to the Company and \$6.5 million to the selling stockholders.

The Company's mandatory redemption feature on its common stock terminated as a result of the completion of the initial public offering.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

On February 9, 2000, the Company completed a follow-on public offering under a Registration Statement on Form S-1 effective February 3, 2000 (File No. 333-94017) of an aggregate of 3,450,000 shares of common stock at \$33.00 per share, which included 450,000 shares from the exercise of the over-allotment option granted to certain underwriters of the offering. The Company offered 2,458,306 shares and the selling stockholders offered 991,694 shares. This offering resulted in net proceeds (after deducting the underwriting discount and offering expenses) of \$76.2 million to the Company and \$31.0 million to the selling stockholders. The Company did not receive any of the proceeds from the sale by selling stockholders. The Company has used and will continue to use the net proceeds from this offering for general corporate purposes including the funding of LeadersOnline and other growth initiatives, hiring of additional executive search consultants, expanding its technology infrastructure and funding acquisitions.

6. Investments and Other Assets

The Company had investments and other assets of \$45.1 million and \$11.8 million at December 31, 2000 and 1999, respectively. Investments include the value of the Company's warrants and equity securities in publicly traded and private companies. The fair value of these warrants and equity securities were \$21.6 million and \$10.8 million at December 31, 2000 and 1999, respectively.

Unrealized gains from warrants and equity securities were \$3.7 million and \$3.8 million, net of consultants' bonuses, administrative and other costs, and taxes at December 31, 2000 and 1999, respectively. Realized gains from the sale of equity securities, net of consultants' bonuses, and administrative and other costs, were \$7.2 million and \$782,000 for the years ended December 31, 2000 and 1999, respectively, and are included in other non-operating income.

On October 26, 2000, the Company announced that it entered into an alliance with and invested \$10.0 million in ETF Group, a global venture capital firm that helps emerging companies expand into international markets. As part of the agreement, the Company is the preferred global executive search firm for senior-level executives for ETF Group's portfolio companies.

On June 29, 2000, the Company announced that it had formed a strategic alliance with Silicon Valley Internet Capital ("SVIC"), a newly formed, San Francisco-based company that will create and provide operating support for Internet infrastructure companies. The Company is the preferred global executive search firm for SVIC's companies. The Company invested \$10.0 million in SVIC's first round of financing and accounts for this investment using the cost method. At December 31, 2000, the fair value of this investment was deemed to be \$9.8 million.

In addition, the Company had other assets and investments of \$3.7 million and \$1.0 million at December 31, 2000 and 1999, respectively.

7. Derivative Financial Instrument

The Company receives warrants for equity securities in its client companies, in addition to its cash fee, for services rendered on some searches. When the warrants are received, revenue is recorded equal to the estimated fair market value of the instrument received. Upon a value event such as an initial public offering or acquisition, the warrants, and any equity securities arising from their exercise, are accounted for as available-for-sale investments. During 1999, the Company entered into a collar agreement to hedge the impact of market value changes of one of these equity securities. Collars consist of the sale of call options along with a corresponding purchase of put options, with the effect of establishing the highest and lowest prices at which the equity securities will be sold during a certain time period. The collar had been designated and was effective as a hedge

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

of the equity security. Unrealized gains and losses on both the equity security and the collar were recorded in equity and comprehensive income. When realized, gains and losses on the equity security and the collar were recorded in income. Beginning in the fourth quarter of 1999, the Company had the right to put and the counterparty had the right to call a portion of the shares on a quarterly basis in accordance with an established schedule. During the third quarter of 2000, the Company terminated the options and sold the underlying equity security. The Company's realized gain on these shares for the years ended December 31, 2000 and 1999, was \$2.8 million and \$883,000, respectively, and is included in other non-operating income.

8. Basic and Diluted Earnings Per Common Share

The following is a reconciliation of the shares used in the computation of basic and diluted earnings (loss) per share ("EPS").

	Year Ended December 31,		
	2000	1999	1998
	-----	-----	-----
Basic EPS			
Income (loss) available to common shareholders.	\$19,417	\$ 5,792	\$(17,190)
Weighted average common shares outstanding.....	18,979	13,642	2,940
	-----	-----	-----
Basic EPS.....	\$ 1.02	\$ 0.42	\$ (5.85)
	=====	=====	=====
Diluted EPS			
Income (loss) available to common shareholders.	\$19,417	\$ 5,792	\$(17,190)
Weighted average common shares outstanding.....	18,979	13,642	2,940
Dilutive common shares	1,410	247	--
	-----	-----	-----
Weighted average diluted common shares outstanding.....	20,389	13,889	2,940
	-----	-----	-----
Diluted EPS.....	\$ 0.95	\$ 0.42	\$ (5.85)
	=====	=====	=====

The share amounts in the table above reflect a 15.8217 for 1 stock split approved by the Board of Directors on March 26, 1999. Furthermore, the Company filed amendments to the Certificate of Incorporation to change the par value, increase the number of authorized shares of common stock to 100,000,000 shares and to authorize a class of preferred stock of 10,000,000 shares. In February 1999, the Board of Directors adopted, and the stockholders approved, these amendments. The consolidated financial statements, including the number of shares of common stock authorized, issued and outstanding, have been retroactively restated for the effect of this split and the amendments to the Certificate of Incorporation.

9. Line of Credit

The Company has a \$40.0 million reducing revolving credit facility ("line of credit"). This facility will terminate on December 31, 2001. There were no borrowings outstanding under this line of credit at December 31, 2000 and 1999, respectively. At its discretion, the Company may borrow either U.S. dollars on deposit in the United States ("U.S. Borrowings") or U.S. dollars or foreign currencies on deposit outside the United States ("Non-U.S. Borrowings"). A Non-U.S. Borrowing bears interest at the then-existing LIBOR plus a margin as determined by certain tests of the Company's financial condition. A U.S. Borrowing bears interest at the then-existing prime rate. The line of credit has certain financial covenants the Company must meet relating to consolidated net worth, liabilities, and debt in relation to cash flows. As of December 31, 2000 and 1999, the Company met all of its financial covenants. The Company is required to pay a commitment fee on the unused portion of the line of credit on a quarterly basis. Commitment fee expense for the year ended December 31, 2000, 1999 and 1998 totaled \$79,000, \$116,000 and \$21,000, respectively.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

10. Long-Term Debt

At December 31, 2000, long-term debt consists of amounts due as a result of the AMROP acquisitions. The future principal payments on the AMROP debt are as follows:

Year ended December 31,	
2001.....	\$1,135
2002.....	341
2003.....	269
2004.....	--

	\$1,745
	=====

The fair value of debt based on current rates for similar debt is estimated to be \$1.5 million at December 31, 2000.

At December 31, 1999, long-term debt consisted of amounts arising from the Fenwick Partners, Inc. acquisition. This debt was fully paid in June 2000.

11. Stockholder Agreements

Prior to the Company's initial public offering, the Company was obligated to purchase the shares of stock owned by a stockholder, if the stockholder desired to sell or transfer the shares, or upon a stockholder's termination of employment, at net book value as defined in the stock purchase agreements between the Company and its stockholders. Payments for shares were generally made over a five-year period. Redemption amounts relating to the stock purchase agreements were included in Mandatorily Redeemable Common Stock. These agreements terminated upon the successful completion of the Company's initial public offering on April 26, 1999.

12. Stock Compensation Plans

In 1998, the Company adopted the 1998 Heidrick & Struggles GlobalShare Program I and the 1998 Heidrick & Struggles GlobalShare Program II (collectively the "Plan"). The Plan serves as a means to attract, reward, and retain selected key employees, outside directors and independent contractors. The Plan is administered by the Compensation Committee of the Board of Directors. Awards may be in the form of options, which may be incentive stock options or non-qualified stock options; stock appreciation rights, or other awards, such as restricted stock units, that are valued based upon the fair market value of shares. Awards may be paid in shares, cash or a combination thereof. No options can be for a term of greater than ten years and the option price per share of common stock cannot be less than 100% of the fair market value of the Company's common stock on the date of grant.

The maximum number of underlying shares of common stock reserved for issuance under the Plan is based on a formula which shall not exceed an aggregate amount equal to thirty percent (30%) of the highest number of shares of the Company's common stock which are issued and outstanding from time to time during the term of the Plan, provided, however, that in no event will the sum of the total number of shares authorized or reserved for issuance upon the exercise or issuance of all awards granted under the Plan plus the total amount of the Company's issued and outstanding shares of common stock exceed the number of shares of common stock authorized for issuance under the Company's Amended and Restated Certificate of Incorporation.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Under the Plan, the maximum number of shares of common stock for which awards may be granted during a calendar year to any participant is 275,000. The maximum amount of a performance-based award to any participant with respect to a calendar year of the Company is \$2.0 million.

In 2000, the Company adopted the Heidrick & Struggles International, Inc. Restricted Stock Unit Plan (the "RSU Plan"). The RSU Plan is designed to reward certain employees and independent contractors of the Company who hold the internal title of Partner or Senior Partner through the issuance of restricted stock units which, upon vesting, are immediately convertible into shares of the Company's common stock at a ratio of 1:1.

The total number of restricted stock units and the underlying shares of the Company's common stock which may be issued or delivered under the RSU Plan shall be determined by the Compensation Committee of the Board of Directors on an annual basis. Under both the Plan and the RSU Plan, the maximum number of shares of common stock reserved for issuance are subject to adjustment for certain anti-dilution provisions.

During 2000, the Company granted 469,833 restricted stock units to certain of its employees under both the Plan and the RSU Plan. Under the RSU Plan, these restricted stock units cliff vest at 3 years from the date of grant. Under the Plan, the restricted stock units have vesting ranging from ratable vesting over a 3 to 5 year period to a cliff vest of 3 to 5 years from the date of grant. The deferred compensation expense related to restricted stock units is amortized to expense on a straight-line basis over the vesting period and is recorded in stockholders' equity. Total deferred compensation expense amortized for restricted stock units for 2000 was \$1.2 million. During 2000, no restricted stock units were eligible for conversion, 11,292 were forfeited and at December 31, 2000, 458,541 were outstanding.

Stock option activity for the years ended December 31, 2000 and 1999 is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
	-----	-----
Outstanding on December 31, 1998.....	--	\$ --
Granted.....	1,544,282	14.00
Forfeited.....	(58,781)	14.00
Outstanding on December 31, 1999.....	1,485,501	14.00
Granted.....	1,388,950	43.81
Exercised.....	(39,865)	14.00
Forfeited.....	(94,347)	14.73
	-----	-----
Outstanding on December 31, 2000.....	2,740,239	\$28.85
	=====	=====

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company has elected to account for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Under this method, no compensation cost is recognized for stock option awards granted at or above fair market value. Had compensation expense for the Plan been determined based upon fair value at the grant date for awards under the Plan in accordance with SFAS No. 123, the Company's pro forma net earnings and basic and diluted earnings per share would have been:

	Year Ended December 31,	
	2000	1999
Net earnings		
As reported.....	\$19,417	\$5,792
Pro forma.....	15,613	4,700
Basic earnings per share		
As reported.....	\$ 1.02	\$ 0.42
Pro forma.....	0.82	0.34
Diluted earnings per share		
As reported.....	\$ 0.95	\$ 0.42
Pro forma.....	0.77	0.34

The weighted-average fair value of options granted during 2000 and 1999, estimated on the date of grant using the Black-Scholes option pricing model was \$23.99 and \$8.56, respectively. The fair value of 2000 and 1999 options granted is estimated on the date of grant using the following assumptions: average risk-free rate of 6.2% and 5.3%, dividend yield of 0% and 0%, expected volatility of 54.3% and 54.3%, and expected option life of 5.4 and 7 years, respectively.

The following table summarizes information about stock options at December 31, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life in years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
	(in thousands)			(in thousands)	
\$14.00	1,375,439	8.30	\$14.00	147,847	\$14.00
\$36.65-					
\$44.88	1,049,800	6.45	41.17	--	--
\$45.44-					
\$57.00	315,000	4.11	52.60	--	--
-----	-----	-----	-----	-----	-----
\$14.00-					
\$57.00	2,740,239	7.11	\$28.85	147,847	\$14.00
=====	=====	=====	=====	=====	=====

13. Sale of Subsidiary Stock

During the second quarter of 2000, LeadersOnline sold a total of 609,000 shares of its common stock to VerticalNet, Inc. and to certain employees of the Company. The common stock was sold for \$5 per share and resulted in net cash proceeds, after expenses, of \$2.9 million to LeadersOnline. The Company's ownership interest in LeadersOnline was diluted from 100% to 96.4% as a result of these transactions. The resulting gain to the Company of \$2.7 million has been recorded in stockholders' equity. As a result of the decision to retain proprietary control of LeadersOnline, the Company repurchased these shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

14. Employee Benefit Plans

Qualified Retirement Plans

The Company has a defined contribution retirement plan for all eligible employees in the United States. The plan contains a 401(k) provision which provides for employee tax-deferred contributions.

The Company matched employee contributions on a two-for-one basis up to a maximum contribution of \$2,000 per participant for each of the years ended December 31, 2000, 1999 and 1998. The Company also has the option of making discretionary contributions. For the years ended December 31, 2000, 1999 and 1998, the Company elected to contribute to each eligible participant a sum equal to 3.03% of the participant's total compensation (as defined) and an additional 3.03% of the participant's compensation above the Social Security taxable wage base up to the maximum amount allowed by the Internal Revenue Code.

The plan allows participants the option of having their account balances or portions thereof invested in the Company's common stock. At December 31, 2000 and 1999, the plan held 4,265,809 and 4,755,951 shares, respectively, of the Company's common stock.

The plan provides that forfeitures will be used to reduce the Company's contributions. Forfeitures are created when participants terminate employment before becoming entitled to their full benefits under the plan. Company expense for the plan for the years ended December 31, 2000, 1999 and 1998 was \$4.5 million, \$3.2 million, and \$2.5 million, respectively.

Nonqualified Retirement Plans

The Company had two separate nonqualified retirement plans, one of which was terminated during 2000.

The first plan was for United States-based employees and included both an optional employee contribution and a discretionary employer contribution. During 2000, this plan was terminated and the proceeds were paid to the participants. The total cash payout to participants was \$12.4 million. There was no plan expense for the years ended December 31, 2000, 1999 and 1998. The liability for this retirement plan consisted of the following at December 31, 1999:

	1999

Employer contributions, less forfeitures.....	\$ 5,910
Employee deferrals.....	3,785
Earnings of designated assets.....	823
Distributions.....	(448)

	\$10,070
	=====

The nonqualified retirement plan was fully funded by investments which were classified as investments available-for-sale. These investments were carried at fair value based on publicly reported market quotes as of December 31, 1999. Any unrealized gains and losses on available-for-sale securities were excluded from earnings and were reported as a component of other comprehensive income.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The following table shows the cost and unrealized gain components of the fair value of the investments at December 31, 1999:

	1999

Cost basis.....	\$11,110
Gross unrealized gain.....	4,694

Fair value.....	\$15,804
	=====

The fair value of the assets designated for the nonqualified retirement plan consisted of the following at December 31, 1999:

	1999

Cash and cash equivalents.....	\$ 10
Stock mutual fund.....	11,815
Bond mutual fund.....	3,979

	\$15,804
	=====

These investments were sold when the plan was terminated and the Company realized a gain of \$3.7 million which was paid out to the plan's participants, net of tax.

The Company has a nonqualified retirement plan for employees in the United States classified as senior associates. This plan provides for only discretionary employer contributions. The plan expense for the years ended December 31, 2000, 1999, and 1998 was \$504,000, \$532,000, and \$232,000, respectively. The liability for this retirement plan at December 31, 2000 and 1999 was \$1.6 million and \$1.4 million, respectively.

15. Income Taxes

The sources of earnings before income taxes are as follows:

	Years Ended December 31,		

	2000	1999	1998

United States.....	\$17,384	\$16,725	\$(10,212)
Foreign.....	27,779	4,187	(5,676)

Total.....	\$45,163	\$20,912	\$(15,888)
	=====	=====	=====

The provision for income taxes for the years ended December 31, 2000, 1999 and 1998, is as follows:

	2000	1999	1998

Current--			
Federal.....	\$18,159	\$ 6,811	\$ 1,883
State.....	6,515	2,014	497
Foreign.....	13,678	4,291	436
Deferred.....	(12,606)	2,004	(1,514)

Total.....	-----	-----	-----
	\$25,746	\$15,120	\$ 1,302
	=====	=====	=====

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

A reconciliation of income tax expense for the years ended December 31, 2000, 1999 and 1998, to income taxes at the statutory U.S. federal income tax rate of 35% for 2000, 34% for 1999 and 35% for 1998, is as follows:

	2000	1999	1998
	-----	-----	-----
Income taxes at the statutory U.S. federal rate.....	\$15,807	\$ 7,110	\$(5,561)
Increase due to--			
State income taxes, net of federal tax benefit.....	3,075	1,329	136
Nondeductible expenses.....	6,865	5,852	4,985
Foreign taxes at rates different from the statutory U.S. federal tax rate.....	678	807	930
Other, net.....	(679)	22	812
	-----	-----	-----
Provision for income taxes.....	\$25,746	\$15,120	\$ 1,302
	=====	=====	=====

The deferred tax amounts mentioned above have been classified in the accompanying consolidated balance sheets as of December 31, 2000 and 1999, as follows:

	2000	1999
	-----	-----
Current deferred tax assets.....	\$26,242	\$21,429
Current deferred tax liabilities.....	(171)	(1,548)
	-----	-----
Net current deferred tax asset.....	26,071	19,881
	-----	-----
Long-term deferred tax assets.....	15,729	11,542
Long-term deferred tax liabilities.....	(8,937)	(11,166)
	-----	-----
Net long-term deferred tax asset.....	6,792	376
	-----	-----
Net deferred income tax asset.....	\$32,863	\$20,257
	=====	=====

The deferred tax assets and liabilities consist of the following components as of December 31, 2000 and 1999:

	2000	1999
	-----	-----
Deferred tax assets--		
Receivable allowances.....	\$ 5,716	\$ 4,921
Accrued vacations.....	1,247	1,074
Accrued bonuses.....	20,521	13,347
Liability for nonqualified retirement plans.....	4,881	8,464
Other accrued expenses.....	4,992	2,087
Leasehold improvements and equipment.....	2,149	918
Foreign net operating loss carryforwards.....	581	2,856
Goodwill.....	1,703	1,441
Cumulative translation adjustment.....	762	792
	-----	-----
Valuation allowance.....	42,552	35,900
	(581)	(2,929)
	-----	-----
Net deferred tax assets.....	41,971	32,971
	-----	-----
Deferred tax liabilities--		
System development costs.....	(5,416)	(7,088)
Unrealized gain on available-for-sale investments....	(2,597)	(3,278)
Other.....	(1,095)	(2,348)
	-----	-----
Net deferred tax liabilities.....	(9,108)	(12,714)

Net deferred income taxes.....	-----	-----
	\$32,863	\$20,257
	=====	=====

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

16. Commitments and Contingencies

Operating Leases

The Company leases office space in various buildings for its own use. The terms of these operating leases provide that the Company pays base rent and a share of increases in operating expenses and real estate taxes in excess of defined amounts. These leases expire at various dates through 2020. The Company also leases computer equipment which is accounted for as an operating lease.

Minimum future lease payments due in each of the next five years ending December 31 and thereafter, are as follows:

Years ending December 31,	
2001.....	\$ 29,196
2002.....	28,805
2003.....	26,335
2004.....	22,555
2005.....	17,895
Thereafter.....	98,386

	\$223,172
	=====

Rent expense under operating leases for the years ended December 31, 2000, 1999 and 1998 was \$31.9 million, \$21.1 million, and \$10.0 million, respectively.

Litigation

In the normal course of business, the Company is a party to various matters involving disputes and litigation. While it is not possible at this time to determine the ultimate outcome of these matters, management believes that the ultimate liability, if any, will not be material to the consolidated results of operations, financial condition or liquidity of the Company.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

17. Segment Information

The Company operates principally through two lines of business: Executive Search and LeadersOnline. The Company breaks out revenue and operating income in its Executive Search business into two broad geographic segments: Americas and International. The Americas segment consists of the United States and Other (Canada and Latin America). The International segment consists of Europe (which includes Africa and the Middle East) and Asia Pacific.

	Year Ended December 31,		
	2000	1999	1998
Revenue:			
Americas			
United States.....	\$341,553	\$256,394	\$190,855
Other.....	21,858	17,342	11,833
International			
Europe.....	176,431	118,880	--
Asia Pacific.....	34,361	20,614	14,148
Total Executive Search.....	574,203	413,230	216,836
LeadersOnline.....	20,191	2,617	--
Total.....	<u>\$594,394</u>	<u>\$415,847</u>	<u>\$216,836</u>
Operating income (loss):			
Americas			
United States.....	\$ 58,552	\$ 38,638	\$ 8,871
Other.....	2,556	3,466	(6,435)
International			
Europe.....	17,926	(1,614)	--
Asia Pacific.....	5,367	2,944	(308)
Total Executive Search.....	84,401	43,434	2,128
LeadersOnline.....	(27,178)	(5,157)	(1,539)
Corporate.....	(28,151)	(19,374)	(11,928)
Total.....	<u>\$ 29,072</u>	<u>\$ 18,903</u>	<u>\$(11,339)</u>

	As of December 31,	
	2000	1999
Identifiable Assets:		
Americas		
United States.....	\$119,988	\$107,698
Other.....	13,904	10,104
International		
Europe.....	142,998	102,398
Asia Pacific.....	22,237	11,958
Total Executive Search.....	299,127	232,158
LeadersOnline.....	6,037	4,150
Corporate.....	218,480	98,441
Total.....	<u>\$523,644</u>	<u>\$334,749</u>

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

18. Pension Plans and Life Insurance Contract

The Company maintains a pension plan for certain employees in Germany. The pensions are individually fixed German Mark amounts depending on the function and the pensionable years of service of the employee. The following provides a reconciliation of the benefit obligation:

	2000	1999
	-----	-----
Change in benefit obligation:		
Benefit obligation at January 1,	\$18,842	\$18,574
Service cost.....	693	999
Interest cost.....	1,072	1,146
Actuarial (gain) loss.....	(482)	1,133
Benefits paid.....	(847)	(302)
Translation difference.....	(1,064)	(2,708)
	-----	-----
Benefit obligation at December 31,	18,214	18,842
Unrecognized net loss.....	(499)	(1,133)
	-----	-----
Net amount recognized.....	\$17,715	\$17,709
	=====	=====
Unfunded status of the plan.....		
Unrecognized net loss.....	\$18,214	\$18,842
	(499)	(1,133)
	-----	-----
Accrued benefit cost.....	\$17,715	\$17,709
	=====	=====
	2000	1999
	-----	-----
Assumptions as of December 31:		
Discount rate (weighted average).....	6.5%	6.0%
Rate of compensation increase.....	4.0%	4.0%
Components of net periodic benefit cost:		
Service cost.....	\$ 693	\$ 999
Interest cost.....	1,072	1,146
	-----	-----
Net periodic benefit cost.....	\$ 1,765	\$ 2,145
	=====	=====

The pension benefits are fully reinsured within a group insurance contract with Victoria Lebensversicherung AG. The surrender value at December 31, 2000 and 1999 was \$16.5 million and \$16.9 million, respectively. Because the reinsurance is not segregated from the Company's assets for purposes of SFAS No. 87, "Employers' Accounting for Pensions," the reinsurance is not regarded as an asset with respect to the pension plan. This pension plan was included in the consolidated financial statements effective with the Merger.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

During 2000, the Company established a defined benefit pension plan for its CEO. The plan is not funded. The following provides a reconciliation of the benefit obligation:

	2000

Change in benefit obligation:	
Benefit obligation at January 1,.....	\$ --
Service cost.....	1,127
Interest cost.....	338
Actuarial loss.....	--

Benefit obligation at December 31,.....	1,465
Unrecognized net loss.....	--

Accrued benefit cost.....	\$1,465
	=====
Assumptions as of December 31:	
Discount rate (weighted average).....	7.0%
Rate of compensation increase.....	--
Components of net periodic benefit cost:	
Service cost.....	\$1,127
Interest cost.....	338

Net periodic benefit cost.....	\$1,465
	=====

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of Heidrick & Struggles International, Inc. and Subsidiaries:

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES included in this Form 10-K report and have issued our report thereon dated February 6, 2001. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule II--Heidrick & Struggles International, Inc. Valuation and Qualifying Accounts is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Chicago, Illinois
February 6, 2001

SCHEDULE II

Heidrick & Struggles International, Inc.

Valuation and Qualifying Accounts

	Balance at Beginning of Year	Charged to Costs & Expenses	Deduction Including Currency Translation	Acquisitions	Balance at End of Year
	-----	-----	-----	-----	-----
Year Ended December 31:					
Allowance for doubtful accounts					
2000.....	\$12,435	26,322	(22,305)	--	\$16,452
	-----	-----	-----	-----	-----
1999.....	\$ 4,669	10,405	(6,483)	3,844	\$12,435
	-----	-----	-----	-----	-----
1998.....	\$ 3,276	5,356	(3,963)	--	\$ 4,669
	-----	-----	-----	-----	-----

[LETTERHEAD OF HEIDRICK & STRUGGLES]

Patrick S. Pittard
President and Chief Executive Officer

July 7, 2000

Mr. Piers Marmion
Rectory Farm House
Church Lane
North Stoke
Oxfordshire
OX10 6BQ
England

Dear Piers:

On behalf of Heidrick & Struggles International Inc ("the Company"), we are delighted to confirm our offer of employment to you.

Detailed below are the principal terms and conditions of your employment.

1. Date of Commencement

Your employment with the Company will commence as on August 1, 2000.

2. Title and Reporting

You would join our Company as Chief Operating Officer of our worldwide Heidrick & Struggles Executive Search division ("Heidrick & Struggles"), and will be based in London. You will be responsible to manage the Heidrick & Struggles offices in Europe, Middle East, Asia/Pacific and Africa regions. You will report to the Chief Executive Officer of Heidrick & Struggles.

We will nominate you for election to our public board when there is a vacancy. In the meantime you will be an "advisory" member of the Board.

You will also be a member of the "Office of the CEO".

You will be elected to the Board of Directors of our LeadersOnline subsidiary.

In the future you will be asked to participate in our Heidrick Ventures division.

3. Remuneration

3.1 Base Compensation

Your salary will be at the minimum rate of (Pounds)428,400 per annum with (Pounds)35,700 payable in twelve equal monthly instalments at the end of each month. All numbers are "TCF" (Total Cost to the Firm) so that your salary will be reduced by the cost of the employer's National Insurance Contribution, the permanent health insurance, BUPA, life cover, etc. Currently salaries are reviewed annually in the last calendar quarter of the year or early in the first quarter of the year, so that your first salary review will be in late 2000 or early 2001.

3.2 Annual bonus

You may receive an annual bonus. Bonuses are discretionary, except for the minimum bonuses, referred to below, and not earned until approved by the Compensation Committee and/or the Board of Directors of the Company, and all bonuses, including the minimum bonuses referred to below, will only be payable if you are in our employ on the bonus payment dates.

For the years 2000, 2001, 2002 and 2003, you will receive minimum bonuses of: (Pounds)362,272, (Pounds)658,675, (Pounds)658,675, and (Pounds)658,675, respectively, payable when our bonuses are paid in December and the following March of each year. After the year 2003 you will be on our normal bonus program then in effect. All bonus numbers are TCF so that your bonuses will be reduced by the employer's National Insurance Contributions.

Your total cash compensation will be subject to the Heidrick & Struggles International, Inc. GlobalShare Program. As such, any bonus you receive may be partially paid in equity in accordance with the GlobalShare Program.

3.3 Loans

(A) Sign-on loan:

Within 30 days following your employment start date, the Company will loan you (Pounds)658,675 to be evidenced by a noninterest bearing Promissory Note ("Note") payable on January 31, 2005, except that if you cease to be in the Company's employ then the entire principal balance of the Note then remaining due shall, without demand or notice of any kind, be and become immediately due and payable unless your employment is terminated by the Company without cause. The Note will be forgiven as follows if you are in the Company's employ (or have been terminated by the Company without cause) on the following forgiveness dates: (Pounds)65,868 on December 31, 2000, (Pounds)131,735 on December 31, 2001, December 31, 2002, December 31, 2003, December 31, 2004 and (Pounds) 65,867 on January 31, 2005.

You have agreed to purchase a minimum of (Pounds) 329,338 of the Company's Common stock on the open market within 30 days following your receipt of the loan proceeds referred to in the immediately preceding paragraph, and you agree not to sell this stock for a period of at least two (2) years from the date of purchase.

(B) Year 2001 loan:

During the month of June 2001, provided you are then in our employ, the Company will loan you (Pounds)658,675 to be evidenced by a noninterest bearing Promissory Note ("Note") payable on January 15, 2005, except that if you cease to be in the Company's employ then the entire principal balance of the Note then remaining due shall, without demand or notice of any kind, be and become immediately due and payable unless your employment is terminated by the Company without cause. The Note will be forgiven as follows if you are in the Company's employ (or have been terminated by the Company without cause) on the following forgiveness dates: (Pounds)65,868 on December 31, 2001, (Pounds)131,735 on December 31, 2002, December 31, 2003 and December 31, 2004, and (Pounds)197,602 on January 31, 2005.

The income arising from the loan forgiveness in this section 3.3 is TCF so that you will be required to pay to the Company the employer's National Insurance Contributions and personal income tax withholding attributable to the forgiveness income when due. The Company is authorized to withhold these amounts from your cash bonus(s).

3.4 Other financial incentives

You will receive the following equity incentives within 30 days following your employment start date all of which will be issued at fair market value on the date of issuance:

- (a) 145,000 of Company stock options with a three-year cliff vesting schedule and a four-year term;
- (b) 50,000 Restricted Stock Units with a three-year cliff vesting schedule;
- (c) 265,000 LeadersOnline stock options with the standard LeadersOnline vesting schedule.

If a Web-based business which is under your leadership is taken public by our H&S Ventures division, then you will receive either or a combination of founder's shares or stock options equal to a minimum of 1% of such entity.

4. Equity Participation

You will be entitled to participate, in the Heidrick & Struggles International, Inc. GlobalShare equity programs based upon your performance and attainment

of your goals and objectives. Grants under these programs are subject to approval by the Board of Directors or Compensation Committee of Heidrick & Struggles International, Inc. You will sign our Acquired Rights Waiver and Data Protection Waiver forms on or before your first day of employment.

5. Exclusivity of Services

While entering the present agreement you undertake that you have no obligation resulting from any other employment or business agreement or from any former employer which could limit your ability to perform this agreement in the best interest of the Company.

You are required to devote your whole time, attention and abilities to the business and interests of the Company. You may not engage or be interested whether directly or indirectly in any trade or business other than that of the Company during the continuance of your employment with us, except with the Company's written consent.

During your employment with the Company, you will not undertake any business activity competitive with Heidrick & Struggles' business either individually or with any other employees or representatives of the Company.

Should you be made an offer of employment with any firm or Company competing with, or intending to compete with, the business of the Company you agree to immediately furnish us with any information that may reasonably be of assistance to the Company in acting promptly to protect its relationships.

6. Expenses

Business expenses, including without limitation, your business transport costs, should in all cases, be supported by the appropriate invoices and documentation. Expenses claims are to be submitted for approval monthly.

7. Holiday

You will be entitled to 25 days' holiday in each calendar year in addition to the Bank and Public holidays. Such holiday entitlement will accrue on a monthly basis in equal proportions and on cessation of your employment hereunder for whatsoever reason, you will be entitled to receive only such number of days holiday as has accrued to the effective date of termination, less any period of holiday already taken during the year.

8. Pension

We will contribute to your own Inland Revenue approved personal pension plan up to the maximum cap allowable under Inland Revenue rules.

9. Life Insurance and Permanent Health Insurance.

9.1 In General

You will be eligible to join our Company scheme which currently provides life insurance cover of four times basic salary subject to the Plan's rules together with permanent health insurance including earnings related sick pay in case of long term sickness and disability and this may involve you in having a medical.

You will be eligible to become a member of the Company scheme providing medical insurance cover for yourself and your family through BUPA. The subscriptions are currently paid by the Company and this represents a taxable benefit to you.

The terms of the Company's insurance schemes shall be at the Company's discretion and the schemes are subject to modification and / or termination at the Company's discretion.

All payments under the permanent health insurance scheme ("PHI Scheme") will be subject to such deductions as may be required by law and also a sum equivalent to any employer's national insurance contributions which are payable by the Company in respect of any payment under the PHI Scheme and which are not reimbursed by the insurer under the PHI Scheme. Where payments are made under the PHI Scheme, all other benefits provided to or in respect of you by the Company will cease immediately (if they have not done so already) except those benefits for which the Company receives, from the insurer under the PHI Scheme, reimbursement in full of the total cost to the Company of the benefit.

9.2 Incapacity

You shall continue to be paid during absence due to incapacity (such payment to be inclusive of any statutory sick pay or social security benefits to which you may be entitled) for a total of up to 28 days in any one year of employment under this agreement.

Thereafter you shall continue to be paid salary only at the discretion of the Company provided that if such absence shall aggregate in all 26 weeks in any 52 consecutive weeks the Company may terminate your employment.

Termination on grounds of ill health shall not be permitted if you are either:

- (a) receiving benefit under a permanent health insurance scheme and a payment of such benefits depends on the you remaining an employee; or
- (b) you reasonably expect to receive benefits under such a scheme within the next 6 months.

[For the avoidance of doubt if the insurance company underwriting the Company's health insurance scheme makes a capricious or unreasonable decision in refusing or withholding the payment of benefits then termination of your employment on grounds of ill health may only occur with mutual consent. The Company agrees to use all reasonable efforts to persuade the insurer to provide the benefits to you.]

If the incapacity shall be or appear to be occasioned by actionable negligence of a third party in respect of which damages are or may be recoverable the Executive shall immediately notify the Company of that fact and of any claim compromise settlement or judgement made or awarded in connection with it and shall give to the Company all particulars the Company may reasonably require and shall if required by the Company refund to the Company that part of any damages recovered relating to loss of earnings for the period of the incapacity as the Company may reasonably determine provided that the amount to be refunded shall not exceed the amount of damages or compensation recovered by you less any costs borne by you in connection with the recovery of such damages or compensation and shall not exceed the total remuneration paid to you by way of salary in respect of the period of the incapacity.

10. Confidentiality

Whilst employed by Heidrick & Struggles you should not:

(i) Take advantage of your position to discuss with any of the Company's employees the present operation, formation of or future operations of any business likely to compete with the Company with the intention of persuading such employees as to opportunities for their possible future employment by any such business.

(ii) Discuss with any existing or potential clients of the Company present or future availability or provision of services from a business competing with or intended to compete with the Company save with the Company's express consent.

11. Disclosure and Copyright, Inventions, Designs and other Intellectual Property

11.1 Disclosure

You will keep strictly confidential any information you acquire in the course of your employment about the business of the Company or the business of its clients and prospective clients.

In the event of improper use or disclosure of information the Company reserves the right to take disciplinary or other appropriate action.

On or before your first day of employment you will sign our Declaration Regarding Propriety Information Agreement.

11.2 Copyright, Inventions, Designs and other Intellectual Property

In this section 11.2, the term "Intellectual Property" means works in which copyright may subsist (including articles, publications, databases, computer software and preparatory and design materials therefore), all other database rights, inventions (whether patentable or not, and whether or not patent protection has been applied for or granted), improvements, developments, discoveries, proprietary information, trade marks, trade names, logos, art work, slogans, know-how, processes, designs (whether or not registrable and whether or not design rights subsist in them), utility models, and all works protected by rights or forms of protection of a similar nature or having equivalent effect anywhere in the world.

Subject to the provisions of the Patents Act 1977, if at any time in the course of or in connection with your employment under this agreement you make or discover or participate in the making or discovery of any Intellectual Property directly or indirectly relating to, or capable of being used in, the business carried on by the Company, full details of the Intellectual Property shall immediately be disclosed in writing by you to the Company and the Intellectual Property shall be the absolute property of the Company.

At the request and expense of the Company, you shall give and supply all such information, data, drawings and assistance as may be necessary, or in the opinion of the Company desirable, to enable the Company to exploit the Intellectual Property to the best advantage, and shall execute all documents and do all things which may be necessary, or in the opinion of the Company desirable, for obtaining patent or other protection for the Intellectual Property in such parts of the world as may be specified by the Company and for vesting the same in the Company or as it may direct.

12. Termination of employment

Your employment will be for a term of four years and six months continuing thereafter until it is terminated by either party giving to the other not less than six months notice in writing.

Once notice of termination has been given by either party then the Company will be under no obligation to provide work for you and may exclude you from the premises of the Company (payment in lieu/garden leave"), provided that your salary and all other contractual benefits shall continue to be payable through the notice period subject to any other condition of your employment.

If the Company terminates your employment for Cause all compensation stops and the Notes representing sign-on loans will become immediately due and payable to the extent not already forgiven.

If you are terminated by the Company without Cause, then all of the Company's obligation to pay your TCF salary, minimum bonuses, and loan forgiveness will continue through the initial four year six month term of this employment agreement; provided however, to the extent you obtain alternative employment, the remuneration you receive will reduce the amount payable to you by the Company. (Alternative compensation must be reasonable.)

For purposes of this clause 12, and this Agreement generally, "Cause" shall mean:

- (a) Fraud, or the embezzlement or misappropriation of funds or property of the Company or any of its affiliates by the employee, the conviction of, or the entrance of a plea of guilty or nolo contendere by the employee to a felony, or a crime involving moral turpitude;
- (b) Neglect, misconduct or wilful malfeasance which is materially injurious to the Company or any of its affiliates;
- (c) Wilful failure or refusal to perform the employee's duties, or a wilful, material breach of contract.

In the event that your employment is terminated due to your death, disability or ill health, your estate or your beneficiaries, as the case may be, shall be entitled to receive your salary through the date of termination, to the extent not theretofore paid.

13. Jurisdiction

This agreement shall be governed by English Law and the English courts shall have exclusive jurisdiction in dealing with any disputes arising out of the employment.

14. Post Termination Restrictions

You undertake that (except without the prior written consent of the Company) you will not:

- . for a period of twelve months following termination of employment (less any period for which you are placed on "garden leave"), directly or indirectly induce or seek to induce or persuade any person employed by the Company or any associated Company and with whom, you have had significant personal dealings during the course of your employment to leave the employ of the Company or any associated Company to join or provide services to any other firm, company or other organisation, whether as a director, principal, employee, consultant, agent or in any other capacity whatsoever;

- . for a period of twelve months following termination of employment (less any period for which you are placed on "garden leave") directly or indirectly solicit or induce away in competition with the Company the custom of any person, firm, company or other organisation whatsoever who in the year immediately preceding the date of termination was a client or candidate of the Company or Associated Company and with whom you had significant personal dealings on behalf of the Company;
- . for a period of twelve months after termination of employment (less any period for which you are placed on "garden leave"), act or be engaged in the provision of executive recruitment services, directly or indirectly for a business which shall be in competition with the business of the Company or any of its subsidiaries or affiliates, including, without limitation, LeadersOnline.

15. Final Provisions.

The present contract comprises all agreements between you and Heidrick & Struggles International, Inc. in relation to the employment relationship. Any modification to this contract shall require a written form.

If any provisions of this contract shall be or become invalid or are unenforceable the validity and enforceability of the other provisions of the contract shall remain unaffected. The parties shall agree on a valid provision which as closely as possible achieves the economic effect of the invalid or unenforceable provision. The same shall apply in case of incompleteness of the contract.

With every good wish.

Yours sincerely,

FOR AND ON BEHALF OF
HEIDRICK & STRUGGLES INTERNATIONAL INC.

/s/ Patrick S. Pittard

Patrick S. Pittard, Chairman, President and Chief Executive Officer

I hereby accept the terms and conditions of employment as outline above

Signed: /s/ Piers Marmion

Date: 07/07/00

Piers Marmion

HEIDRICK & STRUGGLES, INC., a Delaware Corporation
HEIDRICK & STRUGGLES ASIA-PACIFIC, LTD., an Illinois Corporation
HEIDRICK & STRUGGLES JAPAN, LTD., an Illinois Corporation
HEIDRICK & STRUGGLES AUSTRALIA, LTD., an Illinois Corporation
HEIDRICK & STRUGGLES HONG KONG, LTD., an Illinois Corporation
HEIDRICK & STRUGGLES SINGAPORE PTE LTD, a Singapore Corporation
HEIDRICK & STRUGGLES (INDIA) PRIVATE LIMITED, an Indian Corporation
HEIDRICK & STRUGGLES (KOREA), INC., a Korean Corporation
HEIDRICK & STRUGGLES FAR EAST LIMITED (Hong Kong)
HEIDRICK & STRUGGLES TAIWAN LIMITED
HEIDRICK & STRUGGLES CANADA, INC., a Canadian Corporation
HEIDRICK & STRUGGLES ARGENTINA, S.A., an Argentine Corporation
HEIDRICK & STRUGGLES LATIN AMERICA, INC., an Illinois Corporation
HEIDRICK & STRUGGLES DE CHILE LIMITADA, a Chilean Limitada
HEIDRICK & STRUGGLES DEL PERU S.A., a Peruvian Corporation
HEIDRICK & STRUGGLES, S.A., a Venezuelan Corporation
HEIDRICK & STRUGGLES HOLDING DO BRASIL LTDA, a Brazilian Limitada
HEIDRICK & STRUGGLES DO BRASIL LTDA., a Brazilian Limitada
HEIDRICK & STRUGGLES, S.A. de C.V., a Mexican Corporation
HEIDRICK & STRUGGLES ESPANA, INC., an Illinois Corporation
HEIDRICK & STRUGGLES AB, a Swedish Corporation
HEIDRICK & STRUGGLES AS, a Norwegian Corporation
HEIDRICK & STRUGGLES OY, a Finnish Corporation
STAHLBERG & PARTNER OY, a Finnish Corporation
JUHA-PEKKA AHTIKARI OY, a Finnish Corporation
KOIK & PARTNER OU, an Estonian Corporation
KOIK & PARTNER SIA, a Latvian Corporation

HEIDRICK & STRUGGLES INTERNATIONAL SRL, an Italian Corporation

HEIDRICK & STRUGGLES Sp.zo.o, a Polish Corporation

HEIDRICK & STRUGGLES CONSULTING AG, a Swiss Corporation

HEIDRICK & STRUGGLES s.r.o., a Czech Corporation

HEIDRICK & STRUGGLES BV, a Netherlands limited liability corporation

HEIDRICK & STRUGGLES CONSULTORES de GESTAO Lda, a Portugese Corporation

HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG GmbH & Co. KG, a German limited partnership

PROTEM GmbH, a German limited liability corporation

JMA-JMP ANZEIGENAGENTUR GmbH, a German limited liability corporation

HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG VERWALTUNG-GmbH, a German limited liability company

HEIDRICK & STRUGGLES LTD., an Israeli Corporation

LEADERSONLINE, INC. a Delaware Corporation

HEIDRICK & STRUGGLES (Proprietary) LIMITED, a South African Limited Company.

HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG, GmbH., an Austrian Corporation