

**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, 2006

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
(State or Other Jurisdiction of
Incorporation or Organization)

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

233 South Wacker Drive, Suite 4200, Chicago, Illinois 60606-6303

(Address of principal executive offices) (Zip Code)

(312) 496-1200

(Registrant's telephone number, including area code)

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

Title Of Each Class	Name Of Each Exchange On Which Registered
Common Stock, \$.01 par value	The Nasdaq Global Market

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

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

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant on June 30, 2006 was approximately \$606,781,148 based upon the closing market price of \$33.84 on that date of a share of Common Stock as reported on the Nasdaq Global Market. As of February 23, 2007, there were 17,792,705 shares of the Company's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 23, 2007, are incorporated by reference into Part III of this Form 10-K.

[Table of Contents](#)

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

		<u>PAGE</u>
	<u>PART I</u>	
Item 1.	Business	1
	Supplemental Item: Executive Officers	
Item 1A.	Risk Factors	7
Item 1B.	Unresolved Staff Comments	10
Item 2.	Properties	11
Item 3.	Legal Proceedings	11
Item 4.	Submission of Matters to a Vote of Security Holders	11
	<u>PART II</u>	
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	12
Item 6.	Selected Financial Data	14
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	33
Item 8.	Financial Statements and Supplementary Data	34
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	69
Item 9A.	Controls and Procedures	69
Item 9B.	Other Information	72
	<u>PART III</u>	
Item 10.	Directors, Executive Officers and Corporate Governance	73
Item 11.	Executive Compensation	73
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	73
Item 13.	Certain Relationships and Related Transactions, and Director Independence	74
Item 14.	Principal Accountant Fees and Services	74
	<u>PART IV</u>	
Item 15.	Exhibits and Financial Statement Schedules	75
	Signatures	77

PART I

ITEM 1. BUSINESS

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

In addition to executive search, we provide a range of leadership consulting services to clients. These services include succession planning, top team effectiveness, executive assessment, talent management, executive development, and M&A human capital effectiveness.

Heidrick & Struggles has been in the executive search business for more than 50 years. We provide our services to a broad range of clients through the expertise of more than 388 consultants located in major cities around the world. For many of our clients, our global access to and knowledge of regional and functional markets and candidate talent is an important differentiator of our business. We provide our executive search services on a retained basis, recruiting senior executives whose first year base salary and bonus averages \$300,000 on a worldwide basis. Our clients include the following:

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

The executive search industry is highly fragmented, consisting of several thousand executive search firms worldwide. Based on trade publication reports, we estimate that fewer than 10 executive search firms/alliances generated more than \$100 million in worldwide revenue during 2006. Executive search firms are generally separated into two broad categories: retained and contingency. Retained executive search firms fulfill their clients’ senior leadership needs by identifying potentially qualified candidates and assisting clients in evaluating and assessing these candidates for positions typically with annual cash compensation of \$150,000 and above. Retained executive search firms generally are compensated for their services regardless of whether the client employs a candidate identified by the search firm and are generally retained on an exclusive basis. In contrast, contingency search firms usually focus primarily on positions with annual cash compensation of less than \$150,000 and are compensated only upon successfully placing a recommended candidate. Retained executive search firms normally charge a fee for their services equal to approximately one-third of the first year’s total compensation for the position being filled.

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

- Analyze the client’s needs in order to understand its organizational structure, relationships and culture; determine the required set of skills for the position; define the required experience; and identify the other characteristics desired of the successful candidate
- Select, contact, interview and evaluate candidates on the basis of experience and potential cultural fit with the client organization
- Present confidential written reports on the candidates who potentially fit the position specification
- Schedule a mutually convenient meeting between the client and each candidate

Table of Contents

- Complete references on the final candidate selected by the client
- Assist the client in structuring the compensation package and supporting the successful candidate's integration into the client team

In October of 2006, we completed the acquisition of substantially all of the assets of Highland Partners, a leading retained executive search boutique and a division of Hudson Highland Group, Inc., through an asset purchase funded from existing cash for \$36.0 million including \$1.2 million of capitalized acquisition costs. Hudson Highland Group will also be eligible to receive earnout payments of up to \$15.0 million based on the acquired consultants achieving certain revenue metrics in 2007 and 2008. The total purchase price, including the \$36.6 million paid at closing and the 2007 and 2008 earnout payments will not exceed \$51.6 million. All 48 of the Highland Partners consultants who were offered employment by us have accepted and joined our Company.

Available Information

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

Organization

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

Geographic Structure. We provide senior-level executive search and leadership consulting services to our clients worldwide through a network of more than 60 offices in 26 countries. Major locations are staffed with consultants, research associates, administrative assistants and other support staff. Administrative functions are centralized where possible, although certain support and research functions are situated regionally because of variations in local requirements.

Our worldwide network also includes affiliate relationships in six countries. We have no financial investment in these affiliates but receive licensing fees from them for the use of our name and our databases. Licensing fees were \$1.0 million and \$0.3 million for the years ended December 31, 2006 and 2005, respectively.

Industry Practices. We report and operate our executive search business in seven broad industry groups: Financial Services, Consumer, Industrial, Technology, Health Care, Professional Services and Higher Education/Nonprofit. These industry categories and their relative sizes, as measured by net revenue for 2006, are as follows:

Broad Industry Groups	Percentage of Net Revenue
Financial Services	34%
Consumer	19%
Industrial	18%
Technology	10%
Health Care	8%
Professional Services	6%
Higher Education/Nonprofit/Other	5%
	<u>100%</u>

[Table of Contents](#)

While those broad industry groups are useful for tracking purposes, we know that understanding the unique needs of each client—in terms of such factors as competitive landscape, business strategy and operations—is integral to providing quality service. Thus, our functional and industry practice structure is designed to reflect the needs of our clients and our enhanced focus on certain market sectors. Certain practices are organized globally, while others have a regional or local focus, as follows:

Our Global Industry Practices are: Business & Professional Services; Consumer; Financial Services; Industrial; Life Sciences; Private Equity & Venture Capital; and Technology.

Other Practices with a regional or local focus are: Diversity Services; Education/Nonprofit; Interim Executives.

Certain markets have a significant concentration of companies within particular industry sectors. For example, our Financial Services practice has its largest concentration of consultants in New York and London, two of the world's largest financial centers. Each industry practice is managed by a Practice Managing Partner who facilitates the respective group's marketing activities.

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

Our Global Functional Practices are: CEO & Board of Directors; Chief Information Officer; Chief Marketing Officer; Financial Officers; Human Resources; Legal; Real Estate; Research & Development; and Supply Chain.

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

Information by Geographic Segment

Americas. As of December 31, 2006, we had 218 executive search consultants operating in our Americas segment, which includes the United States, Canada, Mexico and Latin America, principally Argentina, Brazil and Chile. Our Americas segment generated approximately 56% of our worldwide net revenue in 2006. The largest offices in this segment in terms of net revenue are located in New York, Chicago and Atlanta.

Europe. As of December 31, 2006, we had 125 executive search consultants operating in 13 European countries. Our European segment generated approximately 34% of our worldwide net revenue in 2006. The United Kingdom, Germany and France produced the highest levels of net revenue in this segment.

Asia Pacific. As of December 31, 2006, we had 45 executive search consultants in operating the Asia Pacific segment. This segment generated approximately 10% of our worldwide net revenue in 2006. China (including Hong Kong), Australia and Japan produced the highest levels of net revenue in this segment.

For financial information relating to each geographic segment, see Note 19, *Segment Information*, in the Notes to Consolidated Financial Statements.

Seasonality

While there is no discernible seasonality in our business, revenue and operating income have historically varied by quarter and are hard to predict from quarter to quarter. Although as a percentage of total annual net

[Table of Contents](#)

revenue, the first quarter is typically the lowest. On average, the variance between the highest and lowest amount of quarterly net revenue, as expressed as a percentage of annual net revenue, is approximately two percentage points.

Clients and Marketing

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

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

No single client accounted for more than 3% of our net revenue in 2006, 2005 or 2004.

Information Management Systems

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

Professional Staff and Employees

Our executive search professionals are generally categorized either as consultants or associates. Associates assist consultants by conducting research, making initial contact with candidates in some instances and performing other search-related functions. As of December 31, 2006, we had 1,550 full-time equivalent employees, of whom 388 were executive search consultants, 407 were associates and 755 were other search, support and corporate staff.

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

Competition

The executive search industry is highly competitive. While we face competition to some degree from all firms in the industry, we believe our most direct competition comes from four established global retained executive search firms that conduct searches primarily for the most senior-level positions within an organization. In particular, our competitors include Egon Zehnder International, Korn/Ferry International, Russell Reynolds

[Table of Contents](#)

Associates, Inc. and Spencer Stuart & Associates. 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 the marketplace for executive search consultants. The Association of Executive Search Consultants (AESC) estimated the market size for the executive recruiting industry was \$8.7 billion worldwide in 2006. Combined, the revenues of our Company and our top four competitors represent approximately 27% of this market.

Overall, the search industry has relatively few barriers to entry. Higher barriers exist, however, for global retained executive search firms like ours that focus primarily on conducting searches for senior-level positions. At this level, clients rely more heavily on a search firm's reputation, global access and the experience level of its consultants. We believe that the segment of executive search in which we compete is more quality-sensitive than price-sensitive. As a result, we compete on the level of service we offer, reflected by our client services specialties and, ultimately, by the quality of our search results. We believe that our emphasis on senior-level executive search, the depth of experience of our search consultants and our global presence enable us to compete favorably with other executive search firms.

Competition in our leadership consulting services is highly fragmented, with no universally recognized market leaders.

EXECUTIVE OFFICERS

Our executive officers as of March 1, 2007 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position With Company</u>
L. Kevin Kelly	41	Chief Executive Officer; Director
K. Steven Blake	42	Executive Vice President, General Counsel and Secretary
Charles G. Davis	49	Regional Managing Partner, Asia Pacific
Michael Franzino	58	Chairman, Global Markets
John T. W. Hawkins	52	Regional Managing Partner, Americas
Eileen A. Kamerick	48	Executive Vice President, Chief Financial Officer and Chief Administrative Officer
David C. Peters	54	Regional Managing Partner, Europe/Middle East/Africa

There are no family relationships between any executive officer or director. The following information sets forth the business experience for at least the past five years for each of our executive officers as of March 1, 2007:

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

K. Steven Blake has been our General Counsel and Secretary since joining us in July 2005 and was named Executive Vice President in January 2007. Previously, Mr. Blake was General Counsel of Aquion Partners, LP from 2001 to 2005. From 1998 to 2001, Mr. Blake was Associate General Counsel for General Electric Capital Corporation.

Charles G. Davis has been our Regional Managing Partner, Asia Pacific since September 2006, Office Managing Partner, Sydney since January 2006, and Managing Partner of our Chief Information Officer Practice in Asia Pacific since October 2002. Previously, Mr. Davis was Managing Partner of our Technology and Business & Professional Services Practice in Asia Pacific from April 1999 to December 2005. He joined us in 1998.

Michael Franzino has been our Chairman, Global Markets since September 2005 and Co-Head of Target Accounts since January 2004. Previously, Mr. Franzino was Managing Partner of our Financial Services Practice from October 2001 to December 2006 and Office Managing Partner, New York—Wall Street from January 2003 to December 2004. He joined us in 1999.

John T.W. Hawkins has been our Regional Managing Partner, Americas since joining us in January 2007. Previously, Mr. Hawkins was Executive Vice President-Corporate Development and External Affairs at MedPointe Pharmaceuticals from 2000 to 2007. Prior to that, between 1990 and 2000, he held numerous leadership roles at Russell Reynolds Associates, including Managing Director and Leader of both the Global Health Care Sector and the Global Board of Directors/CEO Practice.

Eileen A. Kamerick has been our Chief Financial Officer since joining us in June 2004. Ms. Kamerick was named Chief Administrative Officer in December 2006 and Executive Vice President in January 2007. Previously, she was Chief Financial Officer and Executive Vice President of Bcom3 Group, Inc. from 2001 to 2003 and Chief Financial Officer and Executive Vice President at United Stationers, Inc. from 2000 to 2001.

David C. Peters has been our Regional Managing Partner, Europe/Middle East/Africa since September 2006. Previously, Mr. Peters was Office Managing Partner, London from October 2003 to November 2006, Area Managing Partner, UK/Middle East/Africa from July 2004 to March 2005, and Head of our Interim Practice from November 2002 to June 2005. He joined us in 2000.

ITEM 1A. RISK FACTORS

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

We depend on attracting and retaining qualified consultants.

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

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

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

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

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

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

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

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

We face aggressive competition.

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

We rely heavily on information management systems.

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

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

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

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

We generate substantial revenue outside the United States. We offer our services through offices in 26 countries around the world. We are exposed to the risk of changes in social, political, legal and economic conditions inherent in international operations which could have a significant impact on our business, financial condition and results of operations. In particular, we conduct business in countries where the legal systems, local laws and trade practices are unsettled and evolving. Commercial laws in these countries are sometimes vague, arbitrary and inconsistently applied. Under these circumstances, it is difficult for us to determine at all times the exact requirements of such local laws. If we fail to comply with local laws, our business, financial condition and results of operations could suffer. In addition, the global nature of our operations poses challenges to our management, and financial and accounting systems. Failure to meet these challenges could seriously harm our business, financial condition and results of operations.

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

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

Our net revenue may be affected by adverse economic conditions.

Although our net revenue increased in 2006, coinciding with signs of moderate worldwide economic growth, there can be no assurances that economic conditions will continue to improve or even remain stable. If economic conditions weaken, our business, financial condition and results of operations could suffer.

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

While we were profitable in 2006 and expect to be profitable in 2007 and beyond, there is no assurance that future taxable income will be sufficient to realize the benefit of certain deferred tax assets we could claim. We establish valuation allowances when there is insufficient evidence for the realizability of these deferred tax assets. The realizability of the deferred tax assets is reassessed as facts and circumstances dictate. If after future assessments of the realizability of the deferred tax assets, we determine that a lesser or greater allowance is required, we would record a reduction or increase to the income tax expense and the valuation allowance in the period of such determination.

Our inability to successfully integrate Highland Partners and other acquisitions may have an adverse effect on our business.

We completed the acquisition of Highland Partners in the fourth quarter of 2006. While we intend to continue to grow through selective acquisitions, we may not be able to identify appropriate acquisition candidates, consummate acquisitions on satisfactory terms or integrate the acquired businesses effectively and profitably into our existing operations. Our future success will depend in part on our ability to complete the integration of Highland Partners and other acquisitions successfully into our operations. In addition, failure to successfully integrate Highland Partners may adversely affect our profitability by creating operating inefficiencies that could increase operating expenses as a percentage of net revenues and reduce operating income. Further, after any acquisition, the acquired businesses' clients may choose not to move their business to us causing an adverse affect on our business, financial condition and results of operations.

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

Periodically, we perform assessments of the carrying value of our goodwill and other intangible assets. Current valuation estimates indicate that there has been no impairment of our goodwill or other intangible assets. Future events, however, including our financial performance and economic conditions, could cause these assets to become impaired in the future. Any resulting impairment loss could have an adverse impact on our business, financial condition and results of operations.

Our ability to sublease or assign unused office space could affect our earnings and cash flows.

As a result of prior consolidation and closing of offices in order to reduce costs, we have been left with unused office space for which we are still required to make lease payments. While the majority of the vacated properties have been sublet, at December 31, 2006, there was approximately 60 thousand square feet of unused real estate. The total remaining commitment related to these vacated properties that have not been sublet is \$5.1

[Table of Contents](#)

million, of which \$3.3 million has been accrued at December 31, 2006, net of estimated sublease income. Inherent in these accruals are estimates concerning vacancy periods and sublease income. If we are unable to sublease or assign this unused office space within the estimated time frame, if we sublease or assign this office space for amounts less than we had anticipated or if one of our tenants defaults on a sublease, our business, financial condition, results of operations and cash flow could suffer.

We have antitakeover provisions that make an acquisition of us difficult and expensive.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Chicago, Illinois. We have offices in major metropolitan areas in 26 countries around the world. All of our offices are leased. We do not own any real estate. The aggregate square footage of office space under lease was approximately 765 thousand as of December 31, 2006. These office leases call for future minimum lease payments of \$152.0 million and have terms that expire between 2007 and 2020, exclusive of renewal options that we can exercise. Approximately 126 thousand square feet of office space has been sublet to third parties. See *Risk Factors* included in Item 1 of this Form 10-K for further information concerning unused office space.

ITEM 3. LEGAL PROCEEDINGS

We have contingent liabilities from various pending claims and litigation matters arising in the ordinary course of our business, some of which involve claims for damages that are substantial in amount. Some of these matters are covered by insurance. Although our ultimate liability in these matters cannot be determined, based upon information currently available, we believe the ultimate resolution of such claims and litigation will not have a material adverse effect on our financial condition, results of operations or liquidity.

In December 2002, Mt. Sinai Medical Center of Miami filed suit against us regarding a search for a chief executive officer we performed in 1998. The suit sought damages, including between \$59 million and \$75 million, based primarily upon the operating loss incurred by Mt. Sinai in 2001, the chief executive officer's last year at the hospital. On June 30, 2004, the judge presiding over this case in the U.S. District Court for the Southern District of Florida granted summary judgment in favor of the Company, dismissing all claims made by Mt. Sinai. Mt Sinai then filed an appeal with respect to this decision. On July 12, 2006, the U.S. Court of Appeals for the 11th Circuit Court affirmed the decision of the U.S. District Court for the Southern District of Florida to dismiss all claims made against us. On July 31, 2006, Mt. Sinai filed a petition for re-hearing with the 11th Circuit Court, which petition was denied on August 16, 2006. This denial represents a final disposition of Mt. Sinai's appeal. Subsequently, on October 2, 2006, the parties entered into a release agreement, pursuant to which Mt. Sinai agreed to forgo any action whatsoever to continue the litigation against us.

Contingencies

During the fourth quarter of 2005, a European country commenced a tax audit for the years 2001 to 2004, including an examination of the Company's arrangement with professional services companies that provide consulting services to the Company. On November 24, 2006, the examining tax authority issued a final assessment in the amount of €4.3 million (equivalent to \$5.5 million). No penalty has been included in this assessment. This final assessment has been appealed by the Company and the enforcement of the assessment has been suspended until a final determination of the appeal. The Company has provided a bank guarantee to the tax authority in the amount of the final assessment as required by local law. See Note 3, *Restricted Cash*, in the Notes to Consolidated Financial Statements. At this time, the Company believes that the likelihood of an unfavorable outcome is not probable and that the potential amount of any loss cannot be reasonably estimated. The Company also believes that the amount of a final assessment, if any, would not be material to the Company's financial condition.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2006.

PART II

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

Market for Registrant's Common Equity

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

<u>Year Ended December 31, 2006</u>	<u>High</u>	<u>Low</u>
First Quarter	\$37.12	\$30.88
Second Quarter	37.50	29.87
Third Quarter	37.86	30.10
Fourth Quarter	43.49	35.48
<u>Year Ended December 31, 2005</u>		
First Quarter	\$38.64	\$30.59
Second Quarter	37.00	24.25
Third Quarter	34.00	25.81
Fourth Quarter	34.40	28.54

As of February 23, 2007, the last reported price on the Nasdaq Stock Market for our common stock was \$47.25 per share and there were approximately 147 stockholders of record of the common stock.

We have never paid cash dividends on our common stock and do not presently anticipate paying any cash dividends on our common stock in the foreseeable future. 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. Future indebtedness and loan facilities may also prohibit or restrict our ability to pay dividends and make distributions to our stockholders.

Issuer Purchases of Equity Securities

The following table provides information related to the Company's purchase of common shares for the quarter ended December 31, 2006. For further information of the Company's share repurchase activity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs</u>
Oct. 1, 2006 – Oct 31, 2006	—	—	—	\$40,877,688
Nov. 1, 2006 – Nov. 30, 2006	23,220	\$ 41.35	23,220	39,917,462
Dec. 1, 2006 – Dec. 31, 2006	31,259	41.77	31,259	38,611,923
Total	<u>54,479</u>		<u>54,479</u>	

[Table of Contents](#)

On September 16, 2005, the Company's Board of Directors authorized management to repurchase shares of the Company's common stock under an open market share repurchase authorization with an aggregate purchase price up to \$50 million. The Company purchased 1,476,809 shares of the Company's common stock for \$50 million under the September 2005 authorization, which was completed during the second quarter of 2006.

On May 24, 2006, the Company's Board of Directors authorized management to repurchase shares of the Company's common stock under an open market share repurchase authorization with an aggregate purchase price up to \$50 million. No time limit has been set for completion of this program. Through December 31, 2006, the Company purchased 326,368 shares of the Company's common stock for \$11.4 million under the May 2006 authorization.

[Table of Contents](#)

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below have been derived from our audited consolidated financial statements. The data as of December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004 are derived from the audited historical consolidated financial statements which are included elsewhere in this Form 10-K. The data as of December 31, 2004, 2003 and 2002 and for the years ended December 31, 2003 and 2002 are derived from audited historical consolidated financial statements that are not included in this report. 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," the audited consolidated financial statements, the notes thereto, and the other financial data and statistical information included in this Form 10-K.

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(in thousands, except per share and other operating data)				
Statement of Operations Data:					
Revenue:					
Revenue before reimbursements (net revenue)	\$478,523	\$412,297	\$375,432	\$317,934	\$350,712
Reimbursements	23,471	20,553	22,744	22,683	26,133
Total revenue	501,994	432,850	398,176	340,617	376,845
Operating expenses:					
Salaries and employee benefits	328,714	273,949	251,186	223,537	242,330
General and administrative expenses	99,352	94,369	96,533	87,250	106,913
Reimbursed expenses	23,471	20,553	21,247	22,683	26,133
Restructuring charges (1)	408	22,493	550	29,443	48,532
Total operating expenses	451,945	411,364	369,516	362,913	423,908
Operating income (loss)	50,049	21,486	28,660	(22,296)	(47,063)
Non-operating income (expense):					
Interest income	6,318	5,951	2,588	1,687	2,018
Interest expense	(61)	(379)	(197)	(166)	(210)
Net realized and unrealized gains (losses) on equity and warrant portfolio	510	(19)	57,072(2)	673	(1,325)
Write-down of long-term investments	—	—	—	—	(5,000)(4)
Other, net	(1,550)	1,443	(1,024)	(1,722)	(73)
Net non-operating income (expense)	5,217	6,996	58,439	472	(4,590)
Income (loss) before income taxes	55,266	28,482	87,099	(21,824)	(51,653)
Provision for (benefit from) income taxes	21,023	(10,736)(3)	4,791(3)	58,844(3)	(11,491)
Net income (loss)	\$ 34,243	\$ 39,218	\$ 82,308	\$ (80,668)	\$ (40,162)
Basic earnings (loss) per common share	\$ 1.91	\$ 2.08	\$ 4.35	\$ (4.43)	\$ (2.22)
Basic weighted average common shares outstanding	17,925	18,898	18,941	18,217	18,107
Diluted earnings (loss) per common share	\$ 1.81	\$ 1.98	\$ 4.11	\$ (4.43)	\$ (2.22)
Diluted weighted average common shares outstanding	18,916	19,761	20,012	18,217	18,107
Balance Sheet Data (at end of period):					
Working capital	\$131,086	\$159,964	\$150,198	\$ 65,211	\$ 84,276
Total assets	519,770	410,922	421,284	304,430	367,835
Long-term debt, less current maturities	—	—	—	26	294
Stockholders' equity	263,705	237,485	216,126	126,209	199,711
Other Operating Data:					
Average number of consultants during the period	348	307	299	328	391

Notes to Selected Financial Data:

- (1) As a result of a dramatic change in the market for executive search services, we began the restructuring of our business to better align costs with expected net revenue levels. For the years ended 2006, 2005, 2004, 2003, and 2002, we recorded restructuring charges of \$0.4 million, \$22.5 million, \$0.6 million, \$29.4 million, and \$48.5 million, respectively. See Note 15, *Restructuring Charges*, in the Notes to Consolidated Financial Statements.
- (2) In 2004, we recognized a realized gain of \$57.0 million related to the equity and warrant portfolio, net of the consultants' share of the gain and other costs, including \$56.8 million related to the monetization of our shares of common stock of Google Inc. See Note 16, *Significant Warrant Monetization*, in the Notes to the Consolidated Financial Statements.
- (3) The 2003 income tax provision includes a non-cash income tax expense of \$57.9 million, recorded in the fourth quarter of 2003, to provide a full valuation allowance against the net deferred tax assets for the U.S. income tax paying entity. In 2004 and again in 2005, we determined that a lesser valuation allowance was required relating to certain deferred tax assets in the U.S. and recorded reductions to the valuation allowance of \$28.5 million and \$24.6 million, respectively. See Note 18, *Income Taxes*, in the Notes to Consolidated Financial Statements.
- (4) During 2002, we determined that there was a permanent decline in value in our remaining investment in the ETF Group. As a result, we recorded a non-cash charge of \$5.0 million.

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

Management’s Discussion and Analysis of Financial Condition and Results of Operations as well as other sections of this annual report on Form 10-K contain forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. The forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate and management’s beliefs and assumptions. Forward-looking statements may be identified by the use of words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “projects,” “forecasts,” and similar expressions. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, forecasted or implied in the forward-looking statements. Factors that may affect the outcome of the forward-looking statements include, among other things, our ability to attract and retain qualified executive search consultants; the condition of the economies in the United States, Europe, or elsewhere; social or political instability in markets where we operate; the impact of foreign currency exchange rate fluctuations; price competition; the ability to forecast, on a quarterly basis, variable compensation accruals that ultimately are determined based on the achievement of annual results; delays or difficulties in integrating Highland Partners search operations; our ability to achieve the planned cost savings from our cost reduction initiatives; our ability to sublease or assign unused office space; our ability to realize our tax loss carryforwards; the timing of any deferred tax asset valuation allowance reversals; the mix of profit or loss by country; an impairment of our goodwill and other intangible assets; and delays in the development and/or implementation of new technology and systems. For more information on the factors that could affect the outcome of forward-looking statements, see Risk Factors in Item 1 of this Form 10-K. We caution the reader that the list of factors may not be exhaustive. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Overview

Our Business

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

In addition to executive search, we provide a range of leadership consulting services to clients. These services include succession planning, top team effectiveness, executive assessment, talent management, executive development, and M&A human capital effectiveness.

We provide our services to a broad range of clients through the expertise of more than 388 consultants located in 26 countries throughout the world. Our executive search services are provided on a retained basis. Revenue before reimbursements of out-of-pocket expenses (“net revenue”) consists of retainers and indirect expenses billed to clients. Typically, we are paid a retainer for our executive search services equal to approximately one-third of the estimated first year compensation for the position to be filled. In addition, if the actual compensation of a placed candidate exceeds the estimated compensation, we often are authorized to bill the client for one-third of the excess. Indirect expenses are calculated as a percentage of the retainer with certain dollar limits per search.

Key Performance Indicators

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

[Table of Contents](#)

Revenue growth is driven by a combination of additional consultants, an increase in executive searches, higher productivity levels and higher average fees per search or service. With the exception of compensation expense, incremental increases in revenue do not necessarily result in proportionate increases in costs, particularly operating and administrative expenses, thus potentially improving operating margins.

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

Our Compensation Model

Our compensation model closely aligns the interests of our consultants, our Company and our shareholders. Consultants are rewarded for individual performance based on a system that directly ties compensation to the amount of net revenue for which the consultant is responsible. Each quarter, we review and update the expected annual performance and compensation accruals for our consultants. At the group and company level, variable compensation is based on our performance against company-wide and regional profitability targets approved by the Human Resources and Compensation Committee of the Board of Directors and recorded based on the performance of the respective region and the Company as a whole. As a result, the variable portion of compensation expense may fluctuate significantly from quarter to quarter.

In the second quarter of 2005, we adopted a new compensation policy for consultants and management. Under this policy, a portion of consultant and management bonuses are paid in the form of restricted stock units that vest ratably over a three-year period from the date of grant. The amount paid in the form of restricted stock units varies between 10% and 20% (plus a premium of 10% on the shares received) depending on the employee's position. In 2006, the amount paid in the form of restricted stock units increased from 10% to 15% for many employees. The restricted stock units are issued in the quarter following the year in which the performance portion of the awards is earned. Compensation expense related to awards requiring satisfaction of both service and performance conditions is recognized using a graded vesting attribution method over the requisite service period which for 2006, began January 1, 2006 and continues through the final vesting date, which is generally three years from the date of grant. This change in policy was made to better align consultant's and management's interest with those of the shareholder. In addition, the change will result in increased share ownership for consultants and management.

2006 Overview

In the third quarter of 2006, our Board of Directors elected L. Kevin Kelly as Chief Executive Officer and appointed him as a director of the Company. Mr. Kelly has held various positions within the Company since 1997, most recently as President of Europe/Middle East/Africa (EMEA) and Asia Pacific. The prior Chairman and CEO, Thomas J. Friel, who previously announced in June 2006 his intention to transition out of the CEO role, has become non-executive Chairman of the Board.

In January of 2007, John Hawkins joined Heidrick & Struggles as Regional Managing Partner of the Americas, with responsibility for the firm's U.S., Canadian and Latin American operations. Mr. Hawkins joins Heidrick & Struggles from MedPointe Inc., a New Jersey-based specialty pharmaceuticals company that he co-founded through the 2001 leveraged buyout of Carter-Wallace, Inc., a NYSE-listed multinational consumer/health care concern. At MedPointe, he served as Executive Vice President of Corporate Development and External Affairs and also was a member of both the Executive and Management Committees. Prior to that, he held numerous leadership roles at Russell Reynolds Associates, including Managing Director and Leader of both the Global Health Care Sector and the Global Board of Directors/CEO practice.

David Peters assumed the role of Regional Managing Partner of EMEA and Gerry Davis assumed the role of Regional Managing Partner of Asia Pacific. In conjunction with the appointment of these two regional managing partners, Jeff R. Scherb, who as Chief Technology and Operations Officer, was assisting Mr. Kelly in running both EMEA and Asia Pacific, retired from the Company at year end.

In October of 2006, we completed the acquisition of substantially all of the assets of Highland Partners, a leading retained executive search boutique and a division of Hudson Highland Group, Inc., through an asset

[Table of Contents](#)

purchase funded from existing cash for \$36.0 million including \$1.2 million of capitalized acquisition costs. Hudson Highland Group will also be eligible to receive earnout payments of up to \$15.0 million based on the acquired consultants achieving certain revenue metrics in 2007 and 2008. The total purchase price, including the \$36.6 million paid at closing and the 2007 and 2008 earnout payments will not exceed \$51.6 million. All 48 of the Highland Partners consultants who were offered employment by us have accepted and joined our Company.

Consolidated net revenue increased 16.1%, or \$66.2 million in 2006, compared to 2005. Net revenue includes \$13.7 million associated with former Highland Partners' consultants. Double-digit increases were reported in 2006 in the Americas, Europe and Asia Pacific. The Financial Services, Consumer, and Industrial groups were the largest contributors to year-over-year revenue growth. Consultant productivity measured by revenue per executive search consultant, remained at \$1.3 million for the year ended December 31, 2006, consistent with the year ended December 31, 2005.

Operating income as a percentage of net revenue increased to 10.5% in 2006 from 5.2% in 2005 primarily as a result of lower restructuring charges in 2006.

We ended the year with a strong cash and short-term investment balance of \$220.8 million, an increase of \$17.1 million, compared to \$203.7 million at December 31, 2005. The increase in year-over-year ending cash and short-term investment balances primarily reflects the decision in early 2006 to consolidate the two bonus payments made to consultants into one payment to be paid in the first quarter following the year in which the bonus is earned, along with increased cash flows from operations. This increase was partially offset by the cash used to acquire substantially all of the assets of Highland Partners and repurchases of our common stock.

2007 Outlook

For 2007, we expect to achieve net revenue of between \$560 million and \$580 million, representing growth over 2006 net revenue of between 17% and 21%. We are targeting to achieve a 2007 full-year operating margin of 13%. Net income and earnings per share are expected to reflect a full-year effective tax rate of between 42% and 48% primarily due to certain one-time costs associated with tax planning initiatives. In addition, quarterly and full-year tax rate estimates can be significantly impacted by country-level results and can vary significantly by reporting period, as well as by discrete items that require immediate recognition in a particular quarter. We will continue to pursue additional means by which to lower this rate estimate.

[Table of Contents](#)**Results of Operations**

We operate our executive search and leadership consulting services in three geographic regions: the Americas, Europe, and Asia Pacific.

For segment purposes, reimbursements of out-of-pocket expenses classified as revenue are reported separately and therefore are not included in the net revenue by geographic region. We believe that analyzing trends in revenue before reimbursements (net revenue) and analyzing operating expenses as a percentage of net revenue more appropriately reflects our core operations.

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

	Year Ended December 31,		
	2006	2005	2004
Revenue:			
Revenue before reimbursements (net revenue)	\$ 478,523	\$ 412,297	\$ 375,432
Reimbursements	23,471	20,553	22,744
Total revenue	501,994	432,850	398,176
Operating expenses:			
Salaries and employee benefits	328,714	273,949	251,186
General and administrative expenses	99,352	94,369	96,533
Reimbursed expenses	23,471	20,553	21,247
Restructuring charges	408	22,493	550
Total operating expenses	451,945	411,364	369,516
Operating income	50,049	21,486	28,660
Net non-operating income	5,217	6,996	58,439
Income before income taxes	55,266	28,482	87,099
Provision for (benefit from) income taxes	21,023	(10,736)	4,791
Net income	<u>\$ 34,243</u>	<u>\$ 39,218</u>	<u>\$ 82,308</u>

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

	Year Ended December 31,		
	2006	2005	2004
Revenue:			
Revenue before reimbursements (net revenue)	100.0%	100.0%	100.0%
Reimbursements	4.9	5.0	6.1
Total revenue	104.9	105.0	106.1
Operating expenses:			
Salaries and employee benefits	68.7	66.4	66.9
General and administrative expenses	20.8	22.9	25.7
Reimbursed expenses	4.9	5.0	5.7
Restructuring charges	0.1	5.5	0.1
Total operating expenses	94.4	99.8	98.4
Operating income	10.5	5.2	7.6
Net non-operating income	1.1	1.7	15.6
Income before income taxes	11.5	6.9	23.2
Provision for (benefit from) income taxes	4.4	(2.6)	1.3
Net income	<u>7.2%</u>	<u>9.5%</u>	<u>21.9%</u>

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

2006 Compared to 2005

Total revenue. Consolidated total revenue increased \$69.1 million, or 16.0%, to \$502.0 million in 2006 from \$432.9 million in 2005. The increase in total revenue was due primarily to the increase in revenue before reimbursements (net revenue).

Revenue before reimbursements (net revenue). Consolidated net revenue increased \$66.2 million, or 16.1%, to \$478.5 million in 2006 from \$412.3 million in 2005. Net revenue in 2006 includes \$13.7 million associated with former Highland Partners' consultants since October 2, 2006. Net revenue increased across all regions in 2006. The Financial Services, Consumer, and Industrial industry groups contributed to the increase in net revenue in 2006 as compared to 2005. In 2006, the number of confirmed executive searches increased 9.1% to 4,447 from 4,077 in 2005. We believe this increase reflects the impact of moderate economic improvement in the global economy, our success in winning business and our acquisition of Highland Partners. The positive impact of exchange rate fluctuations resulted in an increase in revenue in 2006 of less than one percentage point year over year.

Net revenue in the Americas was \$265.4 million in 2006, an increase of \$26.8 million, or 11.2%, from \$238.6 million in 2005. Net revenue in 2006 includes \$10.9 million associated with former Highland Partners' consultants since the acquisition date of October 2, 2006. The Financial Services, Consumer and Industrial groups were the largest contributors to revenue in 2006. The positive impact of exchange rate fluctuations in Canada and Latin America contributed to less than one percentage point of revenue growth in 2006. Net revenue in Europe was \$163.6 million in 2006, an increase of \$29.3 million, or 21.9%, from \$134.3 million in 2005. Net revenue in 2006 includes \$2.3 million associated with former Highland Partners' consultants since October 2, 2006. The increase in net revenue over 2005 was driven by strong results in the Financial Services, Consumer, Health Care and Industrial groups. The positive impact of exchange rate fluctuations resulted in an increase in net revenue of 1.5 percentage points in 2006. In Asia Pacific, net revenue was \$49.5 million in 2006, an increase of \$10.0 million, or 25.4%, from \$39.5 million in 2005. Net revenue in 2006 includes \$0.5 million associated with former Highland Partners' consultants since October 2, 2006. The negative impact of exchange rate fluctuations resulted in a decrease in revenue of less than one percentage point year over year. Most industry groups experienced significant net revenue growth in 2006 as compared to the prior year.

Salaries and employee benefits. Consolidated salaries and employee benefits expense increased \$54.8 million, or 20.0%, to \$328.7 million in 2006 from \$273.9 million in 2005. Fixed salaries and employee benefits increased \$40.7 million and performance-related compensation expense increased \$14.1 million. Fixed salaries and employee benefits expense includes stock-based compensation expense earned under prior year equity awards requiring satisfaction of both service and performance conditions.

During the third quarter of 2006, we revised our policy relating to the vesting of certain restricted stock units upon the eligible retirement of employees that hold such awards. This policy revision constitutes a modification of those equity awards. According to the Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), we are required to recognize the original grant date fair value compensation cost over an accelerated service period (through the earliest date each equity award holder is eligible to retire) for those awards affected by the modification. During 2006, we recorded an additional \$2.7 million of non-cash compensation expense related to the accelerated vesting of these restricted stock unit awards.

Fixed salaries and employee benefits expense increased \$40.7 million in 2006 compared to 2005, of which \$6.7 million is associated with former Highland Partners' consultants. The remaining increase was primarily attributable to a 10% increase in headcount year over year, a \$8.0 million increase in stock-based compensation expense and \$5.3 million of severance costs associated with a realignment of management responsibilities for the new CEO's senior team and a realignment of management in Germany. Of the increase in stock-based compensation, \$5.3 million relates to an increase in the number of outstanding restricted stock units and more accelerated vesting of the units as compared to the prior year, and \$2.7 million related to stock option expense now recorded in earnings under a new accounting standard.

[Table of Contents](#)

Performance-related compensation expense increased \$14.1 million, of which \$4.9 million is associated with former Highland Partners' consultants. The remaining increase is primarily the result of the increase in the number of consultants added during the last year and increased net revenue. The accelerated vesting of certain restricted stock unit awards in 2006 increased performance-based compensation expense by \$1.3 million. Also, in 2006, the amount of certain consultant and management bonuses paid in the form of restricted stock units increased from an average of 10% to 15%. Compensation expense related to restricted stock units is recognized over a longer period (the service period of the equity award) as compared to cash compensation which is expensed entirely in the period in which the related services are performed. Therefore, as a result of increasing the amount of bonuses paid in the form of restricted stock units, compensation expense decreased \$3.3 million in 2006 as compared to 2005.

The negative impact of exchange rates on consolidated salaries and employee benefits was less than one percentage point year over year.

General and administrative expenses. Consolidated general and administrative expenses increased \$5.0 million, or 5.3%, to \$99.4 million in 2006 from \$94.4 million in 2005. Of this increase, \$3.0 million is associated with former Highland Partners' consultants. The remaining increase of \$2.0 million is related to operating expenses associated with higher net revenue levels and higher discretionary spending including \$0.9 million in travel costs, \$0.8 million related to marketing and business development activities and \$1.3 million in fees for professional services, partially offset by lower depreciation and premise-related costs of \$0.5 million. Also, 2005 included a \$0.5 million favorable settlement of an insurance claim.

Operating income. Our consolidated operating income was \$50.0 million in 2006 compared to \$21.5 million in 2005. The following table summarizes our consolidated operating income for the years ended December 31, 2006 and 2005, respectively:

<u>Operating income:</u>	<u>2006</u>	<u>2005</u>	<u>Change</u>
		(in millions)	
Total regions	\$ 82.1	\$ 68.4	\$ 13.7
Corporate	(31.6)	(24.4)	(7.2)
Operating income before restructuring charges	50.5	44.0	6.5
Restructuring charges	(0.4)	(22.5)	22.1
Consolidated operating income	<u>\$ 50.0</u>	<u>\$ 21.5</u>	<u>\$ 28.6</u>

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

The increase in the consolidated operating income was primarily due to improved net revenue and profitability in the geographic regions and decreased restructuring charges, partially offset by increased operating expenses.

In the Americas, operating income increased to \$53.9 million in 2006 from \$50.4 million in 2005. Of this \$3.5 million increase in operating income, \$1.7 million is associated with former Highland Partners' consultants. The remaining increase in operating income of \$1.8 million is the result of year over year increased net revenue of \$15.9 million offset by higher salaries and benefits expense of \$16.3 million, and lower general and administrative expenses of \$2.2 million. The increase in salaries and employee benefit expense is primarily as a result of a 27.2% increase in headcount over last year and \$1.9 million related to the accelerated vesting of certain restricted stock unit awards. The decrease in general and administrative expense of \$2.2 million is a result of lower discretionary spending of \$1.0 million, premise-related costs of \$0.8 million and bad debt expense of \$0.4 million.

In Europe, operating income increased \$7.2 million in 2006, to \$14.9 million, from \$7.7 million in 2005. Although the former Highland Partners consultants added \$2.3 million of net revenue in 2006, the impact on

[Table of Contents](#)

operating income was negligible. Excluding the results associated with former Highland Partners' consultants, the increase in net revenue of \$27.0 million was offset by increases in salaries and benefits expense of \$18.1 million and general and administrative expenses of \$1.7 million. The increase in salaries and employee benefits is primarily a result of a 7.8% increase in headcount over last year and \$2.9 million in severance costs associated with a realignment of management in Germany.

In Asia Pacific, operating income was \$13.3 million, an increase of \$2.9 million, compared to \$10.4 million in 2005. The increase in net revenue of \$10.0 million was offset by an increase of \$5.7 million of salaries and employee benefits expense and \$1.3 million of general and administrative expenses.

Corporate expenses increased \$7.2 million in 2006, to \$31.6 million from \$24.4 million in 2005. Of this increase, \$2.4 million relates to costs associated with former Highland Partners' consultants, the majority of which relate to integration costs and fees incurred under a transitional service agreement with the former owner. The remaining increase of \$4.8 million was primarily the result of increased fixed salaries and employee benefits expense of \$2.0 million due to increased headcount and increased stock-based compensation expense related to restricted stock unit awards. Also included in 2006 is \$1.1 million of severance, \$0.8 million of stock option expense now recorded in earnings under a new accounting standard and \$0.5 million related to the accelerated vesting of certain restricted stock unit awards. In addition, general and administrative expenses increased \$0.4 million year over year.

Restructuring charges were \$0.4 million and \$22.5 million in 2006 and 2005, respectively. Cash outlays in 2006 related to restructuring charges accrued at December 31, 2005 were \$7.1 million. The remaining accrued restructuring charges of \$12.7 million at December 31, 2006 are expected to be paid over the remaining lease terms of vacated properties.

Net non-operating income. Net non-operating income was \$5.2 million in 2006, compared to \$7.0 million in 2005.

Net interest income in 2006 increased \$0.7 million to \$6.3 million primarily due to higher cash balances and higher investment returns on the invested cash.

During 2006, we recognized \$0.6 million of realized gains and \$0.1 million of unrealized losses, net of the consultants' share of the gains (losses) and other costs, related to our equity and warrant portfolio. During 2005, we recognized \$1.0 million of realized gains and \$1.0 million of unrealized losses, net of the consultants' share of the gains (losses) and other costs, related to our equity and warrant portfolio.

Net other non-operating expense was \$1.6 million in 2006, compared to net other non-operating income of \$1.4 million in 2005. Other non-operating income (expense) consists primarily of exchange gains and losses on intercompany balances which are denominated in currencies other than the functional currency and are not considered permanent in nature.

Income taxes. In 2006, we reported income before taxes of \$55.3 million and recorded an income tax provision of \$21.0 million. The effective tax rate for 2006 was 38.0%. This rate reflects a net benefit of \$1.6 million from the correction of prior year misstatements associated with refund opportunities for past taxes paid in the U.S. taxing jurisdiction.

In 2005, we reported income before taxes of \$28.5 million and recorded an income tax benefit of \$10.7 million. An income tax benefit was recorded despite reporting income before taxes because the valuation allowance was reduced throughout the year as tax deductions related to deferred tax assets were used to reduce current taxable income, significantly reducing federal and state income tax provision. Also, the total annual effective tax benefit rate was substantially impacted by additional discrete reversals of portions of the tax valuation allowance established in 2003 against net deferred tax assets. In recent years, we began generating pre-tax book income on a consistent basis and expect to continue to do so. Under SFAS No. 109, "Accounting for Income Taxes," a company must continually evaluate the need for a valuation allowance and reduce the allowance when it is more likely than

[Table of Contents](#)

not that some or all of the associated benefits of the deferred tax assets will be utilized. In 2005, we concluded it was more likely than not that a majority of our U.S. deferred tax assets would be recoverable and, as a result, reversed \$24.6 million of the valuation allowance on our U.S. deferred tax assets.

2005 Compared to 2004

Total revenue. Consolidated total revenue increased \$34.7 million, or 8.7%, to \$432.9 million in 2005 from \$398.2 million in 2004. The increase in total revenue was due primarily to the increase in revenue before reimbursements (net revenue).

Revenue before reimbursements (net revenue). Consolidated net revenue increased \$36.9 million, or 9.8%, to \$412.3 million in 2005 from \$375.4 million in 2004. Net revenue increased across all regions in 2005. All of our industry groups experienced increases in net revenue, with the exception of the Health Care practice which had a modest decline. In 2005, the number of confirmed executive searches increased 3% to 4,077 from 3,975 in 2004. We believe this increase reflects the impact of moderate economic improvement in the global economy and our success in winning business. The positive impact of exchange rate fluctuations was less than one percentage point.

Net revenue in the Americas was \$238.6 million in 2005, an increase of \$24.2 million, or 11.3%, from \$214.4 million in 2004. All of our industry groups experienced increases in net revenue, with the exception of the Health Care practice. Excluding a positive impact of \$1.7 million due to exchange rate fluctuations, a comparison which management believes provides a better indication of operational performance, net revenue in the Americas increased approximately 10% compared to 2004. Net revenue in Europe was \$134.3 million in 2005, an increase of \$5.0 million, or 3.8%, from \$129.3 million in 2004. All of the industry groups experienced increases in net revenue, with the exception of the Consumer and Higher Education/Nonprofit groups which had modest declines. The positive impact of exchange rate fluctuations was less than one percentage point. In Asia Pacific, net revenue was \$39.4 million in 2005, an increase of \$7.7 million, or 24.5%, from \$31.7 million in 2004. Net revenue increased across all groups in 2005, with the exception of the Professional Services and Higher Education/Nonprofit industry groups. Excluding a positive impact of \$0.6 million due to exchange rate fluctuations, Asia Pacific's net revenue increased approximately 22% compared to 2004.

Salaries and employee benefits. Consolidated salaries and employee benefits expense increased \$22.7 million, or 9.1%, to \$273.9 million in 2005 from \$251.2 million in 2004. Fixed salaries and employee benefits increased \$11.8 million and performance-related compensation expense increased \$10.9 million. The increase in fixed salaries and employee benefits expense of \$11.8 million was primarily attributable to a 3% increase in average consultant headcount year over year. Also, fixed stock-based compensation expense was higher by \$8.5 million in 2005 as compared to 2004 primarily as a result of the restricted stock units granted in the first quarter of 2005. The net expense related to our German pension plan decreased \$2.1 million in 2005. See Note 11, *Pension Plan and Life Insurance Contract*, in the Notes to Consolidated Financial Statements.

Performance-related compensation expense increased \$10.9 million in 2005 compared to 2004 primarily as a result of increased net revenue. We adopted a new compensation policy in 2005 whereby between 10% and 20% of consultant and management bonuses will be paid in the form of restricted stock units that vest ratably over a three-year period from the date of grant. Compensation expense related to these restricted stock units is recognized over the service period which, for 2005, is considered to have begun on January 1, 2005 as bonuses are earned through the final vesting date three years from the date of grant. This resulted in a deferral of \$6.1 million of compensation expense from 2005 bonus awards as compared to 2004, during which 100% of the annual bonus was being recognized in that fiscal year as it was paid entirely in cash.

Excluding a negative impact of \$1.4 million due to exchange rate fluctuations, a comparison which management believes provides a better indication of operational performance, consolidated salaries and employee benefits increased approximately 9% in 2005 compared to 2004.

[Table of Contents](#)

As a percentage of net revenue, salaries and employee benefits expense was 66.4% in 2005, compared to 66.9% in 2004.

General and administrative expenses. Consolidated general and administrative expenses decreased \$2.1 million, or 2.2%, to \$94.4 million in 2005 from \$96.5 million in 2004. An increase of \$5.1 million in operating expenses associated with higher net revenue levels and discretionary spending related to marketing and business development activities was offset by certain expenses recorded in 2004 that did not recur in 2005. Among these items are the costs associated with the worldwide partners meeting that was held in 2004. Also, we recorded \$1.3 million of legal settlement costs in 2004, of which \$0.5 million was later determined to be covered by our insurance carrier and reimbursed to us in 2005. In addition, bad debt expense was \$0.8 million in 2005 compared to a net reduction in expense of \$0.7 million in 2004 resulting in a net increase of \$1.5 million year over year. The net reduction in bad debt expense in 2004 is related to an adjustment recorded to the allowance for doubtful accounts based on favorable collection experience. Depreciation expense decreased \$1.9 million in 2005 along with a decrease of \$2.7 million of other infrastructure costs. The negative impact of exchange rate fluctuations on general and administrative expenses was less than one percentage point.

As a percentage of net revenue, general and administrative expenses decreased to 22.9% in 2005 from 25.7% in 2004.

Reimbursed expenses. We incur certain out-of-pocket expenses that are reimbursed by our clients. Historically, we have not established a receivable for reimbursable expenses incurred but not yet billed as the amount was determined to be immaterial. During the fourth quarter of 2004, we enhanced our estimation technique related to reimbursable expenses resulting in a non-recurring favorable impact to operating income of \$1.5 million.

We have accounted for this as a change in accounting estimate. This change in accounting estimate did not have a significant impact on our 2005 results of operations and is not expected to have a significant impact on our results of operations in future periods.

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

During the fourth quarter of 2004, we adjusted our restructuring accruals and recorded \$0.6 million of restructuring charges to reflect changes in lease estimates primarily due to a tenant default on a sublease and the final determination and payment of certain severance-related restructuring accruals.

Operating income. Our consolidated operating income was \$21.5 million in 2005 compared to \$28.7 million in 2004. The following table summarizes our consolidated operating income for the years ended December 31, 2005 and 2004, respectively:

<u>Operating income:</u>	<u>2005</u>	<u>2004</u>	<u>Change</u>
		(in millions)	
Total regions	\$ 68.4	\$ 56.8	\$ 11.6
Corporate	(24.4)	(27.6)	3.2
Operating income before restructuring charges	44.0	29.2	14.8
Restructuring charges	(22.5)	(0.6)	(21.9)
Consolidated operating income	<u>\$ 21.5</u>	<u>\$ 28.7</u>	<u>\$ (7.2)</u>

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

[Table of Contents](#)

The decrease in the consolidated operating income was primarily due to improved net revenue and profitability in the geographic regions offset by increased restructuring charges.

In the Americas, operating income in 2005 increased \$3.5 million to \$50.4 million from \$46.9 million in 2004. As net revenue increased by \$24.2 million, salaries and employee benefits expense increased by \$16.7 million. Fixed salaries and employee benefits expense increased by \$12.7 million primarily as a result of higher stock-based compensation expense related to restricted stock units granted in the first quarter of 2005. Performance-related compensation expense increased \$4.0 million primarily as a result of increased net revenue. In addition, we adopted a new compensation policy in 2005 whereby between 10% and 20% of consultant and management bonuses will be paid in the form of restricted stock units that vest ratably over a three-year period from the date of grant. The restricted stock units will be issued in the month of March following the year in which the bonuses are earned. Compensation expense related to these restricted stock units is recognized over the service period which, for 2005, is considered to have begun on January 1, 2005 as bonuses are earned through the final vesting date three years from the date of grant. This resulted in a \$4.1 million reduction in compensation expense in 2005 as compared to 2004, during which 100% of the annual bonus expense was being recognized in that fiscal year. The increase in general and administrative expenses of \$4.0 million is a result of higher discretionary spending of \$3.7 million offset by a \$1.5 million of lower infrastructure expenses. In addition, bad debt expense was \$0.7 million in 2005 compared to a net reduction in expense of \$1.1 million in 2004 resulting in a net increase of \$1.8 million year over year. The net reduction in bad debt expense in 2004 is related to an adjustment recorded to the allowance for doubtful accounts based on favorable collection experience.

In Europe, operating income was \$7.6 million in 2005 compared to \$3.6 million in 2004. The increase in net revenue of \$5.0 million, lower general and administrative expenses of \$1.8 million, and lower fixed salaries and employee benefits expense of \$3.1 million, were offset by an increase of \$5.8 million of performance-related compensation. General and administrative expenses were also lower by \$1.8 million in 2005 primarily as a result of \$1.3 million of legal settlement costs relating to a claim arising from certain professional services provided by one of our consultants to a client that was recorded in 2005, of which \$0.5 million was later determined to be covered by our insurance carrier and reimbursed to us in 2005.

In Asia Pacific, operating income in 2005 was \$10.4 million, an increase of \$4.1 million, compared to \$6.3 million in 2004. The increase in net revenue of \$7.7 million was partially offset by increases of \$3.2 million of salaries and employee benefits expense and \$0.4 million of general and administrative expenses.

Corporate expenses decreased \$3.2 million, or 11.4%, to \$24.4 million in 2005 from \$27.6 million in 2004. The decrease in corporate expenses was primarily due to lower general and administrative expenses including \$1.4 million of lower infrastructure expenses and costs related to the our worldwide partner meeting that was held in 2004 but did not recur in 2005.

Restructuring charges were \$22.5 million and \$0.6 million in 2005 and 2004, respectively. The restructuring charges are explained above in the section captioned, *Restructuring charges*.

Net non-operating income. Net non-operating income was \$7.0 million in 2005, compared to \$58.4 million in 2004.

Net interest income in 2005 increased \$3.4 million to \$6.0 million primarily due to higher cash balances and higher investment returns on the invested cash.

During 2005, we recognized \$1.0 million of realized gains and \$1.0 million of unrealized losses, net of the consultants' share of the gains (losses) and other costs, related to our equity and warrant portfolio. During 2004, we recognized a realized gain of \$57.0 million, net of the consultants' share of the gains and other costs, related to our equity and warrant portfolio, including \$56.8 million related to the monetization of our shares of common stock of Google. For further information on this monetization, see Note 16, *Significant Warrant Monetization*, in the Notes to Consolidated Financial Statements.

[Table of Contents](#)

Net other non-operating income was \$1.4 million in 2005, compared to net other non-operating expense of \$1.0 million in 2004. Other non-operating income (expense) consists primarily of exchange gains and losses on intercompany balances which are denominated in currencies other than the functional currency and are not considered permanent in nature.

Income taxes. In 2005, we reported income before taxes of \$28.5 million and recorded an income tax benefit of \$10.7 million. An income tax benefit was recorded despite reporting income before taxes because the valuation allowance was reduced throughout the year as tax deductions related to deferred tax assets were used to reduce current taxable income, significantly reducing federal and state income tax provision for the current year. Also, the total annual effective tax benefit rate was substantially impacted by additional discrete reversals of portions of the tax valuation allowance established in 2003 against net deferred tax assets. In recent years, we began generating pre-tax book income on a consistent basis and expect to continue to do so. Under SFAS No. 109, "Accounting for Income Taxes," a company must continually evaluate the need for a valuation allowance and reduce the allowance when it is more likely than not that some or all of the associated benefits of the deferred tax assets will be utilized. In 2005, we concluded it was more likely than not that a majority of our U.S. deferred tax assets would be recoverable and, as a result, reversed \$24.6 million of the valuation allowance on our U.S. deferred tax assets.

In 2004, as a result of a significant warrant monetization in the third quarter of 2004, we determined that a lesser valuation allowance was required relating to our net deferred tax assets associated with tax deductions that will be available for carryback to recover taxes paid in 2004 and recorded a \$28.5 million reduction to the income tax expense and the valuation allowance.

In 2004, the effective tax rate was 5.5%, which is significantly lower than the statutory rate, primarily as a result of the partial reduction of the previously recorded valuation allowance relating to net deferred tax assets associated with tax deductions that will be available for carryback to recover taxes paid in 2004 and the utilization of net operating loss and capital loss carryforwards.

Liquidity and Capital Resources

General. We continually evaluate our liquidity requirements, capital needs and availability of capital resources based on our operating needs. We believe that our existing cash balances and short-term investments together with the funds expected to be generated from operations and funds available under our committed revolving credit facility will be sufficient to finance our operations for the foreseeable future, as well as to finance the cash payments associated with our restructuring charges and stock repurchase program. Our ability to undertake acquisitions may depend, in part, on access to additional funds.

We historically have paid a portion of our bonuses in December and the remainder in March. For the 2006 bonus year and going forward, we expect to pay most bonuses in the first quarter following the year in which they were earned. Employee bonuses are accrued throughout the year and are based on our performance and the performance of the individual employee.

We do not have material off-balance sheet arrangements, special purpose entities, trading activities of non-exchange traded contracts or transactions with related parties. In the ordinary course of business, we have at times performed executive search services for certain related parties that are considered immaterial in nature and amount and have been consummated on terms equivalent to those that prevail in arms-length transactions.

Lines of credit. During 2005 and 2006, we had a \$60.0 million committed unsecured revolving credit facility (the "Facility"). Under the Facility, we could borrow U.S. dollars, euros, sterling and other major traded currencies, as agreed by the banks. Borrowings under the Facility bear interest at the existing Alternate Base Rate or LIBOR plus a margin as determined by our compliance with certain tests of financial condition. The Facility sets limits on our ability to make acquisitions without bank approval and to incur additional debt outside of the Facility. We paid a facility fee whether or not the Facility was used during the year.

[Table of Contents](#)

In October 2006, we terminated the Facility and replaced it with a \$100 million committed unsecured revolving facility (the “New Facility”). Under the New Facility, we may borrow U.S. dollars, euros, or other major traded currencies as agreed by the banks. Borrowings under the Facility bear interest at the existing Alternate Base Rate or LIBOR plus a spread as determined by our leverage ratio. The New Facility has more favorable terms, including increased flexibility with regard to potential acquisitions, and lower costs than the terminated facility. A facility fee is charged even if no portion of the New Facility is used. The New Facility expires in October 2011.

There were no borrowings outstanding under the lines of credit existing at December 31, 2006 or December 31, 2005, nor were there any borrowings during the years ended December 31, 2006 and 2005, respectively, under the then existing lines of credit. At December 31, 2005 and through September 30, 2006, we were not in default of the financial covenants of the Facility. At December 31, 2006, we were in compliance with the financial covenants of the New Facility, and no event of default existed.

Cash, cash equivalents and short-term investments. Cash, cash equivalents and short-term investments at December 31, 2006 were \$220.8 million, an increase of \$17.1 million, compared to \$203.7 million at December 31, 2005. In 2006, we paid \$36.0 million including \$1.2 million of capitalized acquisition costs to acquire substantially all of the assets of Highland Partners. In December 2006, we entered into a bank guarantee in the amount of \$7.9 million with regard to a tax assessment in a European country. This amount has been classified as restricted cash on the Consolidated Balance Sheets as of December 31, 2006 and reduces the cash balance reported at December 31, 2006. Refer to Note 3, *Restricted Cash* in the Notes to Consolidated Financial Statements.

Cash from operating activities. In 2006, cash provided by operating activities was \$99.8 million, principally reflecting our net income plus an increase in bonus related accruals and other non-cash charges, partially offset by an increase in trade receivables related to higher 2006 revenues. In 2006, to better assess full year Company performance before paying bonuses, we consolidated our two bonus payments made to consultants into one payment to be paid in the first quarter following the year in which the bonus was earned. In prior years, part of the annual bonus was paid to consultants in December.

In 2005, cash provided by operating activities was \$33.4 million, primarily as a result of our net income adjusted for non-cash charges, offset by payments related to the restructuring charges.

In 2004, cash provided by operating activities was \$25.7 million, primarily as a result of our net income adjusted for non-cash charges particularly related to the monetization of our shares of common stock of Google, offset by payments related to the restructuring charges.

Cash from investing activities. Cash used in investing activities was \$122.2 million in 2006, primarily as a result of net purchases of short-term investments of \$73.4 million, \$36.0 million paid in connection with the acquisition of Highland Partners and a \$7.9 million increase in restricted cash.

Cash provided by investing activities was \$102.0 million in 2005 primarily as a result of the net proceeds from the sale of short-term investments partially offset by payments to consultants related to sales of equity securities. During the second quarter of 2005, we paid \$17.6 million of deferred compensation to Thomas J. Friel, representing his share of the net proceeds from the September 2004 monetization of our Google warrants. At the date of the payment, Mr. Friel was Chief Executive Officer of the Company. Mr. Friel’s share of the net proceeds is related to his work as an executive search consultant in 2001, prior to the time he was appointed our Chief Executive Officer.

Cash used in investing activities was \$15.7 million in 2004 primarily as a result of the net proceeds of \$128.8 million from the sale of our shares of common stock of Google offset by the portion of the consultants’ share of the gain which was paid in 2004 and the net purchases of short-term investments.

Capital expenditures were \$5.5 million, \$6.1 million and \$6.0 million in 2006, 2005 and 2004, respectively. Capital expenditures were primarily for computer equipment, software, and leasehold improvements. We anticipate that our capital expenditures for 2007 will be approximately \$7 million to \$9 million.

Table of Contents

Cash from financing activities. Cash used in financing activities in 2006 was \$37.4 million primarily as a result of the repurchase of \$51.7 million of our common stock offset by proceeds from stock options exercised during the period. Cash flows for 2006 also includes \$4.2 million of tax benefits associated with the exercise or vesting of equity awards.

Cash used in financing activities in 2005 was \$27.6 million as a result of the repurchase of our common stock partially offset by proceeds from stock options exercised during the period. Cash from financing activities was \$5.5 million in 2004, primarily the result of proceeds from the exercise of stock options offset by repurchases of our common stock.

On October 22, 2004, our Board of Directors authorized management to repurchase shares of our common stock with an aggregate purchase price up to \$30 million. We purchased 1,115,375 shares of our common stock for \$30.0 million under the October 2004 authorization which was completed during the second quarter of 2005.

On September 16, 2005, our Board of Directors authorized the Company to repurchase shares of our common stock with an aggregate total amount up to \$50 million. We purchased 1,476,809 shares of our common stock for \$50 million under the September 2005 authorization, which was completed during the second quarter of 2006.

On May 24, 2006, our Board of Directors authorized management to repurchase shares of our common stock with an aggregate total amount up to \$50 million. We intend, from time to time and as market conditions warrant, to purchase shares of our common stock on the open market or in negotiated block trades. No time limit has been set for completion of this program. Through December 31, 2006, we have purchased 326,368 shares of our common stock for \$11.4 million under the May 2006 authorization.

Contractual obligations. The following table presents our known contractual obligations as of December 31, 2006 and the expected timing of cash payments related to these contractual obligations:

<u>Contractual obligations:</u>	<u>Payments due for the years ended December 31,</u>				
	<u>Total</u>	<u>2007</u>	<u>2008 and 2009 (in millions)</u>	<u>2010 and 2011</u>	<u>Thereafter</u>
Office space and equipment lease obligations (1)	\$154.1	\$31.5	\$51.2	\$28.7	\$ 42.7
Accrued restructuring charges—severance (2)	0.5	0.5	—	—	—
Asset retirement obligations (3)	2.1	0.7	1.4	—	—
Total	<u>\$156.7</u>	<u>\$32.7</u>	<u>\$52.6</u>	<u>\$28.7</u>	<u>\$ 42.7</u>

(1) See Note 21, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements for additional information.

(2) See Note 15, *Restructuring Charges*, in the Notes to Consolidated Financial Statements for additional information.

(3) Represents the fair value of the obligation associated with a retirement of tangible long-lived assets, primarily related to our obligation at the end of the lease term to return office space to the landlord in its original condition. The obligation is recorded in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations."

In addition to the contractual obligations included in the above table, we have liabilities related to certain employee benefit plans. These liabilities are recorded in our Consolidated Balance Sheet at December 31, 2006. The obligations related to these employee benefit plans are described in Note 10, *Employee Benefit Plans*, and Note 11, *Pension Plan and Life Insurance Contract*. As the timing of cash disbursements related to these employee benefit plans is uncertain, we have not included these obligations in the above table.

Application of Critical Accounting Policies and Estimates

General. Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our Consolidated Financial Statements, which have been prepared using accounting principles generally accepted in the United States (GAAP). Our significant accounting policies are discussed in Note 2,

[Table of Contents](#)

Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. If actual amounts are ultimately different from previous estimates, the revisions are included in our results of operations for the period in which the actual amounts become known.

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

Revenue recognition. Revenue before reimbursements for out-of-pocket expenses (“net revenue”) is recognized when earned and realizable and therefore when the following criteria have been met: (a) persuasive evidence of an arrangement exists; (b) services have been rendered; (c) the fee to our client is fixed or determinable; and (d) collectibility is reasonably assured. Net revenue consists of retainers and indirect expenses billed to clients. Typically, we are paid a retainer for our executive search services equal to approximately one-third of the estimated first year compensation of the position to be filled. If actual compensation of the placed candidate exceeds the estimated compensation, we are generally authorized to bill the client for one-third of the excess. Net revenue from executive search engagements is recognized over the expected average period of performance, in proportion to the estimated personnel time incurred to fulfill our obligations under the arrangements. Net revenue in excess of the retainer, resulting from actual compensation of the placed candidate exceeding estimated compensation, is recognized upon completion of the executive search when the amount of the additional fee is known. Our assumptions about the duration of the time and extent of efforts for search teams to complete our services in an executive search engagement require significant judgment as these variables have fluctuated in the past and are expected to continue to do so. These assumptions are updated annually or whenever conditions exist to indicate that more frequent updates are necessary.

Accruals related to the consolidation and closing of offices recorded as part of our restructuring charges. In 2001, we began the restructuring of our business to better align costs with expected net revenue levels. These initiatives included the consolidation and closing of offices where we had long-term leases. At the time of the office closings and consolidations, we accrued the estimated costs associated with these actions. For initiatives which were announced prior to January 1, 2003, the accruals were established in accordance with EITF Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” For cost reduction initiatives announced after December 31, 2002, the accruals were established in accordance with SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities.”

Inherent in these accruals are estimates concerning vacancy periods, expected sublease income, and costs to terminate the leases. These accruals are periodically updated to reflect information concerning the commercial real estate markets in which the offices are located. During 2004, we recorded \$0.6 million of restructuring charges to reflect changes in lease estimates primarily due to a tenant default on a sublease and the final determination and payment of certain severance related restructuring accruals. During 2005, we recorded restructuring charges of \$22.5 million, which include \$14.1 million for severance and other employee-related costs related to reductions in workforce and \$8.4 million related to the consolidation of office space. Included in the office related charge of \$8.4 million is the reversal of \$1.0 million of restructuring accruals, which originated in a prior year, related to a renegotiated lease for one of our search offices. During 2006, we revised estimates of previously announced restructuring initiatives and recorded restructuring charges of \$0.4 million, primarily

[Table of Contents](#)

related to the final determination of certain severance accruals and the refinement of cost estimates concerning certain sublet properties. We believe that the accounting estimate related to accruals for the consolidation and closing of offices is a critical accounting estimate because it is highly susceptible to changes in the commercial real estate markets and the local regional economic factors where this leased office space is located.

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

We apply an estimated annual effective tax rate to our quarterly operating results to determine the provision for income tax expense. In the event there is a significant unusual or infrequent item recognized in our quarterly operating results, the tax attributable to that item is recorded in the interim period in which it occurs. Our effective tax rate for the financial year ended December 31, 2006 was 38%.

No deferred tax liabilities have been recorded for U.S. income taxes and foreign withholding taxes related to undistributed foreign earnings that are planned to be indefinitely reinvested. If future events, including material changes in estimates of cash, working capital and long-term investment requirements, necessitate that these earnings be distributed, an additional provision for taxes may apply, which could materially affect our future effective tax rate.

As a matter of course, the Company is regularly audited by various taxing authorities, and sometimes these audits result in proposed assessments where the ultimate resolution may result in the Company owing additional taxes. We establish reserves when, despite our belief that our tax return positions are appropriate and supportable under local tax law, we believe certain positions are likely to be challenged and we may not succeed in realizing the tax benefit. We evaluate these reserves each quarter and adjust the reserves and the related accrued interest in light of changing facts and circumstances regarding the probability of realizing tax benefits, such as the progress of a tax audit or the expiration of a statute of limitations. We believe the estimates and assumptions used to support our evaluation of tax benefit realization are reasonable. However, final determinations of prior-year tax liabilities, either by settlement with tax authorities or expiration of statutes of limitations, could be materially different than estimates reflected in assets and liabilities and historical income tax provisions. The outcome of these final determinations could have a material effect on our income tax provision, net income, or cash flows in the period in which that determination is made. The Company believes its tax positions comply with applicable tax law and that it has adequately provided for any known tax contingencies.

Goodwill and other intangible assets. We review goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." The goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, goodwill of the reporting unit would be considered impaired. To measure the amount of the impairment loss, the implied fair value of a reporting unit's goodwill is compared to the carrying amount of that goodwill. If the carrying amount of a reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. The implied fair value of goodwill shall be determined in the same manner as the amount of goodwill recognized in a business combination is determined. The fair value of each of the Company's reporting units was determined using a combination of valuation techniques, including a discounted cash flow methodology and comparable public company methodology, with the assistance of an independent valuation firm.

The discounted cash flow approach is dependent on a number of factors including estimates of future market growth and trends, forecasted revenue and costs, capital investments, appropriate discount rates, certain

[Table of Contents](#)

assumptions to allocate shared assets and liabilities, and other variables to calculate the carrying values for each of our reporting units. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. These assumptions are updated annually, at a minimum, to reflect information concerning our reportable segments.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," long-lived assets, such as property, equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge, equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset, is recognized.

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

Allowance for doubtful accounts. Accounts receivable from our customers are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in existing accounts receivable balances. We determine the allowance for doubtful accounts through an analysis of several factors, including the aging of our accounts receivable, historical write-off experience, and specific account analyses. We consider current and projected economic conditions and historical trends when determining the allowance for doubtful accounts. Actual collections of accounts receivable could differ from our estimates due to changes in future economic or industry conditions or specific customers' financial condition.

Recently Issued Financial Accounting Standards

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes,"—an interpretation of FASB Statement No. 109, "Accounting for Income Taxes" ("FIN 48"). FIN 48 is effective as of January 1, 2007. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Upon adoption, the cumulative effect of applying the recognition and measurement provisions of FIN 48, if any, shall be reflected as an adjustment to the opening balance of retained earnings. We will adopt the provisions of this interpretation effective for the first quarter of 2007. We do not currently anticipate that the adjustment, if any, to the opening balance of retained earnings that will be recorded upon adoption of FIN 48 will materially impact our financial condition.

FIN 48 also requires that subsequent to initial adoption a change in judgment that results in subsequent recognition, derecognition or change in a measurement of a tax position taken in a prior annual period (including any related interest and penalties) be recognized as a discrete item in the period in which the change occurs. Thus, our reported quarterly income tax rate may become more volatile upon adoption of FIN 48.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective as of January 1, 2008. We are currently evaluating the impact that the adoption of SFAS No. 157 will have on the financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 123(R)" ("SFAS No. 158").

[Table of Contents](#)

SFAS No. 158 requires an employer to recognize the funded status of each defined benefit post employment plan on the balance sheet. The funded status of all overfunded plans are aggregated and recognized as a non-current asset on the balance sheet. The funded status of all underfunded plans are aggregated and recognized as a current liability, a non-current liability, or a combination of both on the balance sheet. A current liability is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months exceeds the fair value of plan assets, and is determined on a plan-by-plan basis. SFAS No. 158 also requires the measurement date of a plan's assets and its obligations to be the employer's fiscal year-end date, a requirement with which we already comply. Additionally, SFAS No. 158 requires an employer to recognize changes in the funded status of a defined benefit post employment plan in the year in which the change occurs. SFAS No. 158 was effective for us as of December 31, 2006. The effect of adopting SFAS No. 158 on our Consolidated Balance Sheets as of December 31, 2006 was a decrease in retirement and pension plan liabilities of \$3.3 million, an increase in accumulated other comprehensive income of \$2.2 million and a decrease in non-current deferred tax assets of \$1.1 million. See Note 11 *Pension Plan and Life Insurance Contract* to the Consolidated Financial Statements for more information regarding the implementation of SFAS No. 158.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB 108"), "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 requires that public companies utilize a dual approach to assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. Financial statements would require adjustment when a misstatement is material. Correcting prior year financial statements for immaterial errors would not require previously filed reports to be amended. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have an effect on our financial condition or results of operations.

Quarterly Financial Information

The following table sets forth certain financial information for each quarter of 2006 and 2005. The information is derived from our quarterly consolidated financial statements which are unaudited but which, in the opinion of management, have been prepared on the same basis as the audited annual consolidated financial statements included in this document. The consolidated financial data shown below should be read in conjunction with the consolidated financial statements and notes thereto. The operating results for any quarter are not necessarily indicative of results for any future period.

	Quarter Ended							
	2006				2005			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Revenue before reimbursements (net revenue)	\$ 101,481	\$ 120,173	\$ 124,636	\$ 132,233	\$ 98,582	\$ 103,373	\$ 109,605	\$ 100,737
Operating income before restructuring charges	8,609	15,897	17,414	8,537	6,381	13,019	14,528	10,051
Restructuring charges	176	379	(149)	2	—	20,837(1)	1,580	76(1)
Operating income (loss)	8,433	15,518	17,563	8,535	6,381	(7,818)	12,948	9,975
Income (loss) before income taxes	10,626	16,222	19,193	9,225	7,642	(6,077)	14,938	11,979
Provision for (benefit from) income taxes	4,700	5,832	8,042	2,449	782	(1,110)	(15,458)(2)	5,050
Net income (loss)	5,926	10,390	11,151	6,776	6,860	(4,967)	30,396	6,929
Basic earnings (loss) per common share	0.32	0.58	0.64	0.38	0.36	(0.26)	1.63	0.37
Diluted earnings (loss) per common share	0.30	0.55	0.60	0.36	0.33	(0.26)	1.58	0.36

- (1) During the first quarter of 2005, we announced that we would record restructuring charges beginning in the second quarter of 2005 in connection with initiatives to improve operating margin in order to meet company-wide profitability objectives. Certain of the costs associated with the restructuring initiatives that began in the second quarter of 2005 were recognized in subsequent periods when the liabilities were incurred, in accordance with SFAS No. 146.
- (2) During the third quarter of 2005, we reversed \$24.6 million of the valuation allowance on our U.S. deferred tax assets which had been established in a previous year. Of this amount, \$18.1 million was recognized as income and \$6.5 million was credited to additional paid in capital as it relates to the income tax benefit associated with stock-based compensation that had not been previously recorded.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Derivative instruments. We receive warrants for equity securities in our client companies, in addition to our cash fee, for services rendered on some searches. Some of the warrants meet the definition of a derivative instrument under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its subsequent amendments. SFAS No. 133 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. These derivative instruments are initially recorded at their fair value using a Black-Scholes model, in the Consolidated Balance Sheets, with a corresponding amount recorded as net revenue in the Consolidated Statements of Operations. Bonus expense related to this net revenue is also recorded. Subsequent changes in the fair value of these derivative instruments are recorded in the Consolidated Statements of Operations as unrealized gains (losses), net of the consultants' share of the gains (losses). Upon a value event such as an initial public offering or an acquisition, the warrants are monetized, resulting in a realized gain, net of the consultants' share of the gain and other costs. In 2006, 2005 and 2004, we recorded realized gains, net of the consultants' share of the gain and other costs, of \$0.6 million, \$1.0 million, \$57.0 million, respectively, related to the equity and warrant portfolio.

Currency market risk. With our operations primarily in the Americas, Europe and Asia Pacific we conduct business using various currencies. Revenue earned in each country is generally matched with the associated expenses incurred, thereby reducing currency risk to earnings. However, because certain assets and liabilities are denominated in currencies other than the U.S. dollar, changes in currency rates may cause fluctuations in the valuation of such assets and liabilities. As the local currency of our subsidiaries has been designated as the functional currency, we are affected by the translation of foreign currency financial statements into U.S. dollars. Outside of the Americas, Europe is our largest region in terms of net revenue. A 1% change in the average exchange rate of the British pound and the euro would have increased or decreased our 2006 net income less than \$0.3 million. For financial information by geographic segment, see Note 19, *Segment Information*, in the Notes to Consolidated Financial Statements.

[Table of Contents](#)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	35
Consolidated Balance Sheets as of December 31, 2006 and 2005	36
Consolidated Statements of Operations For the Years Ended December 31, 2006, 2005 and 2004	38
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) For the Years Ended December 31, 2006, 2005 and 2004	39
Consolidated Statements of Cash Flows For the Years Ended December 31, 2006, 2005 and 2004	40
Notes to Consolidated Financial Statements	41

SCHEDULE

Schedule II—Valuation and Qualifying Accounts	68
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Heidrick & Struggles International, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2006. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule, Valuation and Qualifying Accounts. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 consolidated 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, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 11 to the consolidated financial statements, the Company changed its method of accounting for pension and postretirement benefits effective December 31, 2006.

As discussed in Note 12 to the consolidated financial statements, the Company changed its method of accounting for share-based compensation effective January 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Heidrick & Struggles International, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Chicago, Illinois
March 15, 2007

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

	December 31,	
	2006	2005
Current assets:		
Cash and cash equivalents	\$ 147,440	\$ 203,689
Short-term investments	73,375	—
Accounts receivable, less allowance for doubtful accounts of \$4,603 and \$2,668 at December 31, 2006 and 2005, respectively	80,677	53,334
Other receivables	6,868	4,463
Prepaid expenses	9,753	8,178
Income taxes recoverable, net	621	3,536
Deferred income taxes, net	14,944	8,579
Total current assets	333,678	281,779
Property and equipment:		
Leasehold improvements	24,461	22,624
Office furniture, fixtures and equipment	22,317	21,052
Computer equipment and software	55,960	52,781
Property and equipment, gross	102,738	96,457
Accumulated depreciation and amortization	(84,090)	(75,353)
Property and equipment, net	18,648	21,104
Other non-current assets:		
Restricted cash	7,900	—
Assets designated for retirement and pension plans	31,380	26,727
Investments	3,470	1,839
Other non-current assets	6,220	5,216
Goodwill	75,961	46,655
Other intangible assets, net	17,884	6,239
Deferred income taxes, net	24,629	21,363
Total other non-current assets	167,444	108,039
Total assets	\$519,770	\$410,922

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 amounts)

	December 31,	
	2006	2005
Current liabilities:		
Accounts payable	\$ 7,217	\$ 6,019
Accrued salaries and employee benefits	154,646	84,169
Other current liabilities	37,401	25,314
Current portion of accrued restructuring charges	3,328	6,313
Total current liabilities	<u>202,592</u>	<u>121,815</u>
Non-current liabilities:		
Retirement and pension plans	34,332	31,446
Non-current portion of accrued restructuring charges	9,386	12,297
Other non-current liabilities	9,755	7,879
Total non-current liabilities	<u>53,473</u>	<u>51,622</u>
Total liabilities	<u>256,065</u>	<u>173,437</u>
Commitments and contingencies (Note 21)	—	—
Stockholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, no shares issued at December 31, 2006 and 2005	—	—
Common stock, \$.01 par value, 100,000,000 shares authorized, 19,585,777 shares issued, 17,744,361 and 18,577,991 shares outstanding at December 31, 2006 and 2005, respectively	196	196
Treasury stock at cost, 1,841,416 and 1,007,786 shares at December 31, 2006 and 2005, respectively	(59,295)	(28,156)
Additional paid in capital	261,179	263,228
Retained earnings	48,874	14,631
Accumulated other comprehensive income	12,751	2,955
Deferred stock-based compensation	—	(15,369)
Total stockholders' equity	<u>263,705</u>	<u>237,485</u>
Total liabilities and stockholders' equity	<u>\$519,770</u>	<u>\$410,922</u>

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

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

	Year Ended December 31,		
	2006	2005	2004
Revenue:			
Revenue before reimbursements (net revenue)	\$478,523	\$412,297	\$375,432
Reimbursements	23,471	20,553	22,744
Total revenue	501,994	432,850	398,176
Operating expenses:			
Salaries and employee benefits	328,714	273,949	251,186
General and administrative expenses	99,352	94,369	96,533
Reimbursed expenses	23,471	20,553	21,247
Restructuring charges	408	22,493	550
Total operating expenses	451,945	411,364	369,516
Operating income	50,049	21,486	28,660
Non-operating income (expense):			
Interest income	6,318	5,951	2,588
Interest expense	(61)	(379)	(197)
Net realized and unrealized gains (losses) on equity and warrant portfolio, net of the consultants' share of the gains (losses)	510	(19)	57,072
Other, net	(1,550)	1,443	(1,024)
Net non-operating income	5,217	6,996	58,439
Income before income taxes	55,266	28,482	87,099
Provision for (benefit from) income taxes	21,023	(10,736)	4,791
Net income	\$ 34,243	\$ 39,218	\$ 82,308
Basic earnings per common share	\$ 1.91	\$ 2.08	\$ 4.35
Basic weighted average common shares outstanding	17,925	18,898	18,941
Diluted earnings per common share	\$ 1.81	\$ 1.98	\$ 4.11
Diluted weighted average common shares outstanding	18,916	19,761	20,012

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 AND
COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Deferred Stock-Based Compensation	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2003	19,586	\$ 196	1,246	\$(21,898)	\$ 250,489	\$(106,895)	\$ 6,712	\$ (2,395)	\$126,209
Net income	—	—	—	—	—	82,308	—	—	82,308
Other comprehensive income:									
Unrealized gain on available-for-sale investments	—	—	—	—	—	—	342	—	342
Foreign currency translation adjustment	—	—	—	—	—	—	1,979	—	1,979
Other comprehensive income	—	—	—	—	—	82,308	2,321	—	84,629
Treasury and common stock transactions:									
Issuance of restricted stock units	—	—	—	—	3,567	—	—	(3,567)	—
Amortization of deferred compensation	—	—	—	—	—	—	—	3,224	3,224
Other stock-based compensation	—	—	—	—	183	—	—	—	183
Forfeitures of restricted stock units	—	—	—	—	(1,357)	—	—	15	(1,342)
Exercise of stock options	—	—	(551)	9,748	(1,180)	—	—	—	8,568
Purchases of treasury stock	—	—	85	(2,502)	—	—	—	—	(2,502)
Vesting of restricted stock units, net of tax withholdings	—	—	(353)	6,204	(9,047)	—	—	—	(2,843)
Balance at December 31, 2004	19,586	196	427	(8,448)	242,655	(24,587)	9,033	(2,723)	216,126
Net income	—	—	—	—	—	39,218	—	—	39,218
Other comprehensive income (loss):									
Unrealized loss on available-for-sale investments	—	—	—	—	—	—	(339)	—	(339)
Foreign currency translation adjustment	—	—	—	—	—	—	(5,739)	—	(5,739)
Other comprehensive income (loss)	—	—	—	—	—	39,218	(6,078)	—	33,140
Treasury and common stock transactions:									
Issuance of restricted stock units	—	—	—	—	24,169	—	—	(24,169)	—
Amortization of deferred compensation	—	—	—	—	—	—	—	10,810	10,810
Other stock-based compensation	—	—	—	—	110	—	—	—	110
Forfeitures of restricted stock units	—	—	—	—	(1,045)	—	—	713	(332)
Exercise of stock options	—	—	(599)	15,055	(5,486)	—	—	—	9,569
Purchases of treasury stock	—	—	1,324	(37,160)	—	—	—	—	(37,160)
Re-issuances of treasury stock	—	—	(2)	60	17	—	—	—	77
Vesting of restricted stock units, net of tax withholdings	—	—	(142)	2,337	(3,829)	—	—	—	(1,492)
Valuation allowance reduction related to deferred income taxes	—	—	—	—	2,640	—	—	—	2,640
Tax benefits related to stock-based compensation	—	—	—	—	3,997	—	—	—	3,997
Balance at December 31, 2005	19,586	196	1,008	(28,156)	263,228	14,631	2,955	(15,369)	237,485
Net income	—	—	—	—	—	34,243	—	—	34,243
Other comprehensive income:									
Unrealized gain on available-for-sale investments	—	—	—	—	—	—	133	—	133
Foreign currency translation adjustment	—	—	—	—	—	—	7,477	—	7,477
Other comprehensive income	—	—	—	—	—	34,243	7,610	—	41,853
Treasury and common stock transactions:									
Reclassify deferred stock-based compensation upon adoption of SFAS No. 123R	—	—	—	—	(15,369)	—	—	15,369	—
Cumulative effect of forfeitures	—	—	—	—	(351)	—	—	—	(351)
Issuance of restricted stock units previously classified as liabilities	—	—	—	—	4,370	—	—	—	4,370
Stock-based compensation	—	—	—	—	18,095	—	—	—	18,095
Exercise of stock options	—	—	(502)	15,699	(5,562)	—	—	—	10,137
Vesting of restricted stock units, net of tax withholdings	—	—	(175)	4,888	(7,146)	—	—	—	(2,258)
Purchases of treasury stock	—	—	1,510	(51,726)	—	—	—	—	(51,726)
Tax benefits related to stock-based compensation	—	—	—	—	3,914	—	—	—	3,914
Adjustment to initially apply SFAS No. 158, net of income taxes	—	—	—	—	—	—	2,186	—	2,186
Balance at December 31, 2006	19,586	\$ 196	1,841	\$(59,295)	\$ 261,179	\$ 48,874	\$ 12,751	\$ —	\$263,705

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

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

	Year Ended December 31,		
	2006	2005	2004
Cash flows from operating activities:			
Net income	\$ 34,243	\$ 39,218	\$ 82,308
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	10,382	11,245	13,185
(Gain) loss on sale of property and equipment	(13)	163	197
Gain on sale of equity securities	(649)	(996)	(57,041)
Deferred income taxes	(9,612)	(13,127)	(10,554)
Net unrealized (gain) loss on derivative instruments	139	1,015	(31)
Stock-based compensation expense, net	24,800	13,599	2,065
Restructuring charges	408	22,493	550
Cash paid for restructuring charges	(7,117)	(33,994)	(15,106)
Changes in assets and liabilities, net of effects of acquisition:			
Trade and other receivables	(14,467)	(4,863)	(3,827)
Accounts payable	556	(4,615)	3,496
Accrued expenses	58,185	18,998	4,053
Income taxes recoverable (payable), net	2,589	(10,674)	3,131
Retirement and pension plan assets and liabilities	(2,514)	(2,067)	3,197
Other assets and liabilities, net	2,837	(2,972)	36
Net cash provided by operating activities	<u>99,767</u>	<u>33,423</u>	<u>25,659</u>
Cash flows from investing activities:			
Increase in restricted cash	(7,900)	—	—
Acquisition	(36,018)	—	—
Capital expenditures	(5,524)	(6,138)	(6,021)
Proceeds from sales of equity securities	1,198	1,962	128,993
Payments to consultants related to sales of equity securities	(740)	(18,310)	(54,702)
Proceeds from sales of short-term investments	117,500	236,925	72,420
Purchases of short-term investments	(190,875)	(112,600)	(156,495)
Other, net	110	116	83
Net cash provided by (used in) investing activities	<u>(122,249)</u>	<u>101,955</u>	<u>(15,722)</u>
Cash flows from financing activities:			
Proceeds from stock options exercised	10,137	9,569	8,568
Purchases of treasury stock	(51,726)	(37,160)	(2,502)
Excess tax benefits related to stock-based compensation	4,170	—	—
Other	(15)	—	(569)
Net cash provided by (used in) financing activities	<u>(37,434)</u>	<u>(27,591)</u>	<u>5,497</u>
Effect of foreign currency exchange rates on cash and cash equivalents	<u>3,667</u>	<u>(2,526)</u>	<u>3,955</u>
Net increase (decrease) in cash and cash equivalents	<u>(56,249)</u>	<u>105,261</u>	<u>19,389</u>
Cash and cash equivalents:			
Beginning of year	203,689	98,428	79,039
End of year	<u>\$ 147,440</u>	<u>\$ 203,689</u>	<u>\$ 98,428</u>
Supplemental disclosures of cash flow information			
Cash paid for—			
Interest	\$ 15	\$ 74	\$ 105
Income taxes, net	23,069	10,338	10,767
Supplemental schedule of noncash financing and investing activities			
Unrealized gain (loss) on available-for-sale investments	\$ 162	\$ (339)	\$ 342

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. Basis of Presentation

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

The consolidated financial statements include Heidrick & Struggles International, Inc. and its wholly-owned subsidiaries and have been prepared in using accounting principles generally accepted in the United States (“GAAP”). The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and certain financial statement disclosures. Significant items subject to estimates and assumptions include revenue recognition, allowance for doubtful accounts, allowances for deferred tax assets, assessment of goodwill and other intangible assets for impairment, and accruals related to the consolidation and closing of offices recorded in conjunction with the Company’s restructuring charges. Actual results could differ from these estimates. Certain reclassifications have been made to prior year financial information to conform with current year presentations.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Short-term Investments

Short-term investments represent auction rate securities. The Company’s auction rate securities are classified as available-for-sale and are stated at current market value in accordance with SFAS 115, “Accounting for Certain Investments in Debt and Equity Securities.”

Concentration of Credit Risk

Financial instruments that potentially expose the Company to concentrations 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 clients and their dispersion across many different industries and geographies. At December 31, 2006, the Company had no significant concentrations of credit risk.

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

Fair Value of Financial Instruments

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Property and Equipment

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

Office furniture, fixtures and equipment	5–10 years
Computer equipment and software	3–8 years

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

Long-lived Assets

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” the Company reviews its long-lived assets, including property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge, equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset, is recognized.

Investments

The Company receives warrants for equity securities in client companies, in addition to the cash fee, for services rendered on some searches. Some of the warrants meet the definition of a derivative instrument under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and its subsequent amendments. SFAS No. 133 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. These derivative instruments are initially recorded at their fair value, using a Black-Scholes model, in the Consolidated Balance Sheets, with a corresponding amount recorded as net revenue in the Consolidated Statements of Operations. Bonus expense related to this net revenue is also recorded. Subsequent changes in the fair value of these derivative instruments are recorded in the Consolidated Statements of Operations as unrealized gains (losses), net of the consultants’ share of the gains (losses).

Other warrants received and which do not meet the definition of a derivative instrument under SFAS No. 133 are initially recorded at their fair value, using a Black-Scholes model, in the Consolidated Balance Sheets, with a corresponding amount recorded as net revenue in the Consolidated Statements of Operations. Bonus expense related to this net revenue is also recorded. These warrants are accounted for using the cost method, and subsequent changes in fair value are not recognized. However, these warrants are regularly reviewed for other-than-temporary declines in fair value. Any permanent declines in the fair value of these warrants are recorded in the Consolidated Statements of Operations as unrealized losses, net of the consultants’ share of the losses.

Upon a value event such as an initial public offering or an acquisition, any changes in the fair value of the warrants, both derivatives and non-derivatives, are recorded in the Consolidated Statements of Operations as unrealized gains (losses), net of the consultants’ share of the gains (losses).

Any equity securities arising from the exercise of a warrant are accounted for as available-for-sale investments in accordance with SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities.” Subsequent changes in the fair value of these available-for-sale investments are recorded as a component of accumulated other comprehensive income. Upon the sale of these investments, the Company records a realized gain (loss), net of the consultants’ share of the gain (loss) and other costs.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Goodwill and Other Intangible Assets

Pursuant to the requirements of SFAS No. 142, “Goodwill and Other Intangible Assets,” the Company evaluates its goodwill for impairment on an annual basis during the fourth quarter, or whenever indicators of impairment exist. The goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, goodwill of the reporting unit would be considered impaired. To measure the amount of the impairment loss, the implied fair value of a reporting unit’s goodwill is compared to the carrying amount of that goodwill. If the carrying amount of a reporting unit’s goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. The implied fair value of goodwill shall be determined in the same manner as the amount of goodwill recognized in a business combination is determined. The fair value of each of the Company’s reporting units was determined using a combination of valuation techniques, including a discounted cash flow methodology and comparable public company methodology, with the assistance of an independent valuation firm. These impairment tests indicated that the fair value of each reporting unit exceeded its carrying amount. As a result, no impairment charge was recorded.

Other intangible assets are amortized using the straight-line method over their estimated useful lives and have been segregated as a separate line item on the Consolidated Balance Sheets.

Restructuring Charges

For restructuring activities announced prior to January 1, 2003, the accruals for restructuring charges were established in accordance with EITF Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” For restructuring activities initiated subsequent to December 31, 2002, the accruals for restructuring charges were established in accordance with SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities,” which the Company adopted on January 1, 2003.

Revenue Recognition

Revenue before reimbursements of out-of-pocket expenses (“net revenue”) consists of retainers and indirect expenses billed to clients. For each assignment, the Company and its client enter into a contract that outlines the general terms and conditions of the assignment. Typically, the Company is paid a retainer for its executive search services equal to approximately one-third of the estimated first year compensation for the position to be filled. In addition, 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 a client’s acceptance of the contract.

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Reimbursements

The Company incurs certain out-of-pocket expenses that are reimbursed by its clients. The Company accounts for its reimbursed out-of-pocket expenses as revenue in its Consolidated Statements of Operations in accordance with EITF Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred."

Salaries and Employee Benefits

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

Salaries and employee benefits are recognized on an accrual basis. Certain signing bonuses and minimum guaranteed compensation are capitalized and amortized up to a maximum of three years, consistent with the terms associated with these payments.

In the second quarter of 2005, we adopted a new compensation policy for consultants and management. Under this policy, a portion of consultant and management bonuses are paid in the form of restricted stock units that vest ratably over a three-year period from the date of grant. The amount paid in the form of restricted stock units varies between 10% and 20% (plus a premium of 10% on the shares received) depending on the employee's position. The restricted stock units are issued in the quarter following the year in which the performance portion of the awards is earned. Compensation expense related to awards requiring satisfaction of both service and performance conditions is recognized using a graded vesting attribution method over the requisite service period which for 2006, began January 1, 2006 and continues through the final vesting date, which is generally three years from the date of grant. This change in compensation policy was made to better align consultant's and management's interests with those of the shareholder. In addition, the change will result in increased share ownership for consultants and management.

Stock-Based Compensation

On January 1, 2006, the Company adopted the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R") using the modified prospective method. This statement requires that the costs of all employee share-based payments be measured at fair value on the award's grant date and be recognized in the financial statements over the requisite service period. SFAS No. 123R supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") and its related interpretations, and eliminates the alternative use of the intrinsic value method of accounting under APB No. 25, which the Company previously used. For information regarding share-based compensation, see Note 12, *Stock-Based Compensation* to these Consolidated Financial Statements.

Consultants' Share of Gains Related to Warrant Monetizations

Historically, the Company's policy with respect to warrants was that 55% of the net proceeds resulting from the monetizations of warrants was payable to the consultants involved in the search. For warrants received by the Company after April 1, 2005, the portion of the net proceeds payable to consultants was reduced from 55% to 50% and is limited to \$10.0 million per monetization. In addition, of the 50% of the net proceeds retained by the Company, 20% (or 10% of the total net proceeds) will be reserved for discretionary distributions to the broader employee population.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Income Taxes

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

Earnings per Common Share

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

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. Revenue and expenses have been translated at a monthly average exchange rate for the period. Translation adjustments are reported as a component of accumulated other comprehensive income.

Recently Issued Financial Accounting Standards

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes,"—an interpretation of FASB Statement No. 109, "Accounting for Income Taxes" ("FIN 48"). FIN 48 is effective as of January 1, 2007. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Upon adoption, the cumulative effect of applying the recognition and measurement provisions of FIN 48, if any, shall be reflected as an adjustment to the opening balance of retained earnings. The Company will adopt the provisions of this interpretation effective for the first quarter of 2007. The Company does not currently anticipate that the adjustment, if any, to the opening balance of retained earnings that will be recorded upon adoption of FIN 48 will materially impact the Company's financial condition.

FIN 48 also requires that subsequent to initial adoption a change in judgment that results in subsequent recognition, derecognition or change in a measurement of a tax position taken in a prior annual period (including any related interest and penalties) be recognized as a discrete item in the period in which the change occurs. Thus, our reported quarterly income tax rate may become more volatile upon adoption of FIN 48.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective as of January 1, 2008. The Company is currently evaluating the impact that the adoption of SFAS No. 157 will have on the Company's financial condition and results of operations.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (“SAB 108”), “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” SAB 108 requires companies to use a dual approach to assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement and a balance sheet assessment. Financial statements would require adjustment when a misstatement is material under either approach. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have an effect on the Company’s financial condition or results of operations.

3. Restricted Cash

The Company deposited \$7.9 million in a U.S dollar bank account during the fourth quarter of 2006 in support of a \$7.5 million bank guarantee related to a tax audit in a European country. The bank deposit of \$7.9 million is higher than the guarantee due to the bank’s requirement of a higher cash collateral deposit. The Company earns a market rate of interest on this cash deposit, which is adjusted quarterly. The \$7.5 million bank guarantee is determined based upon the tax audit assessment of €4.3 million (equivalent to \$5.5 million) plus future accrued interest on that assessment amount. See Note 21, *Commitments and Contingencies* for a discussion of the tax audit.

Upon review of the terms of the restrictions of the use of the pledged cash, the Company has reported these funds as restricted cash on the Consolidated Balance Sheet as of December 31, 2006. The restricted cash is reflected in non-current assets based on the terms of the guarantee which require that it be renewed annually until the results of the tax audit are settled. At this time, the Company is not able to determine when a settlement will be reached.

4. Investments

The Company had investments of \$3.5 million and \$1.8 million at December 31, 2006 and 2005, respectively. The investment balance includes the fair value of the assets associated with the Company’s U.S. non-qualified deferred compensation plan established in 2006 of \$1.7 million and fair value of the Company’s warrants and equity securities in publicly traded and private companies of \$1.8 million. The aggregate cost of the Company’s cost method investments totaled \$1.1 million and \$1.0 million at December 31, 2006 and 2005, respectively, all of which were evaluated for impairment.

5. Other Non-current Assets

Other non-current assets primarily include the assets related to the non-current portion of prepaid rent. At December 31, 2006 and 2005, the Company had \$6.2 million and \$5.2 million of non-current assets, respectively.

6. Acquisition

On October 2, 2006, the Company acquired Highland Partners, a leading retained executive search boutique and a division of Hudson Highland Group, Inc., through an asset purchase funded from existing cash for \$36.0 including \$1.2 million of capitalized acquisition costs. Hudson Highland Group will also be eligible to receive earnout payments of up to \$15.0 million based on the acquired consultants achieving certain revenue metrics in 2007 and 2008. The total purchase price of \$36.0 million, including acquisition costs of \$1.2 million and the 2007 and 2008 earnout payments will not exceed \$51.0 million. All 48 of the Highland Partners consultants who were offered employment accepted and joined the Company. This acquisition benefits all of the Company’s clients, enabling the Company to expand the service offerings and scope of the combined businesses. The results of operations of the acquired search business during the fourth quarter of 2006 are included in the consolidated financial statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the preliminary purchase price allocation:

Assets acquired:	
Accounts receivable, net	\$ 11,471
Current assets	688
Property and equipment	604
Intangible assets	12,800
Goodwill	27,662
Total assets	53,225
Liabilities assumed:	
Accounts payable and other accrued liabilities	7,210
Accrued salaries and employee benefits	9,997
Total liabilities	17,207
Net assets acquired	\$36,018

The assets acquired and liabilities assumed of approximately \$36.0 million consisted of \$36.6 million cash paid at closing, less a \$1.8 million working capital adjustment and \$1.2 million of capitalized acquisition costs.

The following table summarizes the pro forma results of operations for 2006 and 2005 as though the business combination had been completed at the beginning of these years.

	Pro forma Results	
	Years Ended December 31,	
	2006	2005
Net revenue	\$ 523,237	\$ 475,584
Operating income	51,998(1)	22,503(1)
Net income	35,498	39,828
Basic earnings per common share	1.98	2.11
Diluted earnings per common share	1.88	2.02

(1) Includes \$1.8M of intangible amortization in 2006 and 2005.

7. Goodwill and Other Intangible Assets

The Company recorded \$27.7 million of goodwill, substantially all of which is expected to be deductible for income tax purposes, and \$12.8 million of identifiable intangible assets related to the acquisition of Highland Partners as discussed in Note 6, *Acquisitions*, and has allocated these amounts to the Americas, Europe and Asia Pacific based on their respective valuations. The purchase price allocation and the resulting goodwill and identifiable intangible assets recorded at December 31, 2006 could change as a result of the finalization of purchase price accounting adjustments. The Company does not believe these changes would be material.

Goodwill

In 1999, upon acquisition of the remaining 65% of its European operations, the Company recorded goodwill and certain intangible assets of approximately \$23 million and \$12 million, respectively. At that time, these assets were U.S. dollar denominated and not subject to foreign currency translation. In 2005, in conjunction with the Company's annual impairment testing of goodwill and intangible assets, the Company determined that these assets should have been denominated in the European currencies to which they relate.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The cumulative impact of not subjecting the European goodwill and intangible assets to foreign currency translation since the 1999 acquisition through December 31, 2004 amounts to a \$0.7 million increase in the asset balances and a corresponding increase in other comprehensive income. This amount is not considered material and has been recorded as part of the foreign currency translation adjustment included in the statement of comprehensive income (loss) for the year ended December 31, 2005. The impact of not subjecting the European goodwill and intangible assets to foreign currency translation on the statements of comprehensive income (loss) for the years prior to 2005 is also not considered material.

Changes in the carrying amount of goodwill by segment for the years ended December 31, 2006 and 2005 were as follows:

	<u>Americas</u>	<u>Europe</u>	<u>Asia Pacific</u>	<u>Total</u>
Balance at December 31, 2004	\$31,117	\$16,075	\$1,626	\$48,818
Exchange rate fluctuations	—	(2,171)	8	(2,163)
Balance at December 31, 2005	31,117	13,904	1,634	46,655
Highland Partners acquisition	25,927	1,582	153	27,662
Exchange rate fluctuations	(120)	1,720	44	1,644
Balance at December 31, 2006	<u>\$56,924</u>	<u>\$17,206</u>	<u>\$1,831</u>	<u>\$75,961</u>

Other Intangible Assets

The carrying amount of amortizable intangible assets and the related accumulated amortization at December 31, 2006 and 2005 were as follows:

	<u>Weighted Average Life</u>	<u>2006</u>			<u>2005</u>		
		<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Client relationships	14.1	\$22,849	\$ (6,848)	\$16,001	\$11,302	\$ (5,063)	\$ 6,239
Candidate database	6	1,800	(75)	1,725	—	—	—
Other	3	170	(12)	158	—	—	—
Total intangible assets		<u>\$24,819</u>	<u>\$ (6,935)</u>	<u>\$17,884</u>	<u>\$11,302</u>	<u>\$ (5,063)</u>	<u>\$ 6,239</u>

The Company acquired \$12.8 million of intangible assets related to the acquisition of Highland Partners, consisting of client relationships of \$10.4 million amortized over 13 years; candidate database of \$1.8 million amortized over 6 years; non-compete agreements of \$0.2 million amortized over 3 years; and backlog of \$0.4 million which was completely amortized during the fourth quarter of 2006.

Intangible amortization expense for the years ended December 31, 2006 and 2005 was \$1.6 million and \$0.9 million, respectively. The estimated intangible amortization expense is approximately \$2.1 million per year for the fiscal years 2007 through 2009, \$1.6 million in fiscal year 2010, and \$1.4 million in fiscal year 2011. These amounts are based on intangible assets recorded as of December 31, 2006 and actual amortization expense could differ from these estimates as a result of future acquisitions and other factors.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

8. Other Current Liabilities

The components of other current liabilities at December 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Deferred revenue	\$20,001	\$12,743
Accrued rent	4,048	3,796
Accrued sales and value-added taxes	4,620	2,869
Other	8,732	5,906
Total	<u>\$37,401</u>	<u>\$25,314</u>

9. Line of Credit

During 2005 and 2006, the Company had a \$60.0 million committed revolving credit facility (the "Facility"). Under the Facility, the Company could borrow U.S. dollars, euros, sterling and other major traded currencies, as agreed by the banks. Borrowings under the Facility bear interest at the existing Alternate Base Rate or LIBOR plus a margin as determined by the Company's compliance with certain tests of financial condition. The Facility set limits on the Company's ability to make acquisitions without bank approval and to incur additional debt outside of the Facility. The Company pays a facility fee whether or not the Facility is used during the year.

In October 2006, the Company terminated the Facility and replaced it with a \$100 million committed unsecured revolving facility (the "New Facility"). Under the New Facility, the Company may borrow U.S. Dollars, euros, or other major traded currencies, as agreed by the banks. Borrowings under the Facility bear interest at the existing Alternate Base Rate or LIBOR plus a spread as determined by the Company's compliance with the leverage test. The New Facility sets limits on the Company's ability to incur additional debt outside of the Facility. The New Facility has more favorable terms, including increased flexibility with regard to potential acquisitions, and lower costs than the terminated facility. A facility fee is charged even if no portion of the New Facility is used. The New Facility expires in October 2011.

There were no borrowings outstanding under the lines of credit existing at December 31, 2006 or December 31, 2005, nor were there any borrowings during the years ended December 31, 2006 and 2005, respectively, under the then existing lines of credit. At December 31, 2005 and through September 30, 2006, the Company was not in default of the financial covenants of the Facility. At December 31, 2006, the Company was in compliance with the financial covenants of the New Facility, and no event of default existed.

10. Employee Benefit Plans*Qualified Retirement Plan*

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 dollar basis up to a maximum contribution of \$2,000 per participant for the year ended December 31, 2004. The Company match was increased to \$2,500 per participant, on a one-for-one dollar basis, for the year ended December 31, 2005. The Company match was increased to \$3,000 per participant, on a one-for-one dollar basis, for the year ended December 31, 2006. 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. The Company also has the option of making discretionary contributions. Plan expenses for the years ended December 31, 2006, 2005 and 2004 were \$1.3 million, \$1.1 million, and \$0.8 million, respectively. There were no discretionary contributions made for the years ended December 31, 2006, 2005 and 2004.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Through September 30, 2004, the plan allowed participants the option of having their account balances or portions thereof invested in the Company's common stock. As of October 1, 2004, participants were no longer allowed the option of purchasing the Company's common stock under the plan. However, those participants who held the Company's common stock were allowed to maintain their shares. At December 31, 2006 and 2005, respectively, the plan held 313,630 and 371,889 shares of the Company's common stock.

Deferred Compensation Plans

In 2002, the Company adopted a Deferred Compensation Plan in the United States (the "U.S. Plan") and in the United Kingdom (the "U.K. Plan"). Participation in these plans is not mandatory.

For the U.S. Plan, certain U.S.-based employees are given the opportunity to defer up to 100% of their eligible cash compensation into several different investment vehicles, including a Company stock fund. Cash deferrals must be made for a minimum of one year. These deferrals are immediately vested and are not subject to a risk of forfeiture. As of December 31, 2005, the U.S. Plan was not funded.

In 2005, the Company adopted a new plan for certain U.S. employees that became effective on January 1, 2006. All amounts deferred under the old plan were automatically transferred into the new plan with the exception of one existing account balance totaling \$0.5 million. The new plan allows participants to defer up to 25% of their base compensation and up to the lesser of \$500,000 or 25% of their eligible bonus compensation into several different investment vehicles, including a Company stock fund. Consistent with the previous plan, these deferrals are immediately vested and are not subject to a risk of forfeiture. In conjunction with the adoption of the new plan in 2006, all deferrals are funded currently, with the exception of the \$0.5 million carry over balance from the old plan. As of December 31, 2006, 2005, and 2004, the compensation deferred in the U.S. Plan was \$2.0 million, \$1.2 million and \$1.2 million, respectively. The assets and liabilities of this plan are included in the Consolidated Balance Sheets at December 31, 2006 and 2005.

For the U.K. Plan, certain U.K.-based employees are given the opportunity to waive the right to their annual discretionary bonus payment. The Company may then choose to make a contribution on the employee's behalf into an Employee Benefit Trust ("EBT"). The trustee of the EBT has full discretion over the administration and the EBT's choice of investments. The assets and liabilities of the EBT are included in the Consolidated Balance Sheets at December 31, 2006 and 2005. As of December 31, 2006 and 2005, the compensation deferred under the U.K. Plan was \$6.5 million and \$4.5 million, respectively, all of which was funded.

Effective January 1, 2005, the Company adopted the Non-Employee Directors Voluntary Deferred Compensation Plan whereby non-employee members of the Company's Board of Directors could elect to defer up to 100% of the cash component of their directors' fees into several different investment vehicles, including a Company stock fund. As of December 31, 2006 and 2005, the total amounts deferred under the plan were \$0.3 million and \$0.1 million, respectively, all of which was funded.

11. Pension Plan and Life Insurance Contract

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

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 123(R)" ("SFAS No. 158"). SFAS No. 158 requires an employer to recognize the funded status of each defined benefit post employment plan on the balance sheet. The funded status of all overfunded plans is aggregated and

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

recognized as a non-current asset on the balance sheet. The funded status of all underfunded plans is aggregated and recognized as a current liability, a non-current liability, or a combination of both on the balance sheet. A current liability is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months exceeds the fair value of plan assets, and is determined on a plan-by-plan basis. SFAS No. 158 also requires the measurement date of a plan's assets and its obligations to be the employer's fiscal year-end date, as to which the Company already complies. Additionally, SFAS No. 158 requires an employer to recognize changes in the funded status of a defined benefit post employment plan in the year in which the change occurs. SFAS No. 158 was effective for the Company as of December 31, 2006. The effect of adopting SFAS No. 158 on the Company's Consolidated Balance Sheet as of December 31, 2006 was a decrease in retirement and pension plan liabilities of \$3.3 million, an increase in accumulated other comprehensive income of \$2.2 million and a \$1.1 million decrease in non-current deferred tax assets.

The following table provides a reconciliation of the benefit obligation for the years ended December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>	
Change in benefit obligation:			
Benefit obligation at January 1,	\$23,803	\$26,875	
Service cost	290	375	
Interest cost	1,056	1,134	
Actuarial gain (loss)	(1,624)	1,894	
Settlements	—	(877)	
Benefits paid	(1,003)	(1,783)	
Translation difference	2,759	(3,815)	
Benefit obligation at December 31,	<u>\$25,281</u>	<u>\$23,803</u>	
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assumptions:			
Discount rate	4.25%	4.25%	4.75%
Rate of compensation increase	2.00%	1.75%	1.75%
Components of net periodic benefit cost:			
Service cost	\$ 290	\$ 375	\$ 391
Interest cost	1,056	1,134	1,247
Net periodic benefit cost	<u>\$1,346</u>	<u>\$1,509</u>	<u>\$1,638</u>

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

During 2005, the Company recorded a \$0.9 million settlement of its benefit obligation related to two plan participants. In one instance, a plan participant terminated employment with the Company resulting in the transfer of the full amount of his pension obligation to his current employer. In the second instance, a plan participant elected to receive a partial lump sum payment of his pension benefits upon his retirement.

The Company's policy is to fully fund the pension plan such that sufficient assets will be available to meet future benefit requirements. The pension benefits are fully reinsured within a group insurance contract with Victoria Lebensversicherung AG. The surrender value, which approximates fair value, at December 31, 2006 and 2005 was \$24.9 million and \$22.2 million, respectively. The expected contribution to be paid to the plan in 2007

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

is \$1.2 million. Because the pension assets are not segregated in trust from the Company's other assets for purposes of SFAS No. 87, "Employers' Accounting for Pensions," the pension assets are not shown as an offset against the pension liabilities in the Consolidated Balance Sheets. This asset is included in the Consolidated Balance Sheets at December 31, 2006 and 2005, as a component of assets designated for retirement and pension plans.

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

Years Ended December 31,	
2007	\$1,226
2008	1,237
2009	1,249
2010	1,260
2011	1,353
2012 through 2016	7,715

12. Stock-Based Compensation

On January 1, 2006, the Company adopted SFAS No. 123R using the modified prospective method. Upon adoption of SFAS No. 123R, the Company recognized income of \$0.4 million (\$0.2 million net of tax, or \$0.01 per diluted share) resulting from the application of an estimated forfeiture rate to its existing unvested awards, which was recorded as a component of salaries and employee benefits expense in the first quarter of 2006. The Company previously recognized forfeitures as they were incurred. Additionally, under SFAS No. 123R, the Company has elected to recognize compensation expense for all share-based awards with service periods beginning subsequent to the adoption of SFAS No. 123R on a straight-line basis over the service period of the award, unless the award has a performance condition, in which case compensation expense will be recognized using a graded vesting attribution method. Also, under SFAS No. 123R the benefits of tax deductions in excess of recognized compensation cost are now reported as a financing cash flow instead of as an operating cash flow as required under previous accounting literature.

Prior to the adoption of SFAS No. 123R, the Company applied the intrinsic-value-based method of accounting prescribed by APB No. 25 and related interpretations to account for its fixed-plan stock options. Under this method, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. The adoption of SFAS No. 123R results in compensation expense being recorded for stock options based on the grant date fair value of the options.

The following table shows the effect of adopting SFAS No. 123R on selected reported items ("As Reported") and what those items would have been under previous guidance under APB No. 25:

	Year Ended December 31, 2006	
	As Reported	Under APB No. 25
Income before income taxes	\$ 55,266	\$ 57,676
Net income	34,243	35,713
Cash flows provided by operating activities	99,767	103,922
Cash flows used in financing activities	(37,434)	(41,589)
Basic earnings per share	\$ 1.91	\$ 1.99
Diluted earnings per share	\$ 1.81	\$ 1.89

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Results for 2005 and 2004 have not been restated to reflect the adoption of SFAS No. 123R. Had compensation expense been determined based upon fair value at the grant date for all awards in accordance with SFAS No. 123R, the Company's pro forma net income and basic and diluted earnings per share for the years ended December 31, 2005 and 2004 would have been as follows:

	<u>2005</u>	<u>2004</u>
Net income:		
As reported	\$ 39,218	\$ 82,308
Add: Stock-based compensation expense already included in net income, net of tax in 2005	8,159	2,065
Deduct: Pro forma employee compensation cost related to stock options, restricted stock units and the performance share program, net of tax in 2005	(11,425)	(10,300)
Pro forma	<u>\$ 35,952</u>	<u>\$ 74,073</u>
Basic earnings per share:		
As reported	\$ 2.08	\$ 4.35
Pro forma	1.90	3.91
Diluted earnings per share:		
As reported	\$ 1.98	\$ 4.11
Pro forma	1.84	3.78

A summary of information with respect to share-based compensation for the years ended December 31, 2006, 2005, and 2004 were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total share-based compensation expense included in net income	\$ 24,800	\$ 13,599	\$ 2,065
Income tax benefit related to share-based compensation included in net income	9,672	5,440	—

For the year ended December 31, 2006, the excess tax benefit of \$4.2 million was reflected as a cash flow from financing activities in the consolidated statement of cash flows. Previously, under APB No. 25, excess tax benefits were recognized as a component of cash flows from operating activities. The total unrecognized compensation cost related to non-vested restricted stock and stock options that were not yet vested as of December 31, 2006 was approximately \$29.6 million pre-tax, which is expected to be recognized over a weighted average of 1.7 years.

GlobalShare Program

The 1998 Heidrick & Struggles GlobalShare Program I and the 1998 Heidrick & Struggles GlobalShare Program II (collectively, the "Plan"), administered by the Human Resources and Compensation Committee of the Board of Directors, permits the grant of awards 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, at the discretion of the Human Resources and Compensation Committee of the Board of Directors. No incentive option can have a term 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 authorized or reserved for issuance under the Plan is based on a formula which shall not exceed an aggregate amount equal to forty percent of the highest number of shares of the

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

The Plan further provides that the total number of shares with respect to which incentive stock options may be granted shall not exceed 2,000,000. No incentive stock options have been granted under the Plan as of December 31, 2006.

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 400,000. The maximum amount of a cash award received by any participant under the Plan may not exceed \$3.0 million in any one fiscal year.

The Company has the ability to settle equity awards by issuing shares held in treasury or through the issuance of authorized but unissued common stock.

During the third quarter of 2006, the Company revised its policy relating to the vesting of certain restricted stock units upon the eligible retirement of employees that hold such awards. According to SFAS No. 123R, this policy revision constitutes a modification of those equity awards. As a result, the Company was required to recognize the original grant date fair value compensation cost over an accelerated service period (i.e., through the earliest date each equity award holder is eligible to retire) for those awards affected by the modification. During 2006, the Company recorded an additional \$2.7 million of compensation expense related to the accelerated vesting of these restricted stock unit awards.

Restricted Stock Units

Under the Heidrick & Struggles International, Inc. Restricted Stock Unit Plan (the "RSU Plan"), 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 Human Resources and Compensation Committee of the Board of Directors on an annual basis. Under the RSU Plan, the maximum number of shares of common stock reserved for issuance is subject to adjustment for certain anti-dilution provisions. Under the RSU Plan, the restricted stock units include both ratable and cliff vesting ranging between 3 to 5 years from the date of grant beginning on the first anniversary after the date of grant. Compensation expense related to service-based restricted stock units is recognized on a straight-line basis over the vesting period. For awards requiring satisfaction of both service and performance conditions, compensation expense is recognized using a graded vesting attribution method.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Restricted stock unit activity for the years ended December 31, 2006, 2005 and 2004:

	<u>Number of Restricted Stock Units</u>	<u>Weighted- Average Grant-date Fair Value</u>
Outstanding on December 31, 2003	744,300	\$ 25.78
Granted	139,353	\$ 25.60
Vested and converted to common stock	(473,217)	\$ 29.87
Forfeited	(46,977)	\$ 28.89
Outstanding on December 31, 2004	363,459	\$ 19.99
Granted	681,787	\$ 35.67
Vested and converted to common stock	(184,288)	\$ 19.91
Forfeited	(39,458)	\$ 31.68
Outstanding on December 31, 2005	821,500	\$ 32.46
Granted	861,962	\$ 33.58
Vested and converted to common stock	(234,762)	\$ 27.01
Forfeited	(76,514)	\$ 34.38
Outstanding on December 31, 2006	<u>1,372,186</u>	<u>\$ 33.99</u>

As of December 31, 2006, there was \$27.5 million of total restricted stock unit compensation expense related to nonvested awards not yet recognized, which is expected to be recognized over a weighted average period of 1.7 years.

Non-qualified Stock Options

Stock options granted under the Plan have an exercise price that is equal to the fair value of the Company's common stock on the grant date. Options under the Plan are generally subject to ratable vesting over a 3 year period and generally have a contractual term of 5 years. Compensation expense is recognized on a straight-line basis over the vesting period.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Activity for non-qualified stock options for the years ended December 31, 2006, 2005, and 2004 is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding on December 31, 2003	3,499,408	\$ 22.85	4.1	\$ 43,947
Granted	534,570	\$ 26.19		
Exercised	(550,911)	\$ 15.56		
Expired	(209,074)	\$ 35.92		
Forfeited	(246,040)	\$ 19.00		
Outstanding on December 31, 2004	3,027,953	\$ 24.18	3.6	\$ 39,650
Granted	145,000	\$ 34.25		
Exercised	(598,769)	\$ 15.94		
Expired	(392,856)	\$ 41.32		
Forfeited	(135,783)	\$ 20.46		
Outstanding on December 31, 2005	2,045,545	\$ 24.25	3.3	\$ 26,799
Granted	111,000	\$ 33.19		
Exercised	(501,520)	\$ 20.13		
Expired	(88,887)	\$ 35.14		
Forfeited	(38,768)	\$ 31.64		
Outstanding on December 31, 2006	1,527,370	\$ 25.44	2.7	\$ 20,514
Exercisable on December 31, 2006	1,128,230	\$ 24.98	2.7	\$ 15,712

Information about non-qualified stock options at December 31, 2006 is as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 11.90 to \$18.40	603,884	1.8	\$ 13.74	506,965	\$ 13.69
\$ 25.43 to \$29.16	312,515	2.4	26.98	171,305	26.98
\$ 30.40 to \$40.73	610,971	3.8	36.20	449,960	36.94
\$ 11.90 to \$40.73	1,527,370	2.7	\$ 25.44	1,128,230	\$ 24.98

As of December 31, 2006, there was \$2.1 million of total stock option compensation expense related to nonvested awards not yet recognized, which is expected to be recognized over a weighted average period of 0.8 years.

Additional information pertaining to non-qualified stock options:

	Year Ended December 31,		
	2006	2005	2004
Weighted average grant date fair value of stock options granted	\$ 11.65	\$ 15.24	\$ 12.78
Total grant date fair value of stock options vested	5,120	7,891	11,082
Total intrinsic value of stock options exercised	9,201	10,477	5,744

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes valuation model with the following weighted average assumptions.

	Year Ended December 31,		
	2006	2005	2004
Expected life (in years)	3.4	4.5	4.5
Risk-free interest rate	4.7%	4.0%	3.6%
Expected volatility	40.8%	48.0%	48.0%
Expected dividend yield	0%	0%	0%

The expected term input is based on a forward-looking stock price lattice model incorporating the Company's historical exercise data and projected post-vest turnover rate. Expected volatility is based on a simple average of the historical volatility of the Company's stock corresponding to the expected term of the option and the implied volatility provided by its traded options pursuant to SEC Staff Accounting Bulletin No. 107 which expressed the views of the SEC Staff regarding the interaction between SFAS No. 123R and certain SEC rules and regulations. The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero coupon issues with a remaining term equal to the expected option life.

13. Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting comprehensive income. Comprehensive income includes net income and also considers the effect of additional economic events that are not required to be reported in determining net income, but rather are reported as a separate component of stockholders' equity. The Company reports foreign currency translation gains and losses and unrealized gains and losses on available-for-sale investments, net of tax, as components of comprehensive income.

In 2005, the Company determined that goodwill and intangible assets related to the 1999 acquisition of European assets and liabilities should have been denominated in the European currencies to which they relate, rather than the U.S. dollar. The cumulative impact of not subjecting the European goodwill and intangible assets to foreign currency translation since the 1999 acquisition through December 31, 2004 amounts to a \$0.7 million decrease in other comprehensive loss. This amount is not considered material and has been recorded as part of the foreign currency translation adjustment included in the statement of comprehensive income for the year ended December 31, 2005. See Note 7, *Goodwill and Other Intangible Assets*, for further information.

	Years Ended December 31,		
	2006	2005	2004
Comprehensive Income:			
Net income	\$34,243	\$39,218	\$82,308
Change in foreign currency translation adjustment	7,477	(5,739)	1,979
Change in unrealized gain (loss) on available-for-sale investments, net of tax	133	(339)	342
Total comprehensive income	<u>\$41,853</u>	<u>\$33,140</u>	<u>\$84,629</u>

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	December 31,	
	2006	2005
Accumulated other comprehensive income:		
Cumulative foreign currency translation adjustment	\$10,428	\$2,951
Adjustment to initially apply SFAS No. 158, net of tax	2,186	—
Net unrealized gain on available-for-sale investments, net of tax	137	4
Total accumulated other comprehensive income	<u>\$12,751</u>	<u>\$2,955</u>

The Company recorded taxes of \$29 thousand related to the unrealized gain on available-for-sale investments in 2006. In 2005 and 2004, the Company did not record a tax provision on available-for-sale investments due to the valuation allowance recorded in those years.

14. Basic and Diluted Earnings Per Common Share

A reconciliation of the basic and diluted earnings per share, and the shares used in the computation, for the years ended December 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
Net income	\$34,243	\$39,218	\$82,308
Weighted average common shares outstanding	17,925	18,898	18,941
Dilutive common shares	991	863	1,071
Weighted average diluted common shares outstanding	<u>18,916</u>	<u>19,761</u>	<u>20,012</u>
Basic earnings per common share	\$ 1.91	\$ 2.08	\$ 4.35
Diluted earnings per common share	\$ 1.81	\$ 1.98	\$ 4.11

At December 31, 2006, there were no outstanding options excluded from the diluted earnings per share computation since the average market price of the Company's common shares exceeded the exercise price of all outstanding options. Options to purchase 0.7 million, and 0.9 million shares of common stock that were outstanding during 2005 and 2004, respectively, were not included in the respective computation of diluted earnings per share as the exercise prices of these options were greater than the average market price of the common shares.

15. Restructuring Charges

During 2006, 2005 and 2004, the Company recorded restructuring charges of \$0.4 million, \$22.5 million and \$0.6 million, respectively.

The following table summarizes the workforce reductions and the restructuring charges for the years ended December 31, 2006, 2005 and 2004:

Restructuring Charges by Year:	Employee Reductions			Restructuring Charges		
	Consultants	All Other	Total	Employee-related	Office-related	Total
2004	—	—	—	\$ (63)	613	550
2005	15	42	57	14,139	8,354	22,493
2006	—	—	—	(43)	451	408

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

During 2004, the Company recorded \$0.6 million of restructuring charges to reflect changes in lease estimates primarily due to a tenant default on a sublease and the final determination and payment of certain severance-related restructuring accruals.

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

Certain costs associated with the restructuring initiatives that began in 2005 are to be recognized in subsequent periods when a liability is incurred. The Company expects that any future costs associated with these restructuring initiatives will not have a material impact on the Company's financial condition or results of operations.

During 2006, the Company recorded restructuring charges of \$0.4 million related to the final determination of certain severance accruals and the refinement of cost estimates concerning subleases for certain previously restructured properties.

The table below outlines the restructuring charges along with related cash payments and non-cash write-offs for each of the years in the three-year period ended December 31, 2006.

	Employee- related	Office- related	Total
Accrued restructuring charges as of December 31, 2003	\$ 6,443	\$ 39,345	\$ 45,788
Restructuring charges	(63)	613	550
Cash payments	(4,110)	(10,996)	(15,106)
Non-cash write-offs	—	(126)	(126)
Exchange rate fluctuations	108	1,027	1,135
Accrued restructuring charges as of December 31, 2004	2,378	29,863	32,241
Restructuring charges	14,139	8,354	22,493
Cash payments	(13,427)	(20,568)	(33,994)
Non-cash write-offs	—	(859)	(859)
Exchange rate fluctuations	(229)	(1,041)	(1,271)
Accrued restructuring charges as of December 31, 2005	2,861	15,749	18,610
Restructuring charges	(43)	451	408
Cash payments	(2,481)	(4,635)	(7,117)
Exchange rate fluctuations	133	679	813
Accrued restructuring charges as of December 31, 2006	\$ 470	\$ 12,244	\$ 12,714

The majority of the accrued restructuring charges as of December 31, 2006 relates to real estate leases which require cash payments through the lease terms, reduced by sublease income, or until such time as negotiations with the lessor to terminate the lease are completed. Based on current estimates, of the \$12.7 million of restructuring charges unpaid as of December 31, 2006, approximately \$3.3 million is expected to be paid in 2007 with the remainder payable in years subsequent to 2007.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

16. Significant Warrant Monetization

In 2001, the Company received warrants to purchase 1,194,308 shares of Class B common stock of Google Inc. (“Google”) at a price of \$0.30 per share issued in connection with recruitment fees. On August 19, 2004, the Company exercised the warrants pursuant to their cashless exercise feature and received 1,190,092 shares of Google common stock.

In multiple transactions on September 13, 2004 and September 14, 2004, the Company sold all the shares of common stock of Google that it held in ordinary brokerage transactions at an average price of \$108.22 less expenses associated with the transactions resulting in aggregate net proceeds of approximately \$128.8 million.

Pursuant to the terms of the Company’s compensation policy with respect to warrants then in effect, 55% of the net proceeds from these sales of shares of common stock of Google was payable to our consultants involved with the search in the month following the monetization. The Company’s Chief Executive Officer at that time, Thomas J. Friel, was a member of this search team and received 25% of the consultants’ team share. Mr. Friel’s share was solely related to his work as a search consultant in 2001, at which time he was not the Company’s Chief Executive Officer. Mr. Friel elected to defer receipt of his share of the net proceeds until June 2005 under an existing deferred compensation plan. The remaining 75% of the consultants’ team share of the net proceeds, approximately \$53.1 million, was paid in October 2004.

17. Realized and Unrealized Gains (Losses) on Equity and Warrant Portfolio

The realized and unrealized gains (losses) on the equity and warrant portfolio, net of the consultants’ share of the gains (losses) and other costs, for the years ended December 31, 2006, 2005 and 2004 are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Realized gains on investments	\$ 649	\$ 996	\$57,041
Unrealized gains (losses) on derivative instruments	(139)	(1,015)	31
Net realized and unrealized gains (losses) on equity and warrant portfolio, net of the consultant’s share of the gains (losses)	<u>\$ 510</u>	<u>\$ (19)</u>	<u>\$57,072</u>

During 2004, the Company recognized realized gains of \$57.0 million, net of the consultants’ share of the gain and other costs, including \$56.8 million related to the monetization of its shares of common stock of Google.

18. Income Taxes

The sources of income before income taxes for the years ended December 31, 2006, 2005 and 2004 are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
United States	\$ 26,930	\$ 23,567	\$ 77,375
Foreign	28,336	4,915	9,724
Income before income taxes	<u>\$ 55,266</u>	<u>\$ 28,482</u>	<u>\$ 87,099</u>

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The provision for (benefit from) income taxes for the years ended December 31, 2006, 2005 and 2004 is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current—			
Federal	\$16,507	\$ 287	12,216
State and local	3,107	674	1,355
Foreign	10,428	5,095	1,730
Deferred	(9,019)	(16,792)	(10,510)
Total provision for (benefit from) income taxes	<u>\$21,023</u>	<u>(10,736)</u>	<u>(4,791)</u>

A reconciliation of the provision for (benefit from) income taxes for the years ended December 31, 2006, 2005 and 2004 to income taxes at the statutory U.S. federal income tax rate of 35% is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Income tax provision at the statutory U.S. federal rate	\$19,343	\$ 9,969	\$ 30,485
State income tax provision, net of federal tax benefit	1,966	558	1,374
Nondeductible expenses	493	872	(799)
Foreign tax higher than U.S. (includes changes in foreign valuation allowance)	334	622	1,341
Increase (decrease) in U.S. valuation allowance	—	(24,628)	(28,518)
Other, net	(1,113)	1,871	908
Total provision for (benefit from) income taxes	<u>\$21,023</u>	<u>\$(10,736)</u>	<u>\$ 4,791</u>

Other, net for the year ended December 31, 2006 includes a \$1.6 million net benefit from the correction of prior year misstatements that result in the Company's ability to claim refund opportunities for past taxes paid in the U.S. taxing jurisdiction.

The deferred tax amounts have been classified in the Consolidated Balance Sheets as of December 31, 2006 and 2005 as follows:

	<u>2006</u>	<u>2005</u>
Current deferred tax assets	\$ 21,694	\$ 12,686
Current deferred tax liabilities	(3,143)	(528)
Valuation allowance	(3,607)	(3,579)
Current deferred tax asset, net	<u>14,944</u>	<u>8,579</u>
Non-current deferred tax assets	52,390	47,440
Non-current deferred tax liabilities	(2,647)	297
Valuation allowance	(25,114)	(26,374)
Non-current deferred tax asset, net	<u>24,629</u>	<u>21,363</u>
Net deferred tax assets	<u>\$ 39,573</u>	<u>\$ 29,942</u>

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The deferred tax assets and liabilities as of December 31, 2006 and 2005 are attributable to the following components:

	<u>2006</u>	<u>2005</u>
Deferred tax assets attributable to:		
Receivable allowances	\$ 1,902	\$ 1,041
Accrued vacation	1,788	1,464
Accrued bonuses	7,429	6,661
Liability for nonqualified retirement plans	10,762	10,422
Accrued compensation—RSU plan	10,048	4,376
Accrued rent	1,674	1,811
Depreciation on property and equipment	1,818	1,285
Foreign net operating loss carryforwards	11,621	11,692
Goodwill	1,981	3,316
Accrued restructuring charges	5,624	7,145
Deferred compensation	6,748	3,153
U.S. foreign tax credit carryforwards	8,373	6,572
Other accrued expenses	3,304	1,188
Deferred tax assets, before valuation allowance	<u>73,072</u>	<u>60,126</u>
Deferred tax liabilities attributable to:		
Unrealized gain on equity and warrant portfolio	394	298
Prepaid expenses	(686)	(528)
Other	(4,486)	(1)
Deferred tax liabilities	<u>(4,778)</u>	<u>(231)</u>
Valuation allowance	<u>(28,721)</u>	<u>(29,953)</u>
Net deferred tax assets	<u>\$ 39,573</u>	<u>\$ 29,942</u>

Certain amounts at December 31, 2005 have been reclassified to conform to the current year presentation.

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

The valuation allowance decreased from \$30.0 million as of December 31, 2005 to \$28.7 million as of December 31, 2006. The valuation allowance as of December 31, 2006 and 2005 was related to foreign deferred tax assets, foreign net operating loss carryforwards, and the U.S. foreign tax credit carryforwards. The Company intends to maintain these valuation allowances until sufficient positive evidence exists to support their reversal.

In 2005, the Company concluded it was more likely than not that a majority of its U.S. deferred tax assets would be recoverable. As a result, during the third quarter of 2005, the Company reduced the valuation allowance related to the majority of U.S. deferred tax assets.

At December 31, 2006, the Company has \$33.4 million of loss carryforwards related to its foreign tax filings. Depending on the tax rules of the foreign tax jurisdictions, the losses can be carried forward indefinitely or the carryforward periods are limited, ranging from 5 years to 15 years. The Company also has U.S. foreign tax credit carryforwards of \$8.4 million, which expire in 2009 through 2016.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of December 31, 2006, the Company had unremitted earnings held in its foreign subsidiaries of approximately \$35.1 million. The Company has not recognized a deferred tax liability for U.S. income taxes and foreign withholding taxes related to the unremitted earnings of its foreign operations because the Company intends to reinvest those earnings indefinitely. Determination of the amount of unrecognized deferred tax liability related to unremitted earnings of foreign subsidiaries is not practicable. A deferred tax liability will be recognized if and when the Company is no longer able to demonstrate that it plans to permanently reinvest unremitted earnings.

19. Segment Information

The Company operates its executive search and leadership consulting services in three geographic regions: the Americas, which includes the United States, Canada, Mexico and Latin America; Europe, which includes the Middle East and Africa; and Asia Pacific.

For segment purposes, reimbursements of out-of-pocket expenses classified as revenue are reported separately and therefore are not included in the net revenue by geographic region. The Company believes that analyzing trends in revenue before reimbursements (net revenue) and analyzing operating expenses as a percentage of net revenue more appropriately reflects the Company's core operations.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The revenue, operating income, depreciation and amortization, and capital expenditures, by segment, for the years ended December 31, 2006, 2005 and 2004 are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenue:			
Americas	\$265,421	\$238,582	\$214,410
Europe	163,605	134,259	129,323
Asia Pacific	49,497	39,456	31,699
Revenue before reimbursements (net revenue)	478,523	412,297	375,432
Reimbursements	23,471	20,553	22,744
Total	<u>\$501,994</u>	<u>\$432,850</u>	<u>\$398,176</u>
Operating income:			
Americas	\$ 53,929	\$ 50,356	\$ 46,882
Europe	14,883	7,651	3,593
Asia Pacific	13,278	10,401	6,312
Total regions	82,090	68,408	56,787
Corporate	(31,633)	(24,429)	(27,577)
Operating income before restructuring charges	50,457	43,979	29,210
Restructuring charges	(408)	(22,493)	(550)
Total	<u>\$ 50,049</u>	<u>\$ 21,486</u>	<u>\$ 28,660</u>
Depreciation and amortization:			
Americas	\$ 4,566	\$ 4,890	\$ 6,268
Europe	3,524	4,189	4,363
Asia Pacific	813	809	754
Total regions	8,903	9,888	11,385
Corporate	1,479	1,357	1,800
Total	<u>\$ 10,382</u>	<u>\$ 11,245</u>	<u>\$ 13,185</u>
Capital expenditures:			
Americas	\$ 1,977	\$ 2,477	\$ 2,193
Europe	1,765	1,923	2,545
Asia Pacific	895	1,095	401
Total regions	4,637	5,495	5,139
Corporate	887	643	882
Total	<u>\$ 5,524</u>	<u>\$ 6,138</u>	<u>\$ 6,021</u>

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Identifiable assets, and goodwill and other intangible assets, by segment, at December 31, 2006 and 2005 are as follows:

	December 31,	
	2006	2005
Identifiable assets:		
Americas	\$ 136,778	\$ 84,076
Europe	174,880	112,079
Asia Pacific	57,212	37,285
Total regions	<u>368,870</u>	<u>233,440</u>
Corporate	150,900	177,482
Total	<u>\$ 519,770</u>	<u>\$ 410,922</u>
Goodwill and other intangible assets, net:		
Americas	\$ 70,281	\$ 33,674
Europe	21,313	17,586
Asia Pacific	2,251	1,634
Total regions	<u>93,845</u>	<u>52,894</u>
Corporate	—	—
Total	<u>\$ 93,845</u>	<u>\$ 52,894</u>

20. Guarantees

The Company has provided a bank guarantee to a European country's tax authority in the amount of the tax authority's audit assessment plus future interest as required by law. The amount of this bank guarantee is \$7.5 million. The bank guarantee is determined based upon the tax audit assessment plus future accrued interest. See Note 3, *Restricted Cash*.

The Company has issued guarantees supporting the payment of obligations of certain subsidiaries in Europe and Asia Pacific for office leases. The guarantees were made to secure the respective lease agreements and are for the term of the lease agreements, which extend through 2013. For each guarantee issued, should the subsidiary default on a lease payment, the Company would have to perform under the guarantee. The maximum amount of undiscounted payments the Company would be required to make in the event of default on all outstanding guarantees is approximately \$1.7 million as of December 31, 2006. No amount has been accrued for the Company's obligation under these guarantee arrangements as no event of default exists or is expected.

21. Commitments and Contingencies

Operating Leases

The Company leases office space in various buildings for its own use. The terms of these office-related leases provide that the Company pay 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 certain computer equipment, the terms of which are accounted for as operating leases. Rent expense, which includes the base rent, operating expenses and real estate taxes, and the costs of equipment leases for the years ended December 31, 2006, 2005 and 2004, was \$29.2 million, \$28.0 million and \$29.8 million, respectively.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

Year ending December 31,	Office Leases	Equipment Leases	Total
2007	\$ 30,547	\$ 921	\$ 31,468
2008	26,539	681	27,220
2009	23,652	363	24,015
2010	17,539	103	17,642
2011	11,023	18	11,041
Thereafter	42,695	—	42,695
Total	<u>\$ 151,995</u>	<u>\$ 2,086</u>	<u>\$ 154,081</u>

The aggregate minimum future lease payments on office leases is \$152.0 million. The Company has contractual sub-lease arrangements to receive aggregate sublease income of \$15.4 million related to certain leases that expire at various dates through 2016. The sublease income relates to properties which were sublet as part of the office consolidations and closings previously announced. See Note 15, *Restructuring Charges*, for additional information.

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

Litigation

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

In December 2002, Mt. Sinai Medical Center of Miami filed suit against the Company regarding a search for a chief executive officer that the Company performed in 1998. The suit sought damages, including between \$59 million and \$75 million, based primarily upon the operating loss incurred by Mt. Sinai in 2001, the chief executive officer's last year at the hospital. On June 30, 2004, the judge presiding over this case in the U.S. District Court for the Southern District of Florida granted summary judgment in favor of the Company, dismissing all the claims made by Mt. Sinai. Mt. Sinai then filed an appeal with respect to this decision. On July 12, 2006, the U.S. Court of Appeals for the 11th Circuit Court affirmed the decision of the U.S. District Court of the Southern District of Florida to dismiss all claims made against the Company. On July 31, 2006, Mt. Sinai filed a petition for re-hearing with the 11th Circuit Court, which petition was denied on August 16, 2006. This denial represents a final disposition of Mt. Sinai's appeal. Subsequently, on October 2, 2006, the parties entered into a release agreement at no cost to the Company, pursuant to which Mt. Sinai agreed to forgo any action whatsoever to continue the litigation against the Company.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Contingencies

During the fourth quarter of 2005, a European country commenced a tax audit for the years 2001 to 2004, including an examination of the Company's arrangement with professional services companies that provide consulting services to the Company. On November 24, 2006, the examining tax authority issued a final assessment in the amount of €4.3 million (equivalent to \$5.5 million). No penalty has been included in this assessment. This final assessment has been appealed by the Company and the enforcement of the assessment has been suspended until a final determination of the appeal. The Company has provided a bank guarantee to the tax authority in the amount of the final assessment as required by local law. See Note 3, *Restricted Cash*. At this time, the Company believes that the likelihood of an unfavorable outcome is not probable and that the potential amount of any loss cannot be reasonably estimated. The Company also believes that the amount of a final assessment, if any, would not be material to the Company's financial condition.

SCHEDULE II
HEIDRICK & STRUGGLES INTERNATIONAL, INC.
VALUATION AND QUALIFYING ACCOUNTS

<u>Allowance for Doubtful Accounts:</u>	<u>Balance at</u>	<u>Charged to</u>	<u>Changes</u>	<u>Charged to</u>	<u>Balance at</u>
<u>Year Ended December 31,</u>	<u>Beginning</u>	<u>Costs &</u>	<u>Including</u>	<u>Goodwill</u>	<u>End of</u>
<u></u>	<u>of Year</u>	<u>Expenses</u>	<u>Currency</u>	<u></u>	<u>Year</u>
<u></u>	<u></u>	<u></u>	<u>Translation</u>	<u></u>	<u></u>
2006	\$ 2,668	792	632	511	\$ 4,603
2005	\$ 3,049	854	(1,235)	—	\$ 2,668
2004	\$ 4,387	(668)	(670)	—	\$ 3,049

See accompanying Report of Independent Registered Public Accounting Firm.

PART II (continued)

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of September 30, 2006, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15(b) of the Exchange Act. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2006, as previously disclosed in the Company's Form 10-Q for the quarterly period ended September 30, 2006.

Subsequent to the filing of the Form 10-Q for the quarterly period ended September 30, 2006, management identified two material weaknesses in the design of the Company's internal control over financial reporting related to its accounting for income taxes. The first material weakness related to the lack of effective controls to properly account for changes in deferred income taxes due to changes in foreign currency exchange rates. The second material weakness related to the lack of effective controls to properly account for the failure to settle intercompany transactions with certain non U.S. subsidiaries within timeframes specified by U.S. tax laws. The material weaknesses resulted in immaterial misstatements to prior period financial statements and created a more than remote likelihood that a material misstatement of the annual or interim financial statements would not be prevented or detected on a timely basis.

Based on the material weaknesses discussed above, the Chief Executive Officer and Chief Financial Officer now conclude that the disclosure controls and procedures were not effective as of December 31, 2005, or during the first three calendar quarters of 2006.

Under the supervision of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design of the Company's disclosure controls and procedures as of December 31, 2006. Based on that evaluation, and considering the remediation of the material weaknesses that occurred during the fourth quarter of 2006 as discussed below, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2006.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 using criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and concluded that the Company maintained effective internal control over financial reporting as of December 31, 2006.

[Table of Contents](#)

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

Our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included on page 71.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting (page 69), that Heidrick & Struggles International, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Heidrick & Struggles International, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, management's assessment that Heidrick & Struggles International, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Heidrick & Struggles International, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Heidrick & Struggles International, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated March 15, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Chicago, Illinois
March 15, 2007

Changes in Internal Control Over Financial Reporting

Except as discussed below, there have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2006 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

During the fourth quarter of 2006, the Company enhanced its policies and procedures associated with accounting for income taxes to ensure that changes in foreign currency exchange rates are properly reflected in the income tax accounts. Also, during the fourth quarter of 2006, the Company enhanced its policies and procedures to require timely review and reconciliation of intercompany transactions and implemented a revised policy requiring the timely settlement of intercompany balances.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item will be included under the captions “Election of Class II Directors,” “Committees of the Board of Directors,” “Nominations for Directors,” “Code of Ethics” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our 2007 Proxy Statement and is incorporated herein by reference. See also “Executive Officers” included in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item will be included under the general captions “Executive Compensation,” and “Director Compensation” in our 2007 Proxy Statement and is incorporated herein by reference.

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

The information required by this Item will be included under the caption “Voting Securities of Certain Beneficial Owners and Management” in our 2007 Proxy Statement and is incorporated herein by reference.

Equity Compensation Plan Information

The following table sets forth additional information as of December 31, 2006, about shares of our common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements, divided between plans approved by our stockholders and plans or arrangements not submitted to the stockholders for approval.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders (1)	2,899,556(2)	\$ 25.44	1,388,928
Equity compensation plans not approved by stockholders	—	—	—
Total equity compensation plans	2,899,556	\$ 25.44	1,388,928

(1) For a description of the types of securities that may be issued under our GlobalShare Program I and GlobalShare Program II (collectively, the “Plan”), please read Note 12, *Stock-Based Compensation*, in the Notes to Consolidated Financial Statements contained in Item 8 to this annual report on Form 10-K. The amount of any type of security to be issued under the Plan is to be determined by the Compensation Committee at the date of grant.

(2) Includes 1,372,186 restricted stock units.

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

The information required by this Item will be included under the caption “Certain Relationships and Related Transactions,” “Corporate Governance” in our 2007 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item will be included under the caption “Principal Accountant Fees and Services” in our 2007 Proxy Statement and is incorporated herein by reference.

PART IV**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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

1. Index to Consolidated Financial Statements:

See Consolidated Financial Statements included as part of this Form 10-K beginning on page 33.

2. Financial Statement Schedules:

[Schedule II—Valuation and Qualifying Accounts](#)

Page
68

3. Exhibits:

<u>Exhibit No.</u>	<u>Description</u>
3.01	Amended and Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.02 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023))
3.02	Amended and Restated By-laws of the Registrant (Incorporated by reference to Exhibit 3.02 of the Registrant's Form 10-K Filed March 26, 2003)
4.01	Specimen Stock Certificate (Incorporated by reference to Exhibit 4.01 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023))
10.01	Credit Agreement among Heidrick & Struggles International, Inc., the Lenders party thereto and JPMorgan Chase Bank, as administrative Agent dated December 22, 2003 (Incorporated by reference to Exhibit 10.01 of the Registrants Form 10-K, filed March 12, 2004)
10.02	Amendment No. 1 to Credit Agreement between Heidrick & Struggles International, Inc., the Lenders party thereto and JPMorgan Chase Bank, as Administrative Agent dated December 22, 2003 (Incorporated by reference to Exhibit 10.01 of the Registrant's Form 10-Q filed August 6, 2004)
*10.03	Credit Agreement among Heidrick & Struggles International, Inc., the Lenders party thereto and JPMorgan Chase Bank, as administrative Agent dated October 26, 2006
10.04	Purchase Agreement, dated as of September 18, 2006, by and among Hudson Highland Group, Inc., Highland Partners Co (Canada), Highland Partners (Aust) Pty Ltd and Highland Partners Limited, and the Company, Heidrick & Struggles Canada, Inc. and Heidrick & Struggles Australia, Ltd (Incorporated by reference to Exhibit 10.01 of the Registrant's Form 8-K Filed September 20, 2006)
10.05	Employment Agreement of Thomas J. Friel (Incorporated by reference to Exhibit 10.01 of the Registrants Form 10-Q filed on August 14, 2003)
10.06	Employment agreement of Eileen A. Kamerick (Incorporated by reference to Exhibit 10.02 of the Registrant's Form 10-Q filed on August 6, 2004)
10.07	Employment Agreement of Jeffery R. Scherb (Incorporated by reference to Exhibit 10.06 of the Registrant's Form 10-K filed on March 11, 2005)
10.08	Employment Agreement of L. Kevin Kelly (Incorporated by reference to Exhibit 10.08 of the Registrant's Form 10-K filed on March 11, 2005)
10.09	Employment Agreement of Bonnie W. Gwin (Incorporated by reference to Exhibit 99.1 of the Registrant's Form 8-K filed on September 28, 2006)

Table of Contents

<u>Exhibit No.</u>	<u>Description</u>
*10.10	Employment Agreement of Michael Franzino
*10.11	Employment Agreement of Vincent C. Perro
*10.12	Employment Agreement of Kelvin J.R. Bolli-Thompson
10.13	Separation Agreement and General Release between Vincent C. Perro and Heidrick & Struggles International, Inc., (Incorporated by reference to Exhibit 99.1 of the Registrants Form 8-K filed on February 20, 2007)
10.14	Separation Agreement and General Release between Jeffrey R. Scherb and Heidrick & Struggles International, Inc., (Incorporated by reference to Exhibit 99.1 of the Registrants Form 8-K filed on December 14, 2006)
10.15	Heidrick & Struggles International, Inc. Restricted Stock Unit Plan (Incorporated by reference to Exhibit 4.03 of this Registrant's Registration Statement on Form S-8 (File No. 333-32544))
10.16	Amendment No. 1 to the Heidrick & Struggles Restricted Stock Unit Plan (Incorporated by reference to Exhibit 99.05 of the Registrant's Form 10-K filed on March 29, 2002)
10.17	Heidrick & Struggles International, Inc. U.S. Employees Deferred Compensation Plan (Incorporated by reference to Exhibit 10.10 of the Registrant's Form 10-K filed on March 10, 2006)
10.18	Heidrick & Struggles International, Inc. Deferred Compensation Plan (Incorporated by reference to Exhibit 4.1 of this Registrant's Registration Statement on Form S-8 (File No. 333-82424))
10.19	Form of Heidrick & Struggles Non-Qualified Stock Option Agreement (Incorporated by reference to Exhibit 10.01 of the Registrant's Form 10-Q filed on November 9, 2004)
*21.01	Subsidiaries of the Registrant
*23.01	Consent of Independent Registered Public Accounting Firm
*31.1	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith.

(b) SEE EXHIBIT INDEX ABOVE

(c) FINANCIAL STATEMENTS NOT PART OF ANNUAL REPORT

None.



CREDIT AGREEMENT

dated as of

October 26, 2006

among

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

The Lenders Party Hereto

LASALLE BANK NATIONAL ASSOCIATION and BANK OF AMERICA, N.A.,
as Co-Syndication Agents

and

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION
as Administrative Agent

J.P. MORGAN SECURITIES INC.
as Arranger

TABLE OF CONTENTS

		<u>Page</u>
	ARTICLE	
SECTION 1.01.	Defined Terms.	1
SECTION 1.02.	Classification of Loans and Borrowings.	22
SECTION 1.03.	Terms Generally.	22
SECTION 1.04.	Accounting Terms; GAAP.	23
	ARTICLE II	
	The Credits	
SECTION 2.01.	Commitments.	23
SECTION 2.02.	Loans and Borrowings.	23
SECTION 2.03.	Requests for Revolving Borrowings.	24
SECTION 2.04.	Determination of Dollar Amounts; Required Payments.	25
SECTION 2.05.	Reserved.	25
SECTION 2.06.	Letters of Credit.	25
SECTION 2.07.	Funding of Borrowings.	30
SECTION 2.08.	Interest Elections.	31
SECTION 2.09.	Termination and Reduction of Commitments.	32
SECTION 2.10.	Repayment of Loans; Evidence of Debt.	33
SECTION 2.11.	Prepayment of Loans.	33
SECTION 2.12.	Fees.	34
SECTION 2.13.	Interest.	35
SECTION 2.14.	Alternate Rate of Interest.	36
SECTION 2.15.	Increased Costs.	36
SECTION 2.16.	Break Funding Payments.	37
SECTION 2.17.	Taxes.	38
SECTION 2.18.	Payments Generally; Pro Rata Treatment; Sharing of Set-offs.	39
SECTION 2.19.	Mitigation Obligations; Replacement of Lenders.	41
SECTION 2.20.	Changes in Capital Adequacy Regulations.	42
SECTION 2.21.	Market Disruption.	42
SECTION 2.22.	Judgment Currency.	43
SECTION 2.23.	Increase of Commitments.	44
	ARTICLE III	
	Representations and Warranties	
SECTION 3.01.	Organization; Powers; Subsidiaries.	46
SECTION 3.02.	Authorization; Enforceability.	47
SECTION 3.03.	Governmental Approvals; No Conflicts.	47
SECTION 3.04.	Financial Condition; No Material Adverse Change.	47
SECTION 3.05.	Properties.	48

SECTION 3.06.	Litigation, Labor Matters and Environmental Matters.	48
SECTION 3.07.	Compliance with Laws and Agreements; No Burdensome Restrictions.	48
SECTION 3.08.	Investment Company Status.	49
SECTION 3.09.	Taxes.	49
SECTION 3.10.	ERISA.	49
SECTION 3.11.	Disclosure.	49
SECTION 3.12.	No Default.	50
SECTION 3.13.	Liens.	50
SECTION 3.14.	Contingent Obligations.	50
SECTION 3.15.	Regulation U.	50

ARTICLE IV
Conditions

SECTION 4.01.	Effective Date.	50
SECTION 4.02.	Each Credit Event.	51

ARTICLE V
Affirmative Covenants

SECTION 5.01.	Financial Statements and Other Information.	52
SECTION 5.02.	Notices of Material Events.	53
SECTION 5.03.	Existence; Conduct of Business.	54
SECTION 5.04.	Payment of Obligations.	54
SECTION 5.05.	Maintenance of Properties; Insurance.	54
SECTION 5.06.	Books and Records; Inspection Rights.	54
SECTION 5.07.	Compliance with Laws.	54
SECTION 5.08.	Use of Proceeds and Letters of Credit.	54
SECTION 5.09.	Additional Subsidiary Documentation.	55
SECTION 5.10.	Pledge Agreements.	55

ARTICLE VI
Negative Covenants

SECTION 6.01.	Indebtedness.	56
SECTION 6.02.	Liens.	57
SECTION 6.03.	Fundamental Changes.	58
SECTION 6.04.	Investments, Loans, Advances, Guarantees and Acquisitions.	59
SECTION 6.05.	Swap Agreements.	60
SECTION 6.06.	Restricted Payments.	60
SECTION 6.07.	Transactions with Affiliates.	61
SECTION 6.08.	Restrictive Agreements.	61
SECTION 6.09.	Changes in Fiscal Year.	62
SECTION 6.10.	Subordinated Indebtedness.	62
SECTION 6.11.	Financial Covenants.	62

ARTICLE VII
Events of Default

ARTICLE VIII
The Administrative Agent

ARTICLE IX
Miscellaneous

SECTION 9.01.	Notices.	70
SECTION 9.02.	Waivers; Amendments.	71
SECTION 9.03.	Expenses; Indemnity; Damage Waiver.	72
SECTION 9.04.	Successors and Assigns.	73
SECTION 9.05.	Survival.	76
SECTION 9.06.	Counterparts; Integration; Effectiveness.	76
SECTION 9.07.	Severability.	77
SECTION 9.08.	Right of Setoff.	77
SECTION 9.09.	Governing Law; Jurisdiction; Consent to Service of Process.	77
SECTION 9.10.	WAIVER OF JURY TRIAL.	78
SECTION 9.11.	Headings.	78
SECTION 9.12.	Confidentiality.	78
SECTION 9.13.	Interest Rate Limitation.	79
SECTION 9.14.	USA PATRIOT Act.	80

SCHEDULES:

Schedule 2.01	— Commitments
Schedule 2.02	— Mandatory Cost
Schedule 2.06	— Existing Letters of Credit
Schedule 3.01	— Subsidiaries
Schedule 3.06	— Disclosed Matters
Schedule 6.01	— Existing Indebtedness
Schedule 6.02	— Existing Liens
Schedule 6.04	— Existing Investments
Schedule 6.08	— Existing Restrictions

EXHIBITS:

Exhibit A	— Form of Assignment and Assumption
Exhibit B-1	— Form of Opinion of Chief Legal Counsel
Exhibit B-2	— Form of Opinion of McDermott Will & Emery LLP
Exhibit C	— Form of Subsidiary Guaranty
Exhibit D	— Form of Commitment and Acceptance
Exhibit E	— List of Closing Documents

DEFINITION LIST

ABR	Definition of Applicable Rate Definition of Interest Payment Date Sections 2.02(b) and (c) Sections 2.03 and 2.03(iii) Sections 2.06(e) and (h) Sections 2.07(a) and (b) Sections 2.08(c)(iii) and (e) Section 2.11(b) Sections 2.13(a), (c) and (d) Section 2.14 ETC
Adjusted LIBO Rate	Definition of Eurocurrency Definition of Type Sections 2.13(b) and (e) Sections 2.14(a) and (b) Section 2.15(a)(i) Section 2.16(d)(i)
Affected Foreign Subsidiary	Definition of Subsidiary Guarantor Section 5.09 Section 5.10 Article VIII
Affiliate	Definition of Holders of Secured Obligations Definition of Issuing Bank Definition of Lender Affiliate Definition of Obligations Definition of Related Parties Definition of Secured Obligations Section 2.02(b) Section 2.17(c)(ii) Section 5.02(b) Section 6.05 and (b) ETC
Agreed Currencies	Definition of Business Day Definition of Eurocurrency Payment Office
Alternate Base Rate	Definition of ABR Definition of Type Section 2.13(a) and (e)
Applicable Percentage	Definition of LC Exposure Section 2.02(a) Sections 2.06(d) and (e) Section 2.09(c) Section 2.18(c) Section 9.03(c)

Applicable Rate	Section 2.06(h) Sections 2.12(a) and (b) Section 2.13(a) and (b) Section 5.01(d) Schedule 2.02 B
Approximate Equivalent Amount Business Day	Section 2.02(c) Definition of Applicable Rate Definition of Eligible Currency Definition of <u>Federal Funds Effective Rate</u>
Buying Lender Capital Lease Obligations	Section 2.23(b) Definition of Consolidated Interest Expense Definition of Indebtedness Section 6.01(e)
Capital Stock	Definition of Collateral Definition of Equity Interests Definition of <u>First Tier Foreign Subsidiary</u> .
Change in Control Change in Law	Article VII (m) Sections 2.15(a), (b) and (d) Schedule 2.02 13
Collateral	Definition of Collateral Documents Section 3.13 Section 5.10 Article VIII Article VIII (vi) Section 9.02(b)(vi)
Collateral Documents	Definition of Collateral Definition of Loan Documents Section 3.01 Section 3.13 Section 5.10 Section 6.02(e) Article VIII
Commitment Increase Notice Computation Date	Sections 2.23(a) and (b) Definition of Dollar Amount Section 2.04
Consolidated Capital Expenditures Consolidated EBITDA Consolidated EBITDAR Consolidated Interest Expense Consolidated Interest Income	Section 6.11.1 Section 6.11.2 Section 6.11.1 Section 6.11.1 Definition of Consolidated EBITDA Definition of Consolidated EBITDAR
Consolidated Net Income Consolidated Operating Expense Consolidated Operating Income	Definition Only Definition of Operating Income Definition of Consolidated EBITDA Definition of Consolidated EBITDAR Definition of Consolidated Rental Expense

Consolidated Rental Expense	Definition of Consolidated EBITDAR
Consolidated Rental Payments	Section 6.11.1
Consolidated Total Indebtedness	Section 6.11.2
Dollar Amount	Definition of LC Exposure
	Definition of Revolving Credit Exposure
	Section 2.01
	Section 2.04
	Sections 2.06(b), (d) and (e)
	Section 2.09(b)
	Sections 2.12(a) and (b)
	Section 2.18(a)
	Section 2.21
	Section 2.23(b)
	ETC
Eligible Currency	Definition of Agreed Currencies
	Section 2.21
Equity Interests	Definition of Change of Control
	Definition of Hostile Acquisition
	Definition of Permitted Acquisition
	Definition of Restricted Payment
	Section 3.01
	Section 6.04(l)
	Section 6.05
	Sections 6.06(a) and (b)
ERISA Affiliate	Definition of ERISA Event
	Definition of Plan
ERISA Event	Section 3.10
	Section 5.02(c)
	Article VII (l)
Eurocurrency	Definition Only
Event of Default	Definition of Default
	Definition of Permitted Encumbrances (e)
	Section 2.06(j)
	Section 2.08(e)
	Section 2.16(a)
	Section 2.23(a)
	Section 4.02
	Section 6.06(c)
	Article VIII
	Section 9.04(A)
	ETC
Excluded Taxes	Definition of Indemnified Taxes
Federal Funds Effective Rate	Definition of Alternate Base Rate
	Section 2.07(b)
	Section 2.18(d)
	Section 9.13

Financial Officer	Section 4.01(e) Sections 5.01(b) and (d) Section 5.02 Exhibit E – D
First Tier Foreign Subsidiary	Section 5.10
Fixed Charge Coverage Ratio	Section 6.11.1
Foreign Subsidiary	Definition of First Tier Foreign Subsidiary Definition of Permitted Acquisition Definition of Permitted Investments (h) and (k) Definition of Permitted <u>Two-Year Investments</u> (e)
Guarantee	Definition of Indebtedness Sections 6.01(d) and (i) Section 6.04, (d) and (g) Section 6.08(b)
Holdings of Secured Obligations	Definition of Collateral Definition of Pledge Agreements Section 5.10 Section 6.02 Article VIII Exhibit C; Sections 4(H) and (J); Sections 7(A) and (B); Section 12; Section 17(B); Section 20 and Section 24
Hostile Acquisition	Definition of Permitted Acquisition
Indebtedness	Definition of Consolidated Total Indebtedness Definition of Guarantee Definition of Material Indebtedness Definition of Permitted Acquisition Definition of Permitted Encumbrances Definition of Subordinated Indebtedness Section 4.01(g) Section 5.08 Section 6.01(a)-(k) Section 6.02(d)(i) ETC
Indemnified Taxes	Sections 2.17(a), (c) and (d)
Interest Election Request	Sections 2.08(b), (c)(i) and (ii), (d) and (e) Section 2.14 Section 2.21 Section 2.13(d)
Interest Payment Date	Definition of Adjusted LIBO Rate
Interest Period	Definition of Borrowing Definition of Interest Payment Date Section 2.01(a) and (b) Section 2.02 and (iv) Section 2.08(a), (b), (c)(iv) and (e)

	Section 2.10(c)
	Section 2.13(b) and (d)
	Section 2.14(a) and (b)
	Section 2.16(a), (b) and (d)(i)
	ETC
LC Disbursement	Definition of Business Day
	Definition of Credit Event
	Definition of Eligible Currency
	Definition of LC Exposure
	Definition of Obligations
	Section 2.02 (c)
	Section 2.03
	Section 2.04
	Sections 2.06(d), (e), (g), (h) and (j)
	Section 2.07(a)
	ETC
LC Exposure	Definition of Revolving Credit Exposure
	Sections 2.06(b) and (j)
	Section 2.12(b)
Lender Affiliate	Definition Only
Lender Increase Notice	Section 2.23
Lien	Definition of Collateral
	Definition of Indebtedness
	Definition of Permitted Encumbrances (a), (b) and (f)
	Section 3.01
	Section 3.03(d)
	Section 3.13
	Section 5.10
	Section 6.01(e)
	Section 6.02 (b)(i)-(ii), (c)(i)-(iii), (d), (e) and (f)
	Section 6.08(a)
	ETC
Material Adverse Change	Section 3.04(b)
Material Adverse Effect	Definition of Material Adverse Change
	Section 3.01
	Section 3.05(b)
	Sections 3.06(a)-(d)
	Section 3.07
	Section 3.09
	Section 3.10
	Section 3.11
	Section 3.14
	Section 5.02(b)
	ETC

Material Indebtedness	Article VII (f) and (g)
Maturity Date	Definition of Availability Period Section 2.02(d) Sections 2.06 (c) and (j) Section 2.09(a) Section 2.10(a)
Net Cash Proceeds	Definition Only
New Money Credit Event	Section 2.06(a)
Obligations	Definition of Capital Lease Obligations Definition of Changing Risk Event Definition of Holders of Secured Obligations Definition of Indebtedness Definition of Material Adverse Effect Definition of Material Indebtedness Definition of Operating Lease Obligations
Operating Lease	Section 2.17 and 2.17 (b, c, d)
Other Taxes	Section 17 (A) (ii) and (III)
Overnight Foreign Currency Rate	Section 2.06 Section 2.07 (b) Section 2.18 (d)
Permitted Acquisition	Section 6.04(f) Section 6.09
Permitted Encumbrances	Section 6.02(a)
Permitted Investments	Section 6.04(a)
Permitted Two-Year Investments	Section 6.04(a)
Pledged Subsidiary	Definition of Subsidiary Loan Party
Proposed New Lender	Section 2.23 (a) and (b)
Restricted Payment	Section 6.06 (c) Section 6.07 (d)
Revolving Credit Exposure	Section 2.01 Section 2.06(b) Section 2.09(b) Section 2.12 (a) Section 2.23 (b)
Secured Obligations	Section 5.12 Article VII Section 14(B)
Statutory Reserve Rate subsidiary	Definition of Adjusted LIBO Rate Section 2.19
Subsidiary Guarantor	Definition of Subsidiary Guaranty Definition of Subsidiary Loan Party Section 2.23 (a) Section 4.01 (a), (b), (c) Section 5.09 Section 5.10 Article VIII, Administrative Agent (vi)

Subsidiary Loan Party

Swap Agreement

Target
Terms

Unpledged Subsidiary
Withdrawal Liability

Section 9.02 (vi)
Definition of Permitted Acquisition
Section 6.04(c)
Section 6.05
Exhibit C
Definition Only
Exhibit A
Exhibit B
Exhibit C, Section 1
Exhibit D
Definition Only
Definition Only

CREDIT AGREEMENT dated as of October 26, 2006, among HEIDRICK & STRUGGLES INTERNATIONAL, INC., the LENDERS party hereto, LASALLE BANK NATIONAL ASSOCIATION and BANK OF AMERICA, N.A., as Co- Syndication Agents and JPMORGAN CHASE BANK, NATIONAL ASSOCIATION, as Administrative Agent.

The parties hereto agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

“ABR”, when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

“Adjusted LIBO Rate” means, with respect to any Eurocurrency Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the sum of (i) the product of (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate plus, without duplication, (ii) in the case of Loans by a Lender from its office or branch in the United Kingdom, the Mandatory Cost.

“Administrative Agent” means JPMorgan Chase Bank, National Association, in its capacity as administrative agent for the Lenders hereunder.

“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Administrative Agent.

“Affected Foreign Subsidiary” is defined in the definition of Subsidiary Guarantor.

“Affiliate” means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

“Agreed Currencies” means (i) Dollars, (ii) the Euro, and (iii) any other Eligible Currency which the Borrower requests the Administrative Agent to include as an Agreed Currency hereunder and which is acceptable to all of the Lenders.

“Aggregate Commitment” means the total Commitments for all the Lenders.

“Alternate Base Rate” means, for any day, a rate per annum equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

“Applicable Percentage” means, with respect to any Lender, the percentage of the Aggregate Commitment represented by such Lender’s Commitment. If the Commitments have terminated or expired, the Applicable Percentages shall be determined based upon the Commitments most recently in effect, giving effect to any assignments.

“Applicable Rate” means, for any day, with respect to any ABR Loan or Eurocurrency Revolving Loan, or with respect to the facility fees payable hereunder, as the case may be, the applicable rate per annum set forth below under the caption “ABR Spread”, “Eurocurrency Spread” or “Facility Fee Rate”, as the case may be, based upon the Leverage Ratio for the then most recently completed four fiscal quarter period as reflected in the then most recently delivered Financials but subject to the following:

<u>Financial Test:</u>	<u>ABR Spread</u>	<u>Eurocurrency Spread</u>	<u>Facility Fee Rate</u>
<u>Category 1:</u> Leverage Ratio is greater than 1.75:1.00	0%	0.925%	0.20%
<u>Category 2:</u> Leverage Ratio is greater than 1.25:1.00 but less than or equal to 1.75:1.00	0%	0.70%	0.175%
<u>Category 3:</u> Leverage Ratio is greater than 0.75:1.00 but less than or equal to 1.25:1.00	0%	0.60%	0.15%
<u>Category 4:</u> Leverage Ratio is less than or equal to 0.75:1.00	0%	0.50%	0.125%

For purposes of the foregoing,

(i) if the Borrower fails to deliver the Financials to the Administrative Agent at the time required pursuant to Section 5.01, then Category 1 above shall be deemed to be applicable until the first Business Day of the calendar month immediately following the date on which such Financials are so received by the Administrative Agent;

(ii) adjustments, if any, to the Applicable Rate shall be effective on the first Business Day of the calendar month immediately following the date on which the Administrative Agent has received the applicable Financials; and

(iii) each determination of the Applicable Rate made by the Administrative Agent in accordance with the foregoing shall be conclusive and binding on the Borrower and each Lender (absent manifest error).

“Approved Fund” has the meaning assigned to such term in Section 9.04.

“Approximate Dollar Amount” of any currency with respect to any amount of Dollars shall mean the Dollar Amount of such currency with respect to such amount of Dollars on or as of such date, rounded up to the nearest amount of such currency as determined by the Administrative Agent from time to time.

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

“Availability Period” means the period from and including the Effective Date to but excluding the earlier of the Maturity Date and the date of termination of the Commitments pursuant to the terms hereof.

“Board” means the Board of Governors of the Federal Reserve System of the United States of America.

“Borrower” means Heidrick & Struggles International, Inc., a Delaware corporation.

“Borrowing” means Revolving Loans of the same Type, made, converted or continued on the same date and, in the case of Eurocurrency Loans, in the same Agreed Currency and as to which a single Interest Period is in effect.

“Borrowing Request” means a request by the Borrower for a Revolving Borrowing in accordance with Section 2.03.

“Business Day” means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided that, when used in connection with a Eurocurrency Loan, the term “Business Day” shall also exclude any day on which banks are not open for dealings in Dollars and other Agreed Currencies in the London interbank market or the principal financial center of the country in which payment or purchase of such Agreed Currency can be made (and, if the Borrowings or LC Disbursements which are the subject of a borrowing, drawing, payment, reimbursement or rate selection are denominated in Euro, the term “Business Day” shall also exclude any day on which the TARGET payment system is not open for the settlement of payments in Euro).

“Buying Lender” is defined in Section 2.23(b).

“Capital Expenditures” means, without duplication, any expenditures for any purchase or other acquisition of any asset which would be classified as a fixed or capital asset on a consolidated balance sheet of the Borrower and its Subsidiaries prepared in accordance with GAAP.

“Capital Lease Obligations” of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

“Capital Stock” means (i) in the case of a corporation, corporate stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, (iii) in the case of a partnership, partnership interests (whether general or limited) and (iv) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

“Change in Control” means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof), of Equity Interests representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding Equity Interests of the Borrower; (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of the Borrower by Persons who were neither (i) nominated by the board of directors of the Borrower nor (ii) appointed by directors so nominated; or (c) the acquisition of direct or indirect Control of the Borrower by any Person or group.

“Change in Law” means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or the Issuing Bank (or, for purposes of Section 2.15(b), by any lending office of such Lender or by such Lender’s or the Issuing Bank’s holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

“Class”, when used in reference to any Loan or Borrowing, refers to such Loan, or the Loans comprising such Borrowing, as Revolving Loans.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Collateral” means all pledged Capital Stock in or upon which a security interest or Lien is from time to time granted to the Administrative Agent, for the benefit of the Holders of Secured Obligations, whether under the Pledge Agreements, under any of the other Collateral Documents or under any of the other Loan Documents.

“Collateral Documents” means all agreements, instruments and documents executed in connection with this Agreement pursuant to which the Administrative Agent is granted a security interest in Collateral, including, without limitation, the Pledge Agreements and

all other security agreements, loan agreements, notes, guarantees, subordination agreements, pledges, powers of attorney, consents, assignments, contracts, fee letters, notices, leases, financing statements and all other written matter whether heretofore, now, or hereafter executed by or on behalf of the Borrower or any of its Subsidiaries and delivered to the Administrative Agent or any of the Lenders, together with all agreements and documents referred to therein or contemplated thereby.

“Commitment” means, with respect to each Lender, the commitment of such Lender to make Revolving Loans and to acquire participations in Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender’s Revolving Credit Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.09, (b) increased from time to time pursuant to Section 2.23 and (c) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender’s Commitment is set forth on Schedule 2.01, or in the Assignment and Assumption pursuant to which such Lender shall have assumed its Commitment, as applicable. The initial aggregate amount of the Lenders’ Commitments is \$100,000,000.

“Commitment Increase Notice” is defined in Section 2.23(a).

“Computation Date” is defined in Section 2.04.

“Consolidated Capital Expenditures” means, with reference to any period, the Capital Expenditures of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

“Consolidated EBITDA” means Consolidated Operating Income *plus*, (i) Consolidated Interest Income, (ii) depreciation and (iii) amortization, all calculated for the Borrower and its Subsidiaries in accordance with GAAP on a consolidated basis.

“Consolidated EBITDAR” means Consolidated Operating Income *plus*, (i) Consolidated Interest Income, (ii) depreciation, (iii) amortization and (iv) Consolidated Rental Expense, all calculated for the Borrower and its Subsidiaries in accordance with GAAP on a consolidated basis.

“Consolidated Interest Expense” means, with reference to any period, the interest expense (including without limitation interest expense under Capital Lease Obligations that is treated as interest in accordance with GAAP) of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

“Consolidated Interest Income” means, with reference to any period, the interest income of the Borrower and its Subsidiaries calculated in accordance with GAAP on a consolidated basis.

“Consolidated Net Income” means, with reference to any period, the net income of the Borrower and its Subsidiaries calculated in accordance with GAAP on a consolidated basis.

“Consolidated Operating Expense” means, with reference to any period, expenses related to salaries, employee benefits and general and administrative expenses, all calculated for the Borrower and its Subsidiaries on a consolidated basis for such period and otherwise in accordance with GAAP.

“Consolidated Operating Income” means, with reference to any period, the gross revenues less Consolidated Operating Expense, all calculated for the Borrower and its Subsidiaries on a consolidated basis for such period and as calculated in the manner disclosed by the Borrower in its Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

“Consolidated Rental Expense” means, with reference to any period, all payments under Operating Leases to the extent deducted in computing Consolidated Operating Income, net of any related income from subleases, in each case calculated for the Borrower and its Subsidiaries on a consolidated basis for such period.

“Consolidated Rental Payments” means, with reference to any period, all payments under all Operating Leases (including payments for leases which have been reserved against), net of any related income from subleases, in each case calculated for the Borrower and its Subsidiaries on a consolidated basis for such period.

“Consolidated Total Indebtedness” means at any time the aggregate Indebtedness of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Country Risk Event” means:

(i) any law, action or failure to act by any Governmental Authority in the Borrower’s or Letter of Credit beneficiary’s country which has the effect of:

(a) changing the obligations under the relevant Letter of Credit, the Credit Agreement or any of the other Loan Documents as originally agreed or otherwise creating any additional liability, cost or expense to the Issuing Bank, the Lenders or the Administrative Agent,

(b) changing the ownership or control by the Borrower or Letter of Credit beneficiary of its business, or

(c) preventing or restricting the conversion into or transfer of the applicable Agreed Currency;

(ii) force majeure; or

(iii) any similar event

which, in relation to (i), (ii) and (iii), directly or indirectly, prevents or restricts the payment or transfer of any amounts owing under the relevant Letter of Credit in the applicable Agreed Currency into an account designated by the Administrative Agent or the Issuing Bank and freely available to the Administrative Agent or the Issuing Bank.

“Credit Event” means a Borrowing, the issuance of a Letter of Credit, an LC Disbursement or any of the foregoing.

“Default” means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

“Disclosed Matters” means the actions, suits and proceedings and the environmental matters disclosed in Schedule 3.06.

“Dollar Amount” of any currency at any date shall mean (i) the amount of such currency if such currency is Dollars or (ii) the equivalent in such currency of such amount of Dollars if such currency is any currency other than Dollars, calculated on the basis of the Exchange Rate for such currency on the London market at 11:00 a.m., London time, on or as of the most recent Computation Date provided for in Section 2.04.

“Dollars” or “\$” refers to lawful money of the United States of America.

“Domestic Subsidiary” means a Subsidiary organized under the laws of a jurisdiction located in the United States of America.

“Effective Commitment Amount” is defined in Section 2.23(a).

“Effective Date” means the date on which the conditions specified in Section 4.01 are satisfied (or waived in accordance with Section 9.02).

“Eligible Currency” means any currency other than Dollars (i) that is readily available, (ii) that is freely traded, (iii) in which deposits are customarily offered to banks in the London interbank market, (iv) which is convertible into Dollars in the international interbank market and (v) as to which a Dollar Amount may be readily calculated. If, after the designation by the Lenders of any currency as an Agreed Currency, (x) currency control or other exchange regulations are imposed in the country in which such currency is issued with the result that different types of such currency are introduced, (y) such currency is, in the commercially reasonable determination of the Administrative Agent, no longer readily available or freely traded or (z) in the commercially reasonable determination of the Administrative Agent, a Dollar Amount of such currency is not readily calculable, the Administrative Agent shall promptly notify the Lenders and the Borrower, and such currency shall no longer be an Agreed Currency until such time as all of the Lenders agree to reinstate such currency as an Agreed Currency and promptly, but in any event within five (5) Business Days of receipt of such notice from the Administrative Agent, the Borrower shall repay all Loans and reimburse all LC Disbursements in such affected currency or convert such Loans and LC Disbursements into Loans and LC Disbursements in Dollars or another Agreed Currency, subject to the other terms set forth in Article II.

“Environmental Laws” means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equity Interests” means shares of Capital Stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person, and any warrants, options or other rights entitling the holder thereof to purchase or acquire any such equity interest.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“ERISA Affiliate” means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

“ERISA Event” means (a) any “reportable event”, as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an “accumulated funding deficiency” (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

“EU” means the European Union.

“Euro” and/or “EUR” means the single currency of the participating member states of the EU.

“Eurocurrency”, when used in reference to a currency means any Agreed Currency and when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

“Eurocurrency Payment Office” of the Administrative Agent shall mean, for each of the Agreed Currencies other than Dollars, the office, branch, affiliate or correspondent bank of the Administrative Agent for such currency as specified from time to time by the Administrative Agent to the Borrower and each Lender.

“Event of Default” has the meaning assigned to such term in Article VII.

“Exchange Rate” means, on any day, with respect to any currency, the rate at which such currency may be exchanged into Dollars, as set forth at approximately 11:00 a.m., London time, on such date on the Reuters World Currency Page for such currency. In the event that such rate does not appear on any Reuters World Currency Page, the Exchange Rate with respect to such currency shall be determined by reference to such other publicly available service for displaying exchange rates as may be reasonably selected by the Administrative Agent or, in the event no such service is selected, such Exchange Rate shall instead be calculated on the basis of the arithmetical mean of the buy and sell spot rates of exchange of the Administrative Agent for such currency on the London market at 11:00 a.m., London time, on such date for the purchase of Dollars with such currency, for delivery two Business Days later; provided, that if at the time of any such determination, for any reason, no such spot rate is being quoted, the Administrative Agent, after consultation with the Borrower, may use any reasonable method it deems appropriate to determine such rate, and such determination shall be conclusive absent manifest error.

“Excluded Taxes” means, with respect to the Administrative Agent, any Lender, the Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender, any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Foreign Lender’s failure to comply with Section 2.17(e), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.17(a).

“Existing Credit Agreement” means that certain Credit Agreement dated as of December 22, 2003 between the Borrower, the lenders party thereto and JPMorgan Chase Bank, National Association, as administrative agent, as amended.

“Extended Letter of Credit” is defined in Section 2.06(c).

“Federal Funds Effective Rate” means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

“Fee Letter” means that certain Fee Letter dated as of August 29, 2006 among the Borrower, JPMorgan Chase Bank, National Association and J.P. Morgan Securities Inc.

“Financial Officer” means the chief financial officer, principal accounting officer, treasurer or controller of the Borrower.

“Financials” means the annual or quarterly financial statements of the Borrower required to be delivered pursuant to Section 5.01(a) or 5.01(b).

“First Tier Foreign Subsidiary” means each Foreign Subsidiary with respect to which any one or more of the Borrower and its Domestic Subsidiaries directly owns or controls more than 50% of such Foreign Subsidiary’s Capital Stock.

“Fixed Charge Coverage Ratio” is defined in Section 6.11.1.

“Foreign Lender” means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“Foreign Subsidiary” means a Subsidiary of the Borrower which is not a Domestic Subsidiary.

“GAAP” means generally accepted accounting principles in the United States of America.

“Governmental Authority” means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“Guarantee” of or by any Person (the “guarantor”) means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; provided, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

“Holders of Secured Obligations” means the holders of the Obligations from time to time and shall include (i) each Lender and the Issuing Bank in respect of its Credit Events, (ii) the Administrative Agent and the Lenders in respect of all other present and future obligations and liabilities of the Borrower and each Subsidiary of every type and description arising under or in connection with the Credit Agreement or any other Loan Document, (iii) each Lender and Affiliate of such Lender in respect of Swap Agreements entered into with such Person by the Borrower or any Subsidiary, (iv) each indemnified party under Section 9.03 in respect of the obligations and liabilities of the Borrower to such Person hereunder and under the other Loan Documents, and (v) their respective successors and (in the case of a Lender, permitted) transferees and assigns.

“Hostile Acquisition” means (x) the acquisition of the Equity Interests of a Person through a tender offer or similar solicitation of the owners of such Equity Interests which has not been approved (prior to such acquisition) by resolutions of the Board of Directors of such Person or by similar action if such Person is not a corporation and (y) any such acquisition as to which such approval has been withdrawn.

“Indebtedness” of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind to such Person, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any

Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed (with the amount of such Indebtedness being the lesser of the amount secured and the fair market value of the property subject to such Lien), (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (j) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Interest Election Request” means a request by the Borrower to convert or continue a Revolving Borrowing in accordance with Section 2.08.

“Interest Payment Date” means (a) with respect to any ABR Loan, the last day of each March, June, September and December and (b) with respect to any Eurocurrency Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurocurrency Borrowing with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period.

“Interest Period” means with respect to any Eurocurrency Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months (or, with the consent of each Lender, nine or twelve months) thereafter, as the Borrower may elect, provided, that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (ii) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

“Issuing Bank” means JPMorgan Chase Bank, National Association, in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.06(i). The Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term “Issuing Bank” shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

“LC Disbursement” means a payment made by the Issuing Bank pursuant to a Letter of Credit.

“LC Exposure” means, at any time, the sum of (a) the aggregate undrawn Dollar Amount of all outstanding Letters of Credit at such time plus (b) the aggregate Dollar Amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Lender at any time shall be its Applicable Percentage of the total LC Exposure at such time.

“Lender Affiliate” means, with respect to any Lender, (a) an Affiliate of such Lender or (b) any entity (whether a corporation, partnership, trust or otherwise) that is both (i) engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by a Lender and (ii) a fund which invests in bank loans and similar extensions of credit or by any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

“Lender Increase Notice” is defined in Section 2.23(a).

“Lenders” means the Persons listed on Schedule 2.01 and any other Person that shall have become a Lender hereunder pursuant to Section 2.23 or pursuant to an Assignment and Assumption, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Assumption.

“Letter of Credit” means any letter of credit issued, or deemed issued, pursuant to this Agreement.

“Leverage Ratio” is defined in Section 6.11.2.

“LIBO Rate” means, with respect to any Eurocurrency Borrowing for any Interest Period, the rate appearing on the appropriate page of the Dow Jones Market Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to deposits in the relevant Agreed Currency in the London interbank market) that displays British Bankers’ Association Interest Settlement Rates at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, for deposits in the relevant Agreed Currency with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the “LIBO Rate” with respect to such Eurocurrency Borrowing for such Interest Period shall be the rate at which deposits in the relevant Agreed Currency in a Dollar Amount of \$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

“Lien” means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

“Loan Documents” mean this Agreement, any promissory notes executed and delivered pursuant to Section 2.10(e), the Subsidiary Guaranty, the Collateral Documents and any and all other instruments and documents executed and delivered in connection with any of the foregoing.

“Loans” means the loans made by the Lenders to the Borrower pursuant to this Agreement.

“Mandatory Cost” is described in Schedule 2.02.

“Material Adverse Change” means any event, development or circumstance that has or could reasonably be expected to have a Material Adverse Effect.

“Material Adverse Effect” means a material adverse effect on (a) the business, assets, property, operations, prospects or condition, financial or otherwise, of the Borrower and the Subsidiaries taken as a whole, (b) the ability of the Borrower to perform any of its obligations under this Agreement or (c) the validity or enforceability of any of the Loan Documents or the rights of or benefits available to the Administrative Agent and the Lenders under this Agreement and the other Loan Documents.

“Material Indebtedness” means Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Swap Agreements, of any one or more of the Borrower and its Subsidiaries in an aggregate principal amount exceeding \$5,000,000. For purposes of determining Material Indebtedness, the “principal amount” of the obligations of the Borrower or any Subsidiary in respect of any Swap Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Borrower or such Subsidiary would be required to pay if such Swap Agreement were terminated at such time.

“Maturity Date” means October 26, 2011.

“Moody's” means Moody's Investors Service, Inc.

“Multiemployer Plan” means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“Net Cash Proceeds” means cash and cash equivalent proceeds received by or for a Person's account with respect to any offering of equity securities of such Person, net of reasonable legal fees, underwriting discounts or commissions, and other reasonable and customary fees and expenses incurred as a direct result thereof.

“New Money Credit Event” means with respect to the Issuing Bank, any increase (directly or indirectly) in the Issuing Bank's exposure (whether by way of additional credit or banking facilities or otherwise, including as part of a restructuring) to the Borrower or any Governmental Authority in the Borrower's or any applicable Letter of Credit beneficiary's country occurring by reason of (i) any law, action or requirement of any Governmental Authority

in the Borrower's or such Letter of Credit beneficiary's country, or (ii) any request in respect of external indebtedness of borrowers in the Borrower's or such Letter of Credit beneficiary's country applicable to banks generally which conduct business with such borrowers, or (iii) any agreement in relation to clause (i) or (ii), in each case to the extent calculated by reference to the aggregate Revolving Credit Exposures outstanding prior to such increase.

"Obligations" means all Loans, LC Disbursements, advances, debts, liabilities, obligations, covenants and duties owing by the Borrower or any Subsidiary Guarantor to the Administrative Agent, any Lender, the Issuing Bank, any Affiliate of the Agent or any Lender, the Issuing Bank, or any indemnified Person hereunder, of any kind or nature, present or future, arising under this Agreement, the Subsidiary Guaranty, any Collateral Document or any other Loan Document, whether or not evidenced by any note, guaranty or other instrument, whether or not for the payment of money, whether arising by reason of an extension of credit, loan, guaranty, indemnification, or in any other manner, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, all interest, charges, expenses, fees, reasonable attorneys' fees and disbursements, reasonable paralegals' fees (in each case whether or not allowed), and any other sum chargeable to the Borrower or any Subsidiary Guarantor under this Agreement or any other Loan Document.

"Operating Lease" of a Person means any lease of property (other than a capital lease under GAAP) by such Person as lessee which has an original term (including any required renewals and any renewals effective at the option of the lessor) of one year or more.

"Other Taxes" means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement.

"Overnight Foreign Currency Rate" means, for any amount payable in an Agreed Currency other than Dollars, the rate of interest per annum as determined by the Administrative Agent at which overnight or weekend deposits in the relevant currency (or if such amount due remains unpaid for more than three (3) Business Days, then for such other period of time as the Administrative Agent may elect) for delivery in immediately available and freely transferable funds would be offered by the Administrative Agent to major banks in the interbank market upon request of such major banks for the relevant currency as determined above and in an amount comparable to the unpaid principal amount of the related Credit Event, plus any taxes, levies, imposts, duties, deductions, charges or withholdings imposed upon, or charged to, the Administrative Agent by any relevant correspondent bank in respect of such amount in such relevant currency.

"Participant" has the meaning set forth in Section 9.04.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"Percentage" is defined in Section 2.23(b).

“Permitted Acquisition” means any acquisition (whether by purchase, merger, consolidation or otherwise but excluding in any event a Hostile Acquisition) by the Borrower or any Subsidiary of all or substantially all the assets of, or all the Equity Interests in, a Person or division or line of business of a Person if, at the time of and immediately after giving effect thereto, (a) no Default has occurred and is continuing or would result therefrom, (b) the principal business of such Person shall be reasonably related to a business in which the Borrower and the Subsidiaries were engaged on the Effective Date, (c) each Subsidiary formed for the purpose of or resulting from such acquisition shall, to the extent required by this Agreement, be a Subsidiary Loan Party and all of the Capital Stock of such Subsidiary Loan Party shall be owned directly by the Borrower or, to the extent so required, a Subsidiary Loan Party, and all actions required to be taken with respect to such acquired or newly formed Subsidiary under Sections 5.9 and 5.10 shall have been taken, (d) the Borrower and the Subsidiaries are in compliance, on a pro forma basis after giving effect to such acquisition (without giving effect to any cost savings other than those actually realized as of the date of such acquisition or otherwise approved in writing by the Administrative Agent), with the covenants contained in Section 6.11 recomputed as of the last day of the most recently ended fiscal quarter of the Borrower for which financial statements are available, as if such acquisition (and any related incurrence or repayment of Indebtedness, with any new Indebtedness being deemed to be amortized over the applicable testing period in accordance with its terms) had occurred on the first day of each relevant period for testing such compliance and (e) with respect to an acquisition in respect of which the sum of all consideration paid or delivered in connection therewith exceeds \$15,000,000, the Borrower has delivered to the Administrative Agent an officers’ certificate to the effect set forth in clauses (a), (b), (c) and (d) above, together with all relevant financial information for the Person or assets to be acquired and reasonably detailed calculations demonstrating satisfaction of the requirement set forth in clause (d) above.

“Permitted Encumbrances” means:

(a) Liens imposed by law for taxes that are not yet due or are being contested in compliance with Section 5.04;

(b) carriers’, warehousemen’s, mechanics’, materialmen’s, repairmen’s and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than 45 days or are being contested in compliance with Section 5.04;

(c) pledges and deposits made in the ordinary course of business in compliance with workers’ compensation, unemployment insurance and other social security laws or regulations;

(d) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;

(e) judgment liens in respect of judgments that do not constitute an Event of Default under clause (k) of Article VII;

(f) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of the Borrower or any Subsidiary; provided that the term "Permitted Encumbrances" shall not include any Lien securing Indebtedness other than the Liens permitted under Section 6.02; and

(g) usual and customary possessory liens and rights of setoff in favor of banks and brokerages in respect of deposit and investment accounts.

"Permitted Investments" means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in each case maturing within one year from the date of acquisition thereof;

(b) direct obligations of any agency of the United States of America, in each case maturing within one year from the date of acquisition thereof;

(c) municipal investments and direct obligations of any State of the United States of America, in each case with a rating of BBB+ or higher and a maximum maturity of 12 months (for securities where the interest rate is adjusted periodically (e.g. floating rate securities), the reset date will be used to determine the maturity date);

(d) investments in commercial paper maturing within 270 days from the date of acquisition thereof and having, at such date of acquisition, a rating of A-2 from S&P and P-2 from Moody's;

(e) investments in certificates of deposit, banker's acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof which has a combined capital and surplus and undivided profits of not less than \$500,000,000;

(f) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria described in clause (e) above;

(g) money market funds that (i) comply with the criteria set forth in Securities and Exchange Commission Rule 2a-7 under the Investment Company Act of 1940, (ii) are rated AAA by S&P and Aaa by Moody's and (iii) have portfolio assets of at least \$5,000,000,000;

(h) in the case of investments of any Foreign Subsidiary or non-domestic branch of the Borrower, securities issued by any foreign government or any political subdivision of any foreign government or any public instrumentality thereof having maturities of not more than one year from the date of the acquisitions thereof and, at the time of the acquisition thereof, having an investment grade credit rating obtainable from S&P, Moody's, or other generally recognized rating agency.

(i) investments in auction rate securities (including, without limitation, auction preferred securities) with a rating of BBB+ or higher and a maximum maturity of one year, for which the reset date will be used to determine the maturity date, all to the extent such investments are made in a manner consistent with past practice;

(j) investments in funds that invest solely in one or more of types of securities described in clauses (a) through (i) above; and

(k) in the case of investments by any Foreign Subsidiary or non-domestic branch of the Borrower, investments in time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with any highly capitalized commercial bank which is located in the jurisdiction where such non-domestic branch of the Borrower or such Foreign Subsidiary is located and which bank has an investment grade credit rating obtainable from S&P, Moody's or other generally recognized rating agency.

"Permitted Two-Year Investments" means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in each case maturing within two years from the date of acquisition thereof;

(b) direct obligations of any agency of the United States of America, in each case maturing within two years from the date of acquisition thereof;

(c) municipal investments and direct obligations of any State of the United States of America with a rating of BBB+ or higher and a maximum maturity of two years (for securities where the interest rate is adjusted periodically (e.g. floating rate securities), the reset date will be used to determine the maturity date);

(d) investments in certificates of deposit, banker's acceptances and time deposits maturing within two years from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof which has a combined capital and surplus and undivided profits of not less than \$500,000,000;

(e) in the case of investments by any Foreign Subsidiary or non-domestic branch of the Borrower, securities issued by any foreign government or any political subdivision of any foreign government or any public instrumentality thereof having maturities of not more than two years from the date of the acquisitions thereof and, at the time of the acquisition thereof, having an investment grade credit rating obtainable from S&P, Moody's, or other generally recognized rating agency;

(f) investments in auction rate securities (including, without limitation, auction preferred securities) with a rating of BBB+ and a maximum maturity of two years, for which the reset date will be used to determine the maturity date, all to the extent such investments are made in a manner consistent with past practice;

(g) investments in funds that invest solely in one or more of the types of securities described in clauses (a) through (f) above; and

(h) in the case of investments by any non-domestic branch of the Borrower or any Foreign Subsidiary, investments in time deposits maturing within two years from the date of acquisition thereof issued or guaranteed by or placed with any highly capitalized commercial bank which is located in the jurisdiction where such non-domestic branch of the Borrower or such Foreign Subsidiary is located and which bank has an investment grade credit rating obtainable from S&P, Moody's or other generally recognized rating agency.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Plan” means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an “employer” as defined in Section 3(5) of ERISA.

“Pledge Agreements” means the pledge agreements, share mortgages, charges and comparable instruments and documents from time to time executed pursuant to the terms of Section 5.10 in favor of the Administrative Agent for the benefit of the Holders of Secured Obligations as amended, restated, supplemented or otherwise modified from time to time.

“Pledged Subsidiary” means each Foreign Subsidiary a portion of the Capital Stock of which has been pledged pursuant to a Pledge Agreement in accordance with Section 5.10.

“Prime Rate” means the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank, National Association as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

“Proposed New Lender” is defined in Section 2.23(a).

“Register” has the meaning set forth in Section 9.04.

“Regulation U” means Regulation U of the Board as from time to time in effect and any successor or other regulation or official interpretation of the Board relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to member banks of the Federal Reserve System.

“Related Parties” means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

“Required Lenders” means, at any time, Lenders having Revolving Credit Exposures and unused Commitments representing at least 51% of the sum of the total Revolving Credit Exposures and unused Commitments at such time.

“Restricted Payment” means any dividend or other distribution (whether in cash, securities or other property) with respect to any Equity Interests in the Borrower or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such Equity Interests in the Borrower or any option, warrant or other right to acquire any such Equity Interests in the Borrower.

“Revolving Credit Exposure” means, with respect to any Lender at any time, the sum of the outstanding principal Dollar Amount of such Lender’s Revolving Loans and its LC Exposure at such time.

“Revolving Loan” means a Loan made pursuant to Section 2.03.

“S&P” means Standard & Poor’s.

“Secured Obligations” means, collectively, (i) the Obligations and (ii) all indebtedness, obligations and liabilities of the Borrower or any Subsidiary of the Borrower under Swap Agreements to any Lender or any Affiliate of a Lender.

“Selling Lender” is defined in Section 2.23(b).

“Statutory Reserve Rate” means, with respect to any currency, a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve, liquid asset, fees or similar requirements (including any marginal, special, emergency or supplemental reserves or other requirements) established by any central bank, monetary authority, the Board, the Financial Services Authority, the European Central Bank or other Governmental Authority for any category of deposits or liabilities customarily used to fund loans in such currency, expressed in the case of each such requirement as a decimal. Such reserve percentages shall include those imposed pursuant to Regulation D of the Board. Eurocurrency Loans shall be deemed to be subject to such reserve, liquid asset or similar requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under any applicable law, rule or regulation, including Regulation D. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve, liquid asset or similar requirement.

“Subordinated Indebtedness” of a Person means Indebtedness of such Person the payment of which is subordinated to the payment of the Indebtedness hereunder to the reasonable written satisfaction of the Required Lenders.

“subsidiary” means, with respect to any Person (the “parent”) at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent’s consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date,

as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

“Subsidiary” means any subsidiary of the Borrower.

“Subsidiary Guarantor” means each Subsidiary (other than any Foreign Subsidiary to the extent that designation or continuation of such Foreign Subsidiary as a Subsidiary Guarantor would (a) be prohibited by applicable law or (b) cause, as determined by the Borrower in its commercially reasonable judgment acting in good faith and upon the advice of its tax advisors, materially disadvantageous tax implications for the Borrower or any Domestic Subsidiary under Section 956 of the Code (or any successor provision or applicable U.S. Treasury Regulation)—each such Foreign Subsidiary, an “Affected Foreign Subsidiary”) (i) the consolidated gross revenues of which for the most recent fiscal quarter of the Borrower for which financial statements have been delivered pursuant to Section 5.01 were greater than five percent (5%) of the Borrower’s consolidated gross revenues for such fiscal quarter or (ii) the consolidated tangible assets of which as of the end of such fiscal quarter were greater than five percent (5%) of the Borrower’s consolidated tangible assets as of such date; provided that, if at any time the aggregate amount of the consolidated gross revenues or consolidated tangible assets of all Subsidiaries that are not Subsidiary Guarantors exceeds twenty percent (20%) of the Borrower’s consolidated gross revenues for any such fiscal quarter or twenty percent (20%) of the Borrower’s consolidated tangible assets as of the end of any such fiscal quarter, the Borrower (or, in the event the Borrower has failed to do so within ten days, the Administrative Agent) shall designate sufficient Subsidiaries (other than Affected Foreign Subsidiaries) as “Subsidiary Guarantors” to eliminate such excess, and such designated Subsidiaries shall for all purposes of this Agreement constitute Subsidiary Guarantors. The Subsidiary Guarantors on the Effective Date are identified in Schedule 3.01 hereto.

“Subsidiary Guaranty” means that certain Guaranty (and any and all supplements thereto) executed by each Subsidiary Guarantor, in substantially the form of Exhibit C attached hereto, as amended, restated, supplemented or otherwise modified from time to time.

“Subsidiary Loan Party” means a Subsidiary Guarantor or a Pledged Subsidiary.

“Swap Agreement” means any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; provided that no phantom stock or similar plan (including, without limitation, restricted stock awards, options and other incentive compensation plans) providing for payments only on account of services provided by current or former directors, officers, employees or consultants of the Borrower or the Subsidiaries shall be a Swap Agreement.

“**TARGET**” means the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) payment system (or, if such payment system ceases to be operative, such other payment system (if any) reasonably determined by the Administrative Agent to be a suitable replacement) for the settlement of payments in Euro.

“**Taxes**” means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

“**Transactions**” means the execution, delivery and performance by the Borrower of this Agreement and by the Subsidiary Guarantors of the Subsidiary Guaranty, the borrowing of Loans, the use of the proceeds thereof and the issuance of Letters of Credit hereunder.

“**Type**”, when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

“**Unpledged Subsidiary**” means each Foreign Subsidiary which is not a Pledged Subsidiary.

“**Withdrawal Liability**” means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. **Classification of Loans and Borrowings.** For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a “Revolving Loan”) or by Type (e.g., a “Eurocurrency Loan”) or by Class and Type (e.g., a “Eurocurrency Revolving Loan”). Borrowings also may be classified and referred to by Class (e.g., a “Revolving Borrowing”) or by Type (e.g., a “Eurocurrency Borrowing”) or by Class and Type (e.g., a “Eurocurrency Revolving Borrowing”).

SECTION 1.03. **Terms Generally.** The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (c) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.04. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith and therewith.

ARTICLE II

The Credits

SECTION 2.01. Commitments. Subject to the terms and conditions set forth herein, each Lender agrees to make Revolving Loans to the Borrower in Agreed Currencies from time to time during the Availability Period in an aggregate principal amount that will not result in (a) such Lender's Revolving Credit Exposure exceeding the Dollar Amount of such Lender's Commitment or (b) the Dollar Amount of the sum of the total Revolving Credit Exposures exceeding the Aggregate Commitment. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Loans.

SECTION 2.02. Loans and Borrowings.

(a) Each Revolving Loan shall be made as part of a Borrowing consisting of Revolving Loans made by the Lenders ratably in accordance with their respective Applicable Percentages. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 2.14, each Revolving Borrowing shall be comprised entirely of ABR Loans or Eurocurrency Loans as the Borrower may request in accordance herewith. Each ABR Loan shall only be made in Dollars. Subject to Section 2.19, each Lender at its option may make any Eurocurrency Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) At the commencement of each Interest Period for any Eurocurrency Revolving Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of \$250,000 and not less than \$1,000,000 (or the Approximate Dollar Amount of each such amount if such Borrowing is denominated in an Agreed Currency other than Dollars). At

the time that each ABR Revolving Borrowing is made, such Borrowing shall be in an aggregate amount that is an integral multiple of \$250,000 and not less than \$1,000,000; provided that an ABR Revolving Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Commitments or that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.06(e). Borrowings of more than one Type and Class may be outstanding at the same time; provided that there shall not at any time be more than a total of five Eurocurrency Revolving Borrowings outstanding.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

SECTION 2.03. Requests for Revolving Borrowings. To request a Revolving Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurocurrency Borrowing, not later than 11:00 a.m., New York City time, three Business Days (in the case of a Eurocurrency Borrowing denominated in Dollars) or four Business Days (in the case of a Eurocurrency Borrowing denominated in an Agreed Currency other than Dollars) before the date of the proposed Borrowing or (b) in the case of an ABR Borrowing, not later than 11:00 a.m., New York City time, on the date of the proposed Borrowing; provided that any such notice of an ABR Revolving Borrowing to finance the reimbursement of an LC Disbursement as contemplated by Section 2.06(e) may be given not later than 10:00 a.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

- (i) the aggregate amount of the requested Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;
- (iii) whether such Borrowing is to be an ABR Borrowing or a Eurocurrency Borrowing;
- (iv) in the case of a Eurocurrency Borrowing, the Agreed Currency and initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period"; and
- (v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.07(a).

If no election as to the Type of Revolving Borrowing is specified, then, in the case of a Borrowing denominated in Dollars, the requested Revolving Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Eurocurrency Revolving Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

SECTION 2.04. Determination of Dollar Amounts; Required Payments. The Administrative Agent will determine the Dollar Amount of:

(a) each Eurocurrency Borrowing as of the date three Business Days prior to the date of such Borrowing or, if applicable, date of conversion/continuation of any Advance as a Eurocurrency Advance, and

(b) all outstanding Credit Events on and as of the last Business Day of each quarter and on any other Business Day elected by the Administrative Agent in its discretion or upon instruction by the Required Lenders.

Each day upon or as of which the Administrative Agent determines Dollar Amounts as described in the preceding clauses (a) and (b) is herein described as a "Computation Date" with respect to each Credit Event for which a Dollar Amount is determined on or as of such day. If at any time the Dollar Amount of the sum of the aggregate principal amount of all outstanding Credit Events (calculated, with respect to those Credit Events denominated in Agreed Currencies other than Dollars, as of the most recent Computation Date with respect to each such Credit Event) exceeds the Aggregate Commitment, the Borrower shall immediately repay Borrowings and cash collateralize LC Disbursements in an aggregate principal amount sufficient to eliminate any such excess.

SECTION 2.05. Reserved.

SECTION 2.06. Letters of Credit.

(a) General. Subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit denominated in an Agreed Currency for its own account, in a form reasonably acceptable to the Administrative Agent and the Issuing Bank, at any time and from time to time during the Availability Period. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control; provided, however, if the Issuing Bank is requested to issue Letters of Credit with respect to a jurisdiction the Issuing Bank deems, in its sole discretion, may at any time subject it to a New Money Credit Event or a Country Risk Event, the Borrower shall, at the request of the Issuing Bank, guaranty and indemnify the Issuing Bank against any and all costs, liabilities and losses resulting from such New Money Credit Event or Country Risk Event, in each case in a form and substance satisfactory to the Issuing Bank. Schedule 2.06 contains a schedule of certain letters of credit issued by JPMorgan Chase Bank, National Association under the Existing Credit Agreement. Upon the effectiveness of this Agreement, from and after the Effective Date, such letters of credit shall be deemed to be Letters of Credit issued pursuant to this Section 2.06.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an

outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the Dollar Amount of such Letter of Credit, the Agreed Currency applicable thereto, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the Dollar Amount of the sum of the LC Exposure shall not exceed \$25,000,000 and (ii) the total Revolving Credit Exposures shall not exceed the Aggregate Commitment.

(c) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date one year after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (ii) the date that is five Business Days prior to the Maturity Date; provided that, upon the Borrower's request, any such Letter of Credit which expires in the final year prior to the Maturity Date may have a later expiry date if cash collateralized or covered by standby letter(s) of credit in compliance with Section 2.06(j) below (each such Letter of Credit, an "Extended Letter of Credit").

(d) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Lender, and each Lender hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate Dollar Amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Lender's Applicable Percentage of each LC Disbursement made by the Issuing Bank and not reimbursed by the Borrower on the date due as provided in paragraph (e) of this Section, or of any reimbursement payment required to be refunded to the Borrower for any reason. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent in Dollars the Dollar Amount equal to such LC Disbursement,

calculated as of the date the Issuing Bank made such LC Disbursement (or if such LC Disbursement is made in an Agreed Currency other than Dollars in an amount equal to such LC Disbursement) not later than 12:00 noon, New York City time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York City time, on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 12:00 noon, New York City time, on (i) the Business Day that the Borrower receives such notice, if such notice is received prior to 10:00 a.m., New York City time, on the day of receipt, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt; provided that the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 or 2.05 that such payment be financed with an ABR Revolving Borrowing in the Dollar Amount of such LC Disbursement and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Revolving Borrowing. If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable Percentage thereof. Promptly following receipt of such notice, each Lender shall pay to the Administrative Agent its Applicable Percentage of the payment then due from the Borrower, in the same manner as provided in Section 2.07 with respect to Loans made by such Lender (and Section 2.07 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Lenders have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear. Any payment made by a Lender pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of ABR Revolving Loans as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement. If the Borrower's reimbursement of, or obligation to reimburse, any amounts in any Agreed Currency other than Dollars would subject the Administrative Agent, the Issuing Bank or any Lender to any Other Tax that would not be payable if such reimbursement were made or required to be made in Dollars, the Borrower shall, at its option, either (x) pay the amount of any such tax requested by the Administrative Agent, the Issuing Bank or the relevant Lender or (y) reimburse each LC Disbursement made in such Agreed Currency in Dollars, in an amount equal to the Dollar Amount, calculated using the applicable exchange rates, on the date such LC Disbursement is made, of such LC Disbursement.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of

(i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein,

(ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect,

(iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or

(iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder.

None of the Administrative Agent, the Lenders nor the Issuing Bank, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by telecopy) of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and/or the Lenders with respect to any such LC Disbursement.

(h) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full as required by paragraph (e) above, the unpaid amount thereof shall bear interest, for each day from and including the date

such LC Disbursement is due and payable to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Revolving Loans (or in the case such LC Disbursement is denominated in an Agreed Currency other than Dollars, at the rate determined in good faith by the Issuing Bank to represent the Issuing Bank's cost of overnight or short-term funds in the applicable Agreed Currency (including without limitation the Overnight Foreign Currency Rate) plus the then effective Applicable Rate with respect to Eurocurrency Revolving Loans); provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section, then Section 2.13(c) shall apply. Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Lender pursuant to paragraph (e) of this Section to reimburse the Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) Replacement of the Issuing Bank. The Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of the Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 2.12(b). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(j) Cover. If (x) any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Lenders with LC Exposure representing at least 51% of the total LC Exposure) demanding the deposit of cash collateral pursuant to this paragraph or (y) the Borrower requests the issuance of an Extended Letter of Credit, the Borrower shall either (A) cover by arranging for the issuance of one or more standby letters of credit issued by an issuer, and otherwise on terms and conditions, satisfactory to the Administrative Agent or (B) deposit in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Lenders, an amount in cash equal to the LC Exposure in respect of such Extended Letter of Credit (in the case of the foregoing clause (y)) or in the aggregate (in the case of the foregoing clause (x)) as of such date plus any accrued and unpaid interest thereon; provided that the obligation to provide such letter of credit cover or deposit such cash collateral shall (1) be required by no later than five (5) Business Days prior to the Maturity Date in the case of an Extended Letter of Credit and (2) become effective immediately, and such cover or deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (h) or (i) of Article VII. Such cover and deposit shall be held by the Administrative Agent in interest-bearing accounts selected at the option and sole discretion of the Administrative Agent and at the Borrower's risk and expense as collateral for

the payment and performance of the obligations of the Borrower under this Agreement. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Moneys in such account shall be applied by the Administrative Agent to reimburse the Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or, if the maturity of the Loans has been accelerated (but subject to the consent of Lenders with LC Exposure representing at least 51% of the total LC Exposure), be applied to satisfy other obligations of the Borrower under this Agreement. If the Borrower is required to provide an amount of letter of credit cover or cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived.

SECTION 2.07. Funding of Borrowings.

(a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds (i) in the case of each Loan denominated in Dollars, by 12:00 noon, New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders and (ii) in the case of each Loan denominated in an Agreed Currency other than Dollars, by 12:00 noon, local time, in the city of the Administrative Agent's Eurocurrency Payment Office for such currency and at such Eurocurrency Payment Office for such currency. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower maintained with the Administrative Agent in New York City or any other account as is designated by the Borrower in the applicable Borrowing Request; provided that ABR Revolving Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.06(e) shall be remitted by the Administrative Agent to the Issuing Bank.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation (including without limitation, in the case of a Borrowing denominated in an Agreed Currency other than Dollars, the Overnight Foreign Currency Rate) or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

SECTION 2.08. Interest Elections.

(a) Each Revolving Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurocurrency Revolving Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurocurrency Revolving Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Revolving Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower. Notwithstanding any contrary provision herein, this Section shall not be construed to permit the Borrower to (i) change the currency of any Borrowing or (ii) elect an Interest Period for Eurocurrency Loans that does not comply with Section 2.02(d).

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurocurrency Borrowing; and

(iv) if the resulting Borrowing is a Eurocurrency Borrowing, the Agreed Currency and Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurocurrency Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurocurrency Revolving Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period (i) in the case of a Borrowing denominated in Dollars, such Borrowing shall be converted to an ABR Borrowing and (ii) in the case of a Borrowing denominated in an Agreed Currency other than Dollars, such Borrowing shall automatically continue as a Eurocurrency Borrowing in the same Agreed Currency with an Interest Period of one month unless (x) such Eurocurrency Borrowing is or was repaid in accordance with Section 2.11 or (y) the Borrower shall have given the Administrative Agent an Interest Election Request requesting that, at the end of such Interest Period, such Eurocurrency Borrowing continue as a Eurocurrency Borrowing for the same or another Interest Period. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Revolving Borrowing may be converted to or continued as a Eurocurrency Borrowing and (ii) unless repaid, each Eurocurrency Revolving Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

SECTION 2.09. Termination and Reduction of Commitments.

(a) Unless previously terminated, the Commitments shall terminate on the Maturity Date.

(b) The Borrower may at any time terminate, or from time to time reduce, the Commitments; provided that (i) each reduction of the Commitments shall be in an amount that is an integral multiple of \$1,000,000 and not less than \$5,000,000 and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans and reimbursement of LC Disbursements in accordance with Section 2.11, the Dollar Amount of the sum of the Revolving Credit Exposures would exceed the Aggregate Commitment.

(c) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Commitments under paragraph (b) of this Section at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities or financings, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Commitments shall be permanent. Each reduction of the Commitments shall be made ratably among the Lenders in accordance with their Applicable Percentages.

SECTION 2.10. Repayment of Loans; Evidence of Debt.

(a) The Borrower hereby unconditionally promises to pay (i) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Revolving Loan on the Maturity Date.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class, Agreed Currency and Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be conclusive evidence (absent manifest error) of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.11. Prepayment of Loans.

(a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to (i) prior notice in accordance with paragraph (b) of this Section, (ii) the payment of the funding compensation required by Section 2.16 and (iii) such prepayment being in an amount that is not less than \$1,000,000.

(b) The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment hereunder (i) in the case of prepayment of a Eurocurrency Revolving Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of prepayment or (ii) in the case of prepayment of an ABR Revolving Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid; provided that,

if a notice of prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.09, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.09. Promptly following receipt of any such notice relating to a Revolving Borrowing, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Revolving Borrowing shall be in an amount that would be permitted in the case of an advance of a Revolving Borrowing of the same Type as provided in Section 2.02. Each prepayment of a Revolving Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by (i) accrued interest to the extent required by Section 2.13 and (ii) break funding payments pursuant to Section 2.16.

SECTION 2.12. Fees.

(a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a facility fee, which shall accrue at the Applicable Rate on the daily Dollar Amount of the Commitment of such Lender (whether used or unused) during the period from and including the date hereof but excluding the date on which such Commitment terminates; provided that, if such Lender continues to have any Revolving Credit Exposure after its Commitment terminates, then such facility fee shall continue to accrue on the daily Dollar Amount of such Lender's Revolving Credit Exposure from and including the date on which its Commitment terminates to but excluding the date on which such Lender ceases to have any Revolving Credit Exposure. Accrued facility fees shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which the Commitments terminate, commencing on the first such date to occur after the date hereof; provided that any facility fees accruing after the date on which the Commitments terminate shall be payable on demand. All facility fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(b) The Borrower agrees to pay (i) to the Administrative Agent for the account of each Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at the same Applicable Rate used to determine the interest rate applicable to Eurocurrency Revolving Loans on the average daily Dollar Amount of such Lender's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date on which such Lender's Commitment terminates and the date on which such Lender ceases to have any LC Exposure, and (ii) to the Issuing Bank a fronting fee, which shall accrue at the rate of 0.125% per annum on the average daily Dollar Amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date of termination of the Commitments and the date on which there ceases to be any LC Exposure, as well as the Issuing Bank's standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including the last day of March, June, September and December of each year shall be payable on the third Business Day following such last day, commencing on the first such date to occur after the Effective Date; provided that all such fees shall be payable on the date on which the Commitments terminate and any such fees accruing after the date on which the Commitments terminate shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to

this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(d) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the Issuing Bank, in the case of fees payable to it) for distribution, in the case of facility fees and participation fees, to the Lenders. Fees (other than fees calculated in error) paid shall not be refundable under any circumstances.

SECTION 2.13. Interest.

(a) The Loans comprising each ABR Borrowing shall bear interest at the Alternate Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurocurrency Borrowing shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding paragraphs of this Section, (ii) in the case of any fee payable pursuant to Section 2.12(b)(i), 2% plus the rate otherwise applicable to such fee as provided in such Section or (iii) in the case of any other amount, 2% plus the rate applicable to ABR Loans as provided in paragraph (a) of this Section.

(d) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and, in the case of Revolving Loans, upon termination of the Commitments; provided that (i) interest accrued pursuant to paragraph (c) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Revolving Loan prior to the end of the Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any Eurocurrency Revolving Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest (i) computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and (ii) for Borrowings denominated in British Pounds Sterling shall be computed on the basis of a year of 365 days, and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate, Adjusted LIBO Rate or LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.14. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurocurrency Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to such Lenders (or Lender) of making or maintaining their Loans (or its Loan) included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Revolving Borrowing to, or continuation of any Revolving Borrowing as, a Eurocurrency Borrowing shall be ineffective, (ii) if any Borrowing Request requests a Eurocurrency Revolving Borrowing, such Borrowing shall be made as an ABR Borrowing; provided that if the circumstances giving rise to such notice affect only one Type of Borrowings, then the other Type of Borrowings shall be permitted.

SECTION 2.15. Increased Costs.

(a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or the Issuing Bank; or

(ii) impose on any Lender or the Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurocurrency Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurocurrency Loan or of maintaining its obligation to make any such Loan (including, without limitation, pursuant to any conversion of any Borrowing denominated in an Agreed Currency other than Euro into a Borrowing denominated in Euro) or to increase the cost to such Lender or the Issuing Bank of participating in, issuing or maintaining any Letter of Credit (including, without limitation, pursuant to any conversion of any Borrowing denominated in an Agreed Currency other than Euro into a Borrowing denominated in Euro) or to reduce the amount of any sum received or receivable by such Lender or the Issuing Bank hereunder, whether of principal, interest or otherwise (including, without limitation, pursuant to any conversion of any Borrowing denominated in an Agreed Currency other than Euro into a

Borrowing denominated in Euro), then the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or the Issuing Bank determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the Issuing Bank, to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of a Lender or the Issuing Bank setting forth in reasonable detail the amount or amounts necessary to compensate such Lender or the Issuing Bank or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender or the Issuing Bank, as the case may be, the amount shown as due on any such certificate, absent manifest error, within 10 days after receipt thereof.

(d) Failure or delay on the part of any Lender or the Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or the Issuing Bank pursuant to this Section for any increased costs or reductions incurred more than 180 days prior to the date that such Lender or the Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the Issuing Bank's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 180-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.16. Break Funding Payments. In the event of

(a) the payment of any principal of any Eurocurrency Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default),

(b) the conversion of any Eurocurrency Loan other than on the last day of the Interest Period applicable thereto,

(c) the failure to borrow, convert, continue or prepay any Revolving Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.11(b) and is revoked in accordance therewith), or

(d) the assignment of any Eurocurrency Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.19, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of a Eurocurrency Loan, such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of

(i) the amount of interest which would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over

(ii) the amount of interest which would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the commencement of such period, for deposits in the relevant currency of a comparable amount and period from other banks in the eurocurrency market. A certificate of any Lender setting forth in reasonable detail any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.17. Taxes.

(a) Any and all payments by or on account of any obligation of the Borrower hereunder shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then

(i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or Issuing Bank (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made,

(ii) the Borrower shall make such deductions and

(iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent, each Lender and the Issuing Bank, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent, such Lender or the Issuing Bank, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder (including Indemnified Taxes or Other Taxes imposed or asserted on

or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate in reasonable detail as to the amount of such payment or liability delivered to the Borrower by a Lender or the Issuing Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or the Issuing Bank, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate.

SECTION 2.18. Payments Generally; Pro Rata Treatment; Sharing of Set-offs.

(a) The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under Section 2.15, 2.16 or 2.17, or otherwise) prior to (i) in the case of payments denominated in Dollars, 12:00 noon, New York City time and (ii) in the case of payments denominated in an Agreed Currency other than Dollars, 12:00 noon, local time, in the city of the Administrative Agent's Eurocurrency Payment Office for such currency, in each case on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made (i) in the same currency in which the applicable Credit Event was made (or where such currency has been converted to the Euro, in the Euro) and (ii) to the Administrative Agent at its offices at Chase Tower, Chicago, Illinois 60603 or, in the case of a Borrowing denominated in an Agreed Currency other than Dollars, the Administrative Agent's Eurocurrency Payment Office, except payments to be made directly to the Issuing Bank as expressly provided herein and except that payments pursuant to Sections 2.15, 2.16, 2.17 and 9.03 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments denominated in the same currency received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. Notwithstanding the foregoing provisions of this Section, if, after the making of any Credit Event

in any currency other than Dollars, currency control or exchange regulations are imposed in the country which issues such currency with the result that the type of currency in which the Credit Event was made (the "Original Currency") no longer exists or the Borrower is not able to make payment to the Administrative Agent for the account of the Lenders in such Original Currency, then all payments to be made by the Borrower hereunder in such currency shall instead be made when due in Dollars in an amount equal to the Dollar Amount (as of the date of repayment) of such payment due, it being the intention of the parties hereto that the Borrower takes all risks of the imposition of any such currency control or exchange regulations.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied

(i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and

(ii) second, towards payment of principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Revolving Loans or participations in LC Disbursements or resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Revolving Loans and participations in LC Disbursements and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Revolving Loans and participations in LC Disbursements of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with their respective Applicable Percentages; provided that

(i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and

(ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation (including without limitation the Overnight Foreign Currency Rate in the case of a payment related to a Credit Event denominated in an Agreed Currency other than Dollars).

(e) If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.05(c), 2.06(d) or (e), 2.07(b), 2.18(d) or 9.03(c), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

SECTION 2.19. Mitigation Obligations; Replacement of Lenders.

(a) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the reasonable judgment of such Lender, such designation or assignment

(i) would eliminate or reduce amounts payable pursuant to Section 2.15 or 2.17, as the case may be, in the future and

(ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that

(i) the Borrower shall have received the prior written consent of the Administrative Agent (and, if a Commitment is being assigned, the Issuing Bank), which consent shall not unreasonably be withheld,

(ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and

(iii) in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.17, such assignment is reasonably likely to result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

SECTION 2.20. Changes in Capital Adequacy Regulations. If a Lender determines the amount of capital required or expected to be maintained by such Lender, any relevant office, branch, subsidiary or affiliate of such Lender or any corporation controlling such Lender is increased as a result of a Change, then, within 15 days of demand by such Lender (accompanied by a certificate setting forth in reasonable detail a calculation of the amount so demanded), the Borrower shall pay such Lender the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender determines is attributable to this Agreement, its Loans or its Commitment to make Loans hereunder (after taking into account such Lender's policies as to capital adequacy). "Change" means (i) any change after the date of this Agreement in the Risk-Based Capital Guidelines or (ii) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Lender or any Lending Installation or any corporation controlling any Lender. "Risk-Based Capital Guidelines" means (i) the risk-based capital guidelines in effect in the United States on the date of this Agreement, including transition rules, and (ii) the corresponding capital regulations promulgated by regulatory authorities outside the United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices Entitled "International Convergence of Capital Measurements and Capital Standards," including transition rules, and any amendments to such regulations adopted prior to the date of this Agreement.

SECTION 2.21. Market Disruption. Notwithstanding the satisfaction of all conditions referred to in Article II and Article IV with respect to any Credit Event to be effected in any Agreed Currency other than Dollars, if (i) there shall occur on or prior to the date of such Credit Event any change in national or international financial, political or economic conditions or currency exchange rates or exchange controls which would in the reasonable opinion of the Administrative Agent, the Issuing Bank (if such Credit Event is a Letter of Credit) or the Required Lenders make it impracticable for the Eurocurrency Borrowings or Letters of Credit

comprising such Credit Event to be denominated in the Agreed Currency specified by the Borrower, (ii) such currency is no longer an Eligible Currency or (iii) a Dollar Amount of such currency is not readily calculable, then the Administrative Agent shall forthwith give notice thereof to the Borrower, the Lenders and, if such Credit Event is a Letter of Credit, the Issuing Bank, and such Credit Events shall not be denominated in such Agreed Currency but shall, except as otherwise set forth in Section 2.07, be made on the date of such Credit Event in Dollars, (a) if such Credit Event is a Borrowing, in an aggregate principal amount equal to the Dollar Amount of the aggregate principal amount specified in the related Borrowing Request or Interest Election Request, as the case may be, as ABR Loans, unless the Borrower notifies the Administrative Agent at least one Business Day before such date that (i) it elects not to borrow on such date or (ii) it elects to borrow on such date in a different Agreed Currency, as the case may be, in which the denomination of such Loans would in the reasonable opinion of the Administrative Agent and the Required Lenders be practicable and in an aggregate principal amount equal to the Dollar Amount of the aggregate principal amount specified in the related Borrowing Request or Interest Election Request, as the case may be or (b) if such Borrowing is a Letter of Credit, in a face amount equal to the Dollar Amount of the face amount specified in the related request or application for such Letter of Credit, unless the Borrower notifies the Administrative Agent at least one Business Day before such date that (i) it elects not to request the issuance of such Letter of Credit on such date or (ii) it elects to have such Letter of Credit issued on such date in a different Agreed Currency, as the case may be, in which the denomination of such Letter of Credit would in the reasonable opinion of the Issuing Bank, the Administrative Agent and the Required Lenders be practicable and in face amount equal to the Dollar Amount of the face amount specified in the related request or application for such Letter of Credit, as the case may be.

SECTION 2.22. Judgment Currency. If for the purposes of obtaining judgment in any court it is necessary to convert a sum due from the Borrower hereunder in the currency expressed to be payable herein (the "specified currency") into another currency, the parties hereto agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Administrative Agent could purchase the specified currency with such other currency at the Administrative Agent's main New York City office on the Business Day preceding that on which final, non-appealable judgment is given. The obligations of the Borrower in respect of any sum due to any Lender or the Administrative Agent hereunder shall, notwithstanding any judgment in a currency other than the specified currency, be discharged only to the extent that on the Business Day following receipt by such Lender or the Administrative Agent (as the case may be) of any sum adjudged to be so due in such other currency such Lender or the Administrative Agent (as the case may be) may in accordance with normal, reasonable banking procedures purchase the specified currency with such other currency. If the amount of the specified currency so purchased is less than the sum originally due to such Lender or the Administrative Agent, as the case may be, in the specified currency, the Borrower agrees, to the fullest extent that it may effectively do so, as a separate obligation and notwithstanding any such judgment, to indemnify such Lender or the Administrative Agent, as the case may be, against such loss, and if the amount of the specified currency so purchased exceeds (a) the sum originally due to any Lender or the Administrative Agent, as the case may be, in the specified currency and (b) any amounts shared with other Lenders as a result of allocations of such excess as a disproportionate payment to such Lender under Section 2.18, such Lender or the Administrative Agent, as the case may be, agrees to remit such excess to the Borrower.

SECTION 2.23. Increase of Commitments.

(a) At any time, the Borrower may request that the Aggregate Commitment be increased; provided that, (i) the Aggregate Commitment shall at no time exceed \$125,000,000 minus the aggregate amount of all reductions in the Aggregate Commitment previously made pursuant to Section 2.09; (ii) the Borrower shall not make any such request during the six month period following any reduction in the Aggregate Commitment previously made pursuant to Section 2.09; (iii) the Borrower shall not be entitled to make any such request more frequently than once in each 12-month period; and (iv) each such request shall be in a minimum amount of at least \$5,000,000 and increments of \$5,000,000 in excess thereof. Such request shall be made in a written notice given to the Administrative Agent and the Lenders by the Borrower not less than twenty (20) Business Days prior to the proposed effective date of such increase, which notice (a "Commitment Increase Notice") shall specify the amount of the proposed increase in the Aggregate Commitment and the proposed effective date of such increase. In the event of such a Commitment Increase Notice, each of the Lenders shall be given the opportunity to participate in the requested increase ratably in proportions that their respective Commitments bear to the Aggregate Commitment. No Lender shall have any obligation to increase its Commitment pursuant to a Commitment Increase Notice. On or prior to the date that is ten (10) Business Days after receipt of the Commitment Increase Notice, each Lender shall submit to the Administrative Agent a notice indicating the maximum amount by which it is willing to increase its Commitment in connection with such Commitment Increase Notice (any such notice to the Administrative Agent being herein a "Lender Increase Notice"). Any Lender which does not submit a Lender Increase Notice to the Administrative Agent prior to the expiration of such ten (10) Business Day period shall be deemed to have denied any increase in its Commitment. In the event that the increases of Commitments set forth in the Lender Increase Notices exceed the amount requested by the Borrower in the Commitment Increase Notice, the Administrative Agent shall have the right, in consultation with the Borrower, to allocate the amount of increases necessary to meet the Borrower's Commitment Increase Notice. In the event that the Lender Increase Notices are less than the amount requested by the Borrower, not later than three (3) Business Days prior to the proposed effective date the Borrower may notify the Administrative Agent of any financial institution that shall have agreed to become a "Lender" party hereto (a "Proposed New Lender") in connection with the Commitment Increase Notice. Any Proposed New Lender shall be consented to by the Administrative Agent (which consent shall not be unreasonably withheld). If the Borrower shall not have arranged any Proposed New Lender(s) to commit to the shortfall from the Lender Increase Notices, then the Borrower shall be deemed to have reduced the amount of its Commitment Increase Notice to the aggregate amount set forth in the Lender Increase Notices. Based upon the Lender Increase Notices, any allocations made in connection therewith and any notice regarding any Proposed New Lender, if applicable, the Administrative Agent shall notify the Borrower and the Lenders on or before the Business Day immediately prior to the proposed effective date of the amount of each Lender's and Proposed New Lenders' Commitment (the "Effective Commitment Amount") and the amount of the Aggregate Commitment, which amount shall be effective on the following Business Day. Any increase in the Aggregate Commitment shall be subject to the following conditions precedent: (A) the Borrower shall have obtained the consent thereto of each Subsidiary Guarantor and its

reaffirmation of the Loan Document(s) executed by it, which consent and reaffirmation shall be in writing and in form and substance reasonably satisfactory to the Administrative Agent, (B) as of the date of the Commitment Increase Notice and as of the proposed effective date of the increase in the Aggregate Commitment, all representations and warranties shall be true and correct in all material respects as though made on such date and no event shall have occurred and then be continuing which constitutes a Default or Event of Default, (C) the Borrower, the Administrative Agent and each Proposed New Lender or Lender that shall have agreed to provide a "Commitment" in support of such increase in the Aggregate Commitment shall have executed and delivered a "Commitment and Acceptance" substantially in the form of Exhibit D hereto, (D) counsel for the Borrower and for the Guarantors shall have provided to the Administrative Agent supplemental opinions in form and substance reasonably satisfactory to the Administrative Agent and (E) the Borrower and each Proposed New Lender shall otherwise have executed and delivered such other instruments and documents as may be required under Article IV or that the Administrative Agent shall have reasonably requested in connection with such increase. If any fee shall be charged by the Lenders in connection with any such increase, such fee shall be in accordance with then prevailing market conditions, which market conditions shall have been reasonably documented by the Administrative Agent to the Borrower. Upon satisfaction of the conditions precedent to any increase in the Aggregate Commitment, the Administrative Agent shall promptly advise the Borrower and each Lender of the effective date of such increase. Upon the effective date of any increase in the Aggregate Commitment that is supported by a Proposed New Lender, such Proposed New Lender shall be a party to this Agreement as a Lender and shall have the rights and obligations of a Lender hereunder. Nothing contained herein shall constitute, or otherwise be deemed to be, a commitment on the part of any Lender to increase its Commitment at any time.

(b) For purposes of this clause (b), (A) the term "Buying Lender(s)" shall mean (1) each Lender the Effective Commitment Amount of which is greater than its Commitment prior to the effective date of any increase in the Aggregate Commitment, and (2) each Proposed New Lender that is allocated an Effective Commitment Amount in connection with any Commitment Increase Notice, (B) the term "Selling Lender(s)" shall mean each Lender whose Commitment is not being increased from that in effect prior to such increase in the Aggregate Commitment and (C) the term "Percentage" shall mean with respect to any Lender, the percentage obtained by dividing (w) such Lender's Commitment at such time (as adjusted from time to time in accordance herewith) by (x) the total Commitments at such time (as adjusted from time to time in accordance herewith); provided, if all of the Commitments are terminated pursuant hereto, then "Percentage" means the percentage obtained by dividing (y) such Lender's Revolving Credit Exposures by (z) the total Revolving Credit Exposures of all the Lenders. Effective on the effective date of any increase in the Aggregate Commitment pursuant to clause (a) above, each Selling Lender hereby sells, grants, assigns and conveys to each Buying Lender, without recourse, warranty, or representation of any kind, except as specifically provided herein, an undivided percentage in such Selling Lender's right, title and interest in and to its Revolving Credit Exposure in the respective Dollar Amounts and percentages necessary so that, from and after such sale, each such Selling Lender's Revolving Credit Exposure shall equal such Selling Lender's Percentage (calculated based upon the Effective Commitment Amounts) of the aggregate Revolving Credit Exposures. Effective on the effective date of the increase in the Aggregate Commitment pursuant to clause (a) above, each Buying Lender hereby purchases and accepts such grant, assignment and conveyance from the Selling Lenders. Each Buying Lender

hereby agrees that its respective purchase price for the portion of the Revolving Credit Exposure purchased hereby shall equal the respective Dollar Amount necessary so that, from and after such payments, each Buying Lender's Revolving Credit Exposure shall equal such Buying Lender's Percentage (calculated based upon the Effective Commitment Amounts) of the aggregate Revolving Credit Exposures. Such amount shall be payable on the effective date of the increase in the Aggregate Commitment by wire transfer of immediately available funds to the Administrative Agent. Each Selling Lender hereby represents and warrants to each Buying Lender that such Selling Lender owns the Revolving Credit Exposure being sold and assigned hereby for its own account and has not sold, transferred or encumbered any or all of its interest in such Loans, except for participations which will be extinguished upon payment to Selling Lender of an amount equal to the portion of the Revolving Credit Exposure being sold by such Selling Lender. Each Buying Lender hereby acknowledges and agrees that, except for each Selling Lender's representations and warranties contained in the foregoing sentence, each such Buying Lender has entered into its Commitment and Acceptance with respect to such increase on the basis of its own independent investigation and has not relied upon, and will not rely upon, any explicit or implicit written or oral representation, warranty or other statement of the Lenders or the Agent concerning the authorization, execution, legality, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or the other Loan Documents. The Borrower hereby agrees to compensate each Selling Lender for all losses, expenses and liabilities incurred by each Lender in connection with the sale and assignment of any Eurocurrency Loan hereunder on the terms and in the manner as set forth in Section 2.16 hereof.

ARTICLE III

Representations and Warranties

The Borrower represents and warrants to the Lenders that:

SECTION 3.01. Organization; Powers; Subsidiaries. Each of the Borrower and its Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required. Schedule 3.01 hereto identifies as of the Effective Date each Subsidiary, the jurisdiction of its incorporation or organization, as the case may be, the percentage of issued and outstanding shares of each class of its capital stock or other Equity Interests owned by the Borrower and the other Subsidiaries and, if such percentage is not 100% (excluding directors' qualifying shares as required by law), a description of each class issued and outstanding. All of the outstanding shares of capital stock and other Equity Interests of each Subsidiary are validly issued and outstanding and fully paid and nonassessable and all such shares and other equity interests indicated on Schedule 3.01 as owned by the Borrower or another Subsidiary are as of the Effective Date owned, beneficially and of record, by the Borrower or such Subsidiary free and clear of all Liens, other than Liens created by the Collateral Documents and inchoate tax and ERISA Liens. There are no outstanding commitments or other obligations of any Subsidiary to issue, and no options, warrants or other rights of any Person to acquire, any shares of any class of capital stock or other equity interests of any Subsidiary.

SECTION 3.02. Authorization; Enforceability. The Transactions are within the Borrower's corporate powers and have been duly authorized by all necessary corporate and, if required, stockholder action. This Agreement has been duly executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.03. Governmental Approvals; No Conflicts. The Transactions

(a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect,

(b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of the Borrower or any of its Subsidiaries or any order of any Governmental Authority binding upon the Borrower or such Subsidiary,

(c) will not violate or result in a default under any indenture, agreement or other instrument binding upon the Borrower or any of its Subsidiaries or its assets, or give rise to a right thereunder to require any payment to be made by the Borrower or any of its Subsidiaries, and

(d) will not result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries, other than Liens created pursuant to the Loan Documents.

SECTION 3.04. Financial Condition; No Material Adverse Change.

(a) The Borrower has heretofore furnished to the Lenders (or made available to the Lenders on the Securities and Exchange Commission's EDGAR web page) its consolidated balance sheet and statements of income, stockholders equity and cash flows (i) as of and for the fiscal year ended December 31, 2005, audited by KPMG LLP, independent public accountants, and (ii) as of and for the fiscal quarter and the portion of the fiscal year ended June 30, 2006, certified by its chief financial officer.

Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of the Borrower and its consolidated Subsidiaries as of such dates and for such periods in accordance with GAAP, subject to year-end audit adjustments and the absence of footnotes in the case of the statements referred to in clause (ii) above.

(b) Since December 31, 2005, except as otherwise disclosed by the Borrower in its Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended June 30, 2006, there has been no Material Adverse Change.

SECTION 3.05. Properties.

(a) Each of the Borrower and its Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business, except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes.

(b) Each of the Borrower and its Subsidiaries owns, or is licensed to use, all trademarks, trade names, copyrights, patents and other intellectual property material to its business, and the use thereof by the Borrower and its Subsidiaries does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.06. Litigation, Labor Matters and Environmental Matters.

(a) There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any of its Subsidiaries (i) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect (other than the Disclosed Matters) or (ii) that involve this Agreement or the Transactions.

(b) There are no labor controversies pending against or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any of its Subsidiaries (i) which could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect, or (ii) that involve this Agreement or the Transactions.

(c) Except for the Disclosed Matters and except with respect to any other matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, neither the Borrower nor any of its Subsidiaries

(i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law,

(ii) has become subject to any Environmental Liability,

(iii) has received notice of any claim with respect to any Environmental Liability or

(iv) knows of any basis for any Environmental Liability.

(d) Since the date of this Agreement, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or could reasonably be expected to result in, a Material Adverse Effect.

SECTION 3.07. Compliance with Laws and Agreements; No Burdensome Restrictions. Each of the Borrower and its Subsidiaries is in compliance with all laws,

regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. Neither the Borrower nor any Subsidiary is party or subject to any law, regulation, rule or order, or any obligation under any agreement or instrument, that has a Material Adverse Effect.

SECTION 3.08. Investment Company Status. Neither the Borrower nor any of its Subsidiaries is an “investment company” as defined in, or subject to regulation under, the Investment Company Act of 1940.

SECTION 3.09. Taxes. Each of the Borrower and its Subsidiaries has timely filed or caused to be filed all Federal, state and other material Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except

- (a) Taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or such Subsidiary, as applicable, has set aside on its books adequate reserves or
- (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.10. ERISA. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations under each Plan (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than \$3,000,000 the fair market value of the assets of such Plan, and the present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than \$3,000,000 the fair market value of the assets of all such underfunded Plans.

SECTION 3.11. Disclosure. The Borrower has disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. None of the reports, financial statements, certificates or other information furnished by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or delivered hereunder (as modified or supplemented by other information so furnished) contained, when furnished, any untrue statement of a fact or omitted to state any material fact necessary to make the statements contained therein, in the light of the circumstances under which they were made, not materially misleading; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time of such preparation.

SECTION 3.12. No Default. No Default has occurred and is continuing.

SECTION 3.13. Liens. There are no Liens on any of the real or personal properties of the Borrower or any Subsidiary except for Liens created by the Collateral Documents and except as otherwise permitted by Section 6.02.

SECTION 3.14. Contingent Obligations. Other than any liability incident to any litigation, arbitration or proceeding which could not reasonably be expected to have a Material Adverse Effect, the Borrower has no material contingent obligations not provided for or disclosed in the financial statements referred to in Section 3.04.

SECTION 3.15. Regulation U. Margin stock (as defined in Regulation U) constitutes less than 25% of the value of those assets of the Borrower and its Subsidiaries which are subject to any limitation on sale, pledge, or other restriction hereunder.

ARTICLE IV

Conditions

SECTION 4.01. Effective Date. The obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 9.02):

(a) The Administrative Agent (or its counsel) shall have received from (i) each party hereto either (A) a counterpart of this Agreement signed on behalf of such party or (B) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement and (ii) each Subsidiary Guarantor either (A) a counterpart of the Subsidiary Guaranty signed on behalf of such party or (B) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of the Subsidiary Guaranty) that such party has signed a counterpart of the Subsidiary Guaranty.

(b) The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of (A) the Chief Legal Officer of the Borrower and the Subsidiary Guarantors, substantially in the form of Exhibit B-1 and (B) McDermott Will & Emery LLP, special counsel for the Borrower and the Subsidiary Guarantors, substantially in the form of Exhibit B-2, in each case covering such other matters relating to the Borrower and the Subsidiary Guarantors, this Agreement, the Subsidiary Guaranty or the Transactions as the Required Lenders shall reasonably request.

(c) Except as expressly permitted otherwise under Section 5.09, the Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Borrower and the Subsidiary Guarantors, the authorization of the Transactions and any other legal matters relating to the Borrower, the Subsidiary Guarantors, this Agreement, the Subsidiary Guaranty or the Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel and as further described in the list of closing documents set forth on Exhibit E.

(d) All governmental and third-party approvals necessary in connection with the Transactions and the continuing operations of the Borrower and its Subsidiaries shall have been obtained and continuing in full force and effect.

(e) The Administrative Agent shall have received a certificate, dated the Effective Date and signed by the Chief Executive Officer or a Financial Officer of the Borrower, confirming compliance with the conditions set forth in paragraphs (a) and (b) of Section 4.02.

(f) The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Effective Date, including, (i) closing fees for the account of each Lender in accordance with the terms of the Fee Letter and (ii) to the extent invoiced in reasonable detail and presented to the Borrower no less than two (2) Business Days prior to the Effective Date (absent manifest error), reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

(g) The Administrative Agent shall have received evidence reasonably satisfactory to it that the Existing Credit Agreement has been terminated and cancelled and all Indebtedness outstanding thereunder (other than letters of credit thereunder being converted into Letters of Credit hereunder) has been fully repaid or will be fully repaid with the initial extension of credit hereunder.

The Administrative Agent shall notify the Borrower and the Lenders of the Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to Section 9.02) at or prior to 4:00 p.m., New York City time, on the date hereof (and, in the event such conditions are not so satisfied or waived, the Commitments shall terminate at such time).

SECTION 4.02. Each Credit Event. The obligation of each Lender to make a Loan on the occasion of any Borrowing, and of the Issuing Bank to issue, amend, renew or extend any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) The representations and warranties of the Borrower set forth in this Agreement (other than the representation and warranty set forth in Section 3.04(b)) shall be true and correct on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable.

(b) At the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section; provided that the foregoing shall not prohibit the conversion of a Eurocurrency Revolving Borrowing into an ABR Borrowing

pursuant to Section 2.08(e) or the conversion of an ABR Borrowing to a Eurocurrency Revolving Borrowing or the continuation of a Eurocurrency Revolving Borrowing if no Event of Default exists.

ARTICLE V

Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that:

SECTION 5.01. Financial Statements and Other Information. The Borrower will furnish to the Administrative Agent:

(a) as soon as practicable, and in any event no later than the earlier to occur of (x) the one-hundredth (100th) day after the end of each fiscal year of the Borrower, and (y) the fifth (5th) day after the date on which any of the following items are required to be delivered to the Securities and Exchange Commission, its audited consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by KPMG LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries for such fiscal year on a consolidated basis in accordance with GAAP consistently applied;

(b) as soon as practicable, and in any event no later than the earlier to occur of (x) the fiftieth (50th) day after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, and (y) the fifth (5th) day after the date on which any of the following items are required to be delivered to the Securities and Exchange Commission, its consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries for such period or periods on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(c) concurrently with any delivery of financial statements under clause (a) above, a reasonably detailed business plan and forecast (including a projected consolidated balance sheet, income statement and statement of cash flows) of the Borrower for such fiscal year;

(d) concurrently with any delivery of financial statements under clause (a) or (b) above, a certificate of a Financial Officer of the Borrower (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations computing the Applicable Rate and demonstrating compliance with Sections 6.01(e), 6.01(f), 6.01(k), 6.04, 6.06 and 6.11 and (iii) stating whether any change in GAAP or in the application thereof has occurred since the date of the audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(e) concurrently with any delivery of financial statements under clause (a) above, a certificate of the accounting firm that reported on such financial statements stating whether they obtained knowledge during the course of their examination of such financial statements of any Default (which certificate may be limited to the extent required by accounting rules or guidelines);

(f) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by the Borrower or any Subsidiary with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or distributed by the Borrower to its shareholders generally, as the case may be; and

(g) promptly following any reasonable request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of this Agreement, as the Administrative Agent or any Lender may reasonably request.

The statements and reports required to be furnished by the Borrower pursuant to clauses (a), (b) and (f) above shall be deemed furnished for such purpose upon delivery to the Administrative Agent for distribution to the Lenders through IntraLinks or other comparable electronic medium utilized by the Administrative Agent in connection with the credit facility evidenced hereby.

SECTION 5.02. Notices of Material Events. The Borrower will furnish to the Administrative Agent prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the Borrower or any Affiliate thereof that could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Borrower and its Subsidiaries in an aggregate amount exceeding \$2,500,000, and

(d) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 5.03. Existence; Conduct of Business. The Borrower will, and will cause each of its Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and business operations and the rights, licenses, permits, privileges and franchises material to the conduct of the business of the Borrower and its Subsidiaries taken as a whole; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.03.

SECTION 5.04. Payment of Obligations. The Borrower will, and will cause each of its Subsidiaries to, pay its obligations, including Tax liabilities, that, if not paid, could result in a Material Adverse Effect before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.05. Maintenance of Properties; Insurance. The Borrower will, and will cause each of its Subsidiaries to, (a) keep and maintain all property material to the conduct of the business of the Borrower and its Subsidiaries taken as a whole in good working order and condition, ordinary wear and tear excepted, and (b) maintain, with financially sound and reputable insurance companies, insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations.

SECTION 5.06. Books and Records; Inspection Rights. The Borrower will, and will cause each of its Subsidiaries to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. The Borrower will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested.

SECTION 5.07. Compliance with Laws. The Borrower will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations and orders (including, without limitation, Environmental Laws) of any Governmental Authority applicable to it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.08. Use of Proceeds and Letters of Credit. The proceeds of the Loans will be used only for refinancing the Indebtedness under the Existing Credit Agreement and for other general corporate purposes of the Borrower and its Subsidiaries in the ordinary course of business. No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations T, U and X.

SECTION 5.09. Additional Subsidiary Documentation. As promptly as possible but in any event within thirty (30) days (in the case of a Domestic Subsidiary) or sixty (60) days (in the case of a Foreign Subsidiary) (or, in each case, such later date as may be agreed upon by the Administrative Agent) after any Person becomes a Subsidiary or any Subsidiary qualifies independently as, or is designated by the Borrower as, a Subsidiary Guarantor pursuant to the definition of "Subsidiary Guarantor", the Borrower shall provide the Administrative Agent with written notice thereof setting forth information in reasonable detail describing the material assets of such Person and (a) shall cause each such Subsidiary which also qualifies or is designated by the Borrower as a Subsidiary Guarantor to deliver to the Administrative Agent a duly executed supplement to the Subsidiary Guaranty pursuant to which such Subsidiary agrees to be bound by the terms and provisions of the Subsidiary Guaranty, such supplement to be accompanied by appropriate corporate resolutions and legal opinions in form and substance reasonably satisfactory to the Administrative Agent or (b) shall cause the pledge of such Subsidiary's Capital Stock pursuant to Section 5.10 to the extent such Subsidiary, but for its status as an Affected Foreign Subsidiary, would otherwise qualify or be designated by the Borrower as a Subsidiary Guarantor.

SECTION 5.10. Pledge Agreements. The Borrower shall execute or cause to be executed, by no later than sixty days (or such later date as may be agreed upon by the Administrative Agent) after the date on which any First Tier Foreign Subsidiary would, but for its status as an Affected Foreign Subsidiary, qualify or be designated by the Borrower as a Subsidiary Guarantor, a Pledge Agreement in favor of the Administrative Agent for the benefit of the Holders of Secured Obligations with respect to 65% of all of the outstanding Capital Stock of such First Tier Foreign Subsidiary; provided that no such pledge of the Capital Stock of a First Tier Foreign Subsidiary shall be required hereunder to the extent such pledge is prohibited by applicable law or the Administrative Agent and its counsel reasonably determine that such pledge would not provide material Collateral for the benefit of the Holders of Secured Obligations pursuant to legally binding, valid and enforceable Pledge Agreements. The Borrower further agrees to deliver to the Administrative Agent all such Pledge Agreements and other Collateral Documents, together with appropriate corporate resolutions and other documentation (including legal opinions, the stock certificates representing the Capital Stock subject to such pledge, stock powers with respect thereto executed in blank, and such other documents as shall be reasonably requested to perfect the Lien of such pledge) in each case in form and substance reasonably satisfactory to the Administrative Agent, and in a manner that the Administrative Agent shall be reasonably satisfied that it has a first priority perfected pledge of or charge over the Collateral related thereto.

ARTICLE VI

Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of Credit have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that:

SECTION 6.01. Indebtedness. The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Indebtedness, except:

(a) Indebtedness created hereunder and under the other Loan Documents;

(b) Indebtedness existing on the date hereof and set forth in Schedule 6.01 and extensions, renewals, refinancings and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof;

(c) Indebtedness of the Borrower to any Subsidiary and of any Subsidiary to the Borrower or any other Subsidiary;

(d) Guarantees by the Borrower of Indebtedness of any Subsidiary and by any Subsidiary of Indebtedness of the Borrower or any other Subsidiary;

(e) Indebtedness of the Borrower or any Subsidiary incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including Capital Lease Obligations and any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, and extensions, renewals, refinancings and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof; provided that (i) such Indebtedness is incurred prior to or within 180 days after such acquisition or the completion of such construction or improvement and (ii) the aggregate outstanding principal amount of Indebtedness permitted by this clause (e) shall not exceed \$10,000,000 at any time outstanding;

(f) Indebtedness of any Person that becomes a Subsidiary, or merges into the Borrower or a Subsidiary after the date hereof; provided that (i) such Indebtedness exists at the time such Person becomes a Subsidiary, or merges into the Borrower or a Subsidiary and is not created in contemplation of or in connection with such Person becoming a Subsidiary, or merging into the Borrower or a Subsidiary and (ii) the aggregate outstanding principal amount of Indebtedness permitted by this clause (f) shall not exceed \$3,000,000 at any time outstanding;

(g) Indebtedness of the Borrower or any Subsidiary as an account party in respect of trade letters of credit;

(h) Indebtedness of the Borrower or any Subsidiary in respect of workers' compensation claims, self-insurance obligations, performance bonds, surety, appeal or similar bonds and completion guarantees provided by the Borrower and the Subsidiaries in the ordinary

course of business, provided that upon the incurrence of Indebtedness with respect to reimbursement type obligations regarding workers' compensation claims, such obligations are reimbursed within 30 days following such drawing or incurrence;

(i) Guarantees in the ordinary course of business by the Borrower or any Subsidiary of Indebtedness incurred by employees or prospective employees; provided that the aggregate principal amount of such Guarantees permitted by this clause (i) shall not exceed \$3,000,000 at any one time outstanding;

(j) Indebtedness under Swap Contracts entered into in the ordinary course of business for non-speculative purposes in order to hedge bona fide business risks associated with fluctuations in interest rates or currency exchange rates; and

(k) Other unsecured Indebtedness in an aggregate principal amount not exceeding \$15,000,000 at any time outstanding.

SECTION 6.02. Liens. The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(a) Permitted Encumbrances;

(b) any Lien on any property or asset of the Borrower or any Subsidiary existing on the date hereof and set forth in Schedule 6.02; provided that

(i) such Lien shall not apply to any other property or asset of the Borrower or any Subsidiary and

(ii) such Lien shall secure only those obligations which it secures on the date hereof and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof beyond the maximum commitments with respect thereto as in effect on the date hereof;

(c) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any Subsidiary or existing on any property or asset of any Person that becomes a Subsidiary, or merges into the Borrower or a Subsidiary after the date hereof prior to the time such Person becomes a Subsidiary, or merges into the Borrower or a Subsidiary; provided that

(i) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming, or merging into, a Subsidiary, as the case may be,

(ii) such Lien shall not apply to any other property or assets of the Borrower or any Subsidiary and

(iii) such Lien shall secure only those obligations which it secures on the date of such acquisition or the date such Person becomes, or merges into, a Subsidiary, as the case may be and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

- (d) Liens on fixed or capital assets acquired, constructed or improved by the Borrower or any Subsidiary; provided that
 - (i) such security interests secure Indebtedness permitted by clause (e) of Section 6.01,
 - (ii) such security interests and the Indebtedness secured thereby are incurred prior to or within 180 days after such acquisition or the completion of such construction or improvement,
 - (iii) the Indebtedness secured thereby does not exceed 100% of the cost of acquiring, constructing or improving such fixed or capital assets and
 - (iv) such security interests shall not apply to any other property or assets of the Borrower or any Subsidiary;
- (e) Liens created by the Collateral Documents; and
- (f) Liens not otherwise permitted by this Section 6.02 so long as the aggregate principal amount of the obligations secured thereby subject to such Liens does not exceed \$10,000,000.

In addition, neither the Borrower nor any of its Subsidiaries shall become a party to any agreement, note, indenture or other instrument, or take any other action, which would prohibit the creation of a Lien on any of its properties or other assets in favor of the Administrative Agent for the benefit of itself and the Holders of Secured Obligations, as additional collateral for the Secured Obligations.

SECTION 6.03. Fundamental Changes.

(a) The Borrower will not, and will not permit any Subsidiary to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or any substantial part of its assets, or all or substantially all of the stock of any of its Subsidiaries (in each case, whether now owned or hereafter acquired), or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing

- (i) any Subsidiary may merge into the Borrower in a transaction in which the Borrower is the surviving corporation,
- (ii) any Subsidiary, or branch of the Borrower or a Subsidiary, may merge into any Subsidiary in a transaction in which the surviving entity is a Subsidiary,

(iii) any Subsidiary may sell, transfer, lease or otherwise dispose of its assets to the Borrower or to another Subsidiary and

(iv) any Subsidiary may liquidate or dissolve if the Borrower determines in good faith that such liquidation or dissolution is in the best interests of the Borrower and is not materially disadvantageous to the Lenders; provided that any merger involving a Person that is not a Subsidiary immediately prior to such merger shall not be permitted unless also permitted by Section 6.04.

(b) The Borrower will not, and will not permit any of its Subsidiaries to, engage to any material extent in any business other than businesses of the type conducted by the Borrower and its Subsidiaries on the date of execution of this Agreement and businesses reasonably related thereto.

SECTION 6.04. Investments, Loans, Advances, Guarantees and Acquisitions. The Borrower will not, and will not permit any of its Subsidiaries to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a wholly owned Subsidiary prior to such merger) any capital stock, evidences of indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of, make or permit to exist any loans or advances to, Guarantee any obligations of, or make or permit to exist any investment or any other interest in, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit, except:

(a)(i) Permitted Investments and (ii) so long as the aggregate outstanding amount thereof does not exceed \$30,000,000 at any time during the term of this Agreement, Permitted Two-Year Investments;

(b) investments existing on the date hereof and listed on Schedule 6.04;

(c) loans, advances or capital contributions made by the Borrower to any Subsidiary and made by any Subsidiary to the Borrower or any other Subsidiary, provided that, unless constituting Permitted Foreign Reorganization Transfers, not more than \$15,000,000 in loans, advances or capital contributions may be made and remain outstanding, during the term of this Agreement, by the Borrower or any Subsidiary Loan Party to a Person which is not a Subsidiary Loan Party (as used herein, "Permitted Foreign Reorganization Transfers" means, to the extent approved by the Administrative Agent, loans, advances or capital contributions by and among the Borrower and its Subsidiaries in order to implement the reorganization of the Borrower's Foreign Subsidiaries and foreign branches);

(d) Guarantees constituting Indebtedness permitted by Section 6.01;

(e) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;

(f) Permitted Acquisitions;

(g) Guarantees by the Borrower and any Subsidiary of leases entered into in the ordinary course of business by any Subsidiary as lessee;

(h) extensions of credit in the nature of accounts receivable or notes receivable in the ordinary course of business;

(i) investments in payroll, travel, relocation and similar advances to employees and prospective employees to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(j) investments in or acquisitions of stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Borrower or any Subsidiary or in satisfaction of judgments;

(k) investments in equity securities and rights to acquire equity securities acquired as part of fees charged to clients or otherwise in connection with the performance of services by the Borrower and its Subsidiaries in the ordinary course of business;

(l) warrants, options and Equity Interests received by the Borrower or any Subsidiary as full or partial compensation for services rendered by the Borrower or any Subsidiary, all in the ordinary course of business consistent with past practice;

(m) deposit accounts maintained in the ordinary course of business; and

(n) other investments by the Borrower in a cumulative aggregate amount not exceeding \$15,000,000 during the term of this Agreement.

SECTION 6.05. Swap Agreements. The Borrower will not, and will not permit any of its Subsidiaries to, enter into any Swap Agreement, except (a) Swap Agreements entered into to hedge or mitigate risks to which the Borrower or any Subsidiary has actual exposure (other than those in respect of Equity Interests or Subordinated Indebtedness of the Borrower or any of its Subsidiaries), and (b) Swap Agreements entered into with respect to foreign currency transactions or in order to effectively cap, collar or exchange interest rates (from fixed to floating rates, from one floating rate to another floating rate or otherwise) with respect to any interest-bearing liability or investment of the Borrower or any Subsidiary.

SECTION 6.06. Restricted Payments. The Borrower will not, and will not permit any of its Subsidiaries to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except

(a) the Borrower may declare and pay dividends with respect to its Equity Interests payable solely in additional shares of its common stock,

(b) Subsidiaries may declare and pay dividends ratably with respect to their Equity Interests, and

(c) so long as (i) no Event of Default has then occurred or is continuing or would arise after giving effect thereto and (ii) Availability shall not be less than \$25,000,000 after giving effect thereto, the Borrower may make Restricted Payments to the extent the aggregate amount of such Restricted Payments does not exceed \$75,000,000 in any period of twelve consecutive months. As used herein, "Availability" means, at any time, an amount equal to the Aggregate Commitment then in effect minus the aggregate Revolving Credit Exposures of all Lenders at such time.

SECTION 6.07. Transactions with Affiliates. The Borrower will not, and will not permit any of its Subsidiaries to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except

(a) in the ordinary course of business at prices and on terms and conditions not materially less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties,

(b) transactions (i) between or among the Borrower and Subsidiary Loan Parties not involving any other Affiliate or (ii) between or among Subsidiaries (none of whom are Subsidiary Loan Parties),

(c) any transfer or other disposition permitted by Section 6.03 and

(d) any Restricted Payment permitted by Section 6.06.

SECTION 6.08. Restrictive Agreements. The Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon

(a) the ability of the Borrower or any Subsidiary to create, incur or permit to exist any Lien upon any of its property or assets, or

(b) the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to the Borrower or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary; provided that

(i) the foregoing shall not apply to restrictions and conditions imposed by law or by this Agreement,

(ii) the foregoing shall not apply to restrictions and conditions existing on the date hereof identified on Schedule 6.08 (but shall apply to any extension or renewal of, or any amendment or modification expanding the scope of, any such restriction or condition (other than in connection with the extension of the maturity of any underlying Indebtedness which is otherwise permitted hereunder)),

(iii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary or an asset pending such sale, provided such restrictions and conditions apply only to the Subsidiary or the asset that is to be sold and such sale is permitted hereunder,

(iv) clause (a) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness and

(v) clause (a) of the foregoing shall not apply to customary provisions in leases restricting the assignment thereof.

SECTION 6.09. Changes in Fiscal Year. The Borrower shall not, nor shall it permit any Subsidiary to, change its fiscal year from its present basis; provided that any Subsidiary acquired after the Effective Date pursuant to a Permitted Acquisition may change its fiscal year to the fiscal year basis employed by the Borrower within one (1) year following such Permitted Acquisition so long as the Borrower delivers at least thirty (30) days' prior written notice of such change to the Administrative Agent.

SECTION 6.10. Subordinated Indebtedness. The Borrower will not, and will not permit any Subsidiary to, make any Prohibited Amendment to any indenture, note or other agreement evidencing or governing any Subordinated Indebtedness, or directly or indirectly voluntarily prepay, decrease or in substance decrease, purchase, redeem, retire or otherwise acquire, any Subordinated Indebtedness. As used herein, "Prohibited Amendment" means any amendment or modification the effect of which is to: (a) increase the interest rate on such Subordinated Indebtedness; (b) change the dates upon which payments of principal or interest are due on such Subordinated Indebtedness other than to extend such dates; (c) change any default or event of default other than to delete or make less restrictive any default provision therein, or add any covenant with respect to such Subordinated Indebtedness; (d) change the redemption or prepayment provisions of such Subordinated Indebtedness other than to extend the dates therefor or to reduce the premiums payable in connection therewith; (e) grant any security or collateral to secure payment of such Subordinated Indebtedness; or (f) change or amend any other term if such change or amendment would materially increase the obligations of the Borrower or applicable Subsidiary thereunder or confer additional material rights on the holder of such Subordinated Indebtedness in a manner adverse to the Borrower, any Subsidiary, the Administrative Agent or any Lender.

SECTION 6.11. Financial Covenants.

SECTION 6.11.1. Fixed Charge Coverage Ratio. The Borrower will not permit the ratio (the "Fixed Charge Coverage Ratio"), determined as of the end of each of its fiscal quarters ending on and after September 30, 2006 for the period of 4 consecutive fiscal quarters ending with the end of such fiscal quarter, of (i) Consolidated EBITDAR *minus* Consolidated Capital Expenditures to (ii) Consolidated Interest Expense *plus* Consolidated Rental Payments, all calculated for the Borrower and its Subsidiaries on a consolidated basis, to be less than 1.3 to

1.0. The Fixed Charge Coverage Ratio shall be calculated on a pro forma basis after giving effect to any Permitted Acquisition consummated during such period (without giving effect to any cost savings other than those actually realized as of the date of such acquisition or thereafter realized during such period or otherwise approved in writing by the Administrative Agent) as if such acquisition (and any related incurrence or repayment of Indebtedness, with any new Indebtedness being deemed to be amortized over such period in accordance with its terms) had occurred on the first day of such period.

SECTION 6.11.2. Leverage Ratio. The Borrower will not permit the ratio (the "Leverage Ratio"), determined as of the end of each of its fiscal quarters ending on and after September 30, 2006, of (i) Consolidated Total Indebtedness to (ii) Consolidated EBITDA for the period of 4 consecutive fiscal quarters ending with the end of such fiscal quarter, to be greater than 2.25 to 1.0. The Leverage Ratio shall be calculated on a pro forma basis after giving effect to any Permitted Acquisition consummated during such period (without giving effect to any cost savings other than those actually realized as of the date of such acquisition or thereafter realized during such period or otherwise approved in writing by the Administrative Agent) as if such acquisition (and any related incurrence or repayment of Indebtedness, with any new Indebtedness being deemed to be amortized over such period in accordance with its terms) had occurred on the first day of such period.

ARTICLE VII

Events of Default

If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of three Business Days;

(c) any representation or warranty made or deemed made by or on behalf of the Borrower or any Subsidiary in or in connection with this Agreement, the Subsidiary Guaranty, any other Loan Document or any amendment or modification thereof or waiver hereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Agreement, the Subsidiary Guaranty or any amendment or modification thereof or waiver thereunder, shall prove to have been incorrect when made or deemed made;

(d)(i) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Sections 5.01, 5.02, 5.03 (with respect to the Borrower's existence), 5.08, 5.09 or 5.10 or in Article VI, or (ii) any Loan Document shall for any reason not be or shall cease to be in full force and effect or is declared to be null and void, or the Borrower or any Subsidiary takes any action for the purpose of terminating, repudiating or rescinding any Loan Document or any of its obligations thereunder;

(e) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in clause (a), (b) or (d) of this Article or any other Loan Document), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender);

(f) the Borrower or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable;

(g) any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; provided that this clause (g) shall not apply to secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the Borrower or any Subsidiary shall

(i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect,

(ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article,

(iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of its assets,

(iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding,

(v) make a general assignment for the benefit of creditors or

(vi) take any action for the purpose of effecting any of the foregoing;

(j) the Borrower or any Subsidiary shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage) in excess of \$5,000,000 shall be rendered against the Borrower, any Subsidiary or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any Subsidiary to enforce any such judgment;

(l) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, both (i) has an aggregate unreserved cost to the Borrower in excess of \$5,000,000 and (ii) could reasonably be expected to result in a Material Adverse Effect; or

(m) a Change in Control shall occur;

then, and in every such event (other than an event with respect to the Borrower described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times:

(i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and

(ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder and under the other Loan Documents, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any event with respect to the Borrower described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

ARTICLE VIII

The Administrative Agent

Each of the Lenders and the Issuing Bank hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and on the behalf of the Holders of Secured Obligations and to exercise such powers as are delegated to the Administrative Agent by the terms hereof, together with such actions and powers as are reasonably incidental thereto.

The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein. Without limiting the generality of the foregoing,

(a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing,

(b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby that the Administrative Agent is required to exercise in writing as directed by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and

(c) except as expressly set forth herein, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into

(i) any statement, warranty or representation made in or in connection with this Agreement,

(ii) the contents of any certificate, report or other document delivered hereunder or in connection herewith,

(iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein,

- (iv) the validity, enforceability, effectiveness or genuineness of this Agreement or any other agreement, instrument or document,
- (v) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent, or
- (vi) the perfection or priority of any of the Liens on any of the Collateral.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all of its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Bank and the Borrower. Upon any such resignation, the Required Lenders shall have the right, with the written consent of the Borrower so long as no Event of Default exists (which consent shall not be unreasonably withheld or delayed), to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuing Bank, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as (and without duplication of) those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any related agreement or any document furnished hereunder or thereunder.

Each Lender authorizes the Administrative Agent to enter into each of the Collateral Documents to which the Administrative Agent is from time to time a party and to take all action contemplated by such documents. Each Lender agrees that no Holder of Secured Obligations (other than the Administrative Agent) shall have the right individually to seek to realize upon the security granted by any Collateral Document, it being understood and agreed that such rights and remedies may be exercised solely by the Administrative Agent for the benefit of the Holders of Secured Obligations upon the terms of the Collateral Documents.

In the event that any Collateral is hereafter pledged by any Person as collateral security for the Obligations, the Administrative Agent is hereby authorized, and granted a power of attorney, to execute and deliver on behalf of the Holders of Secured Obligations any Loan Documents necessary or appropriate to grant and perfect a Lien on such Collateral in favor of the Administrative Agent on behalf of the Holders of Secured Obligations.

The Lenders hereby authorize the Administrative Agent, at its option and in its discretion, to release any Lien granted to or held by the Administrative Agent upon any Collateral (i) upon termination of the Commitments and payment and satisfaction of all of the Obligations at any time arising under or in respect of this Agreement or the Loan Documents or the transactions contemplated hereby or thereby; (ii) as permitted by, but only in accordance with, the terms of the applicable Loan Document; or (iii) if approved, authorized or ratified in writing by the Required Lenders, unless such release is required to be approved by all of the Lenders hereunder. In addition, the Administrative Agent shall, and the Lenders hereby authorize the Administrative Agent, to promptly release any Subsidiary Guarantor which becomes an Affected Foreign Subsidiary from the Subsidiary Guaranty; provided that (i) nothing contained in this sentence shall relieve the Borrower or any Subsidiary from its obligations under Sections 5.09 or 5.10 and (ii) the Borrower and each applicable Subsidiary shall comply with Section 5.10. Upon request by the Administrative Agent at any time, the Lenders will confirm in writing the Administrative Agent's authority to release particular types or items of Collateral pursuant to this Article VIII.

Upon any sale or transfer of assets constituting Collateral which is expressly permitted pursuant to the terms of any Loan Document, or consented to in writing by the Required Lenders or all of the Lenders, as applicable, and upon at least five (5) Business Days' prior written request by the Borrower, the Administrative Agent shall (and is hereby irrevocably authorized by the Lenders to) execute such documents as may be necessary to evidence the release of the Liens granted to the Administrative Agent for the benefit of the Holders of Secured Obligations herein or pursuant hereto upon the Collateral that was sold or transferred; provided, however, that (i) the Administrative Agent shall not be required to execute any such document

on terms which, in the Administrative Agent's opinion, would expose the Administrative Agent to liability or create any obligation or entail any consequence other than the release of such Liens without recourse or warranty, and (ii) such release shall not in any manner discharge, affect or impair the Secured Obligations or any Liens upon (or obligations of the Borrower or any Subsidiary in respect of) all interests retained by the Borrower or any Subsidiary, including (without limitation) the proceeds of the sale, all of which shall continue to constitute part of the Collateral.

None of the Lenders, if any, identified in this Agreement as a Co-Syndication Agent or Co-Documentation Agent shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Lenders as such. Without limiting the foregoing, none of such Lenders shall have or be deemed to have a fiduciary relationship with any Lender. Each Lender hereby makes the same acknowledgments with respect to the relevant Lenders in their respective capacities as Co-Syndication Agents or Co-Documentation Agents, as applicable, as it makes with respect to the Administrative Agent in the preceding paragraph.

The Administrative Agent is hereby authorized to execute and deliver any documents necessary or appropriate to create and perfect the rights of pledge for the benefit of the Holders of Secured Obligations including a right of pledge with respect to the entitlements to profits, the balance left after winding up and the voting rights of the Borrower as ultimate parent of any subsidiary of the Borrower which is organized under the laws of the Netherlands and the Equity Interests of which are pledged in connection herewith (a "Dutch Pledge"). Without prejudice to the provisions of this Agreement and the other Loan Documents, the parties hereto acknowledge and agree with the creation of parallel debt obligations of the Borrower or any relevant Subsidiary as will be described in any Dutch Pledge (the "Parallel Debt"), including that any payment received by the Administrative Agent in respect of the Parallel Debt will—conditionally upon such payment not subsequently being avoided or reduced by virtue of any provisions or enactments relating to bankruptcy, insolvency, preference, liquidation or similar laws of general application—be deemed a satisfaction of a pro rata portion of the corresponding amounts of the Obligations, and any payment to the Holders of Secured Obligations in satisfaction of the Obligations shall—conditionally upon such payment not subsequently being avoided or reduced by virtue of any provisions or enactments relating to bankruptcy, insolvency, preference, liquidation or similar laws of general application—be deemed as satisfaction of the corresponding amount of the Parallel Debt. The parties hereto acknowledge and agree that, for purposes of a Dutch Pledge, any resignation by the Administrative Agent is not effective until its rights under the Parallel Debt are assigned to the successor Administrative Agent.

The Administrative Agent shall administer any Collateral Document which is governed by German law and is a pledge (Pfandrecht) or otherwise transferred to any Holders of Secured Obligations under an accessory security right (akzessorische Sicherheit) in the name and on behalf of the Holders of Secured Obligations. In relation to any Collateral Document governed by the laws of Germany, each party hereby authorizes the Administrative Agent to accept as its representative any pledge or other creation of any accessory security right made to such party in relation to this Agreement and to agree to and execute on its behalf as its representative amendments, supplements and other alterations to any Collateral Document governed by the laws of Germany which creates a pledge or any other accessory security right

and to release on behalf of such party any Collateral Document governed by the laws of Germany in accordance with the provisions herein and/or the provisions in the relevant German law governed pledge agreement.

ARTICLE IX

Miscellaneous

SECTION 9.01. Notices. (a) Except in the case of notices and other communications expressly permitted to be given by telephone (and subject to paragraph (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(i) if to the Borrower, to it at Sears Tower – Suite 4200, 233 South Wacker Drive, Chicago, Illinois 60606, Attention of the Treasurer (Telecopy No. (312) 496-1686, Email address: kashley@heidrick.com);

(ii) if to the Administrative Agent, to JPMorgan Chase Bank, National Association, Loan and Agency Services, 10 South Dearborn Street, 19th Floor, Chicago, Illinois 60603, Attention of Judy Warren (Telecopy No. (312) 385-7096; Email address: judy.a.warren@jpmchase.com with a copy to JPMorgan Chase Bank, National Association, 21 South Clark Street, Attention of Suzanne M. Ergastolo (Telecopy No. (312) 325-3239, Email address: suzanne.ergastolo@chase.com);

(iii) if to the Issuing Bank, to it at JPMorgan Chase Bank, National Association, Loan and Agency Services, 10 South Dearborn Street, 19th Floor, Chicago, Illinois 60603, Attention of Judy Warren (Telecopy No. (312) 385-7096; Email address: judy.a.warren@jpmchase.com with a copy to JPMorgan Chase Bank, National Association, 21 South Clark Street, Attention of Suzanne M. Ergastolo (Telecopy No. (312) 325-3239, Email address: suzanne.ergastolo@chase.com); and

(iv) if to any other Lender, to it at its address (or telecopy number or Email address) set forth in its Administrative Questionnaire.

(b) Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communications pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices pursuant to Article II unless otherwise set forth therein or agreed by the Administrative Agent and the applicable Lender. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

(c) Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

SECTION 9.02. Waivers; Amendments.

(a) No failure or delay by the Administrative Agent, the Issuing Bank or any Lender in exercising any right or power hereunder or any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Bank and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders or by the Borrower and the Administrative Agent with the consent of the Required Lenders; provided that no such agreement shall

(i) increase the Commitment of any Lender without the written consent of such Lender,

(ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby,

(iii) postpone the scheduled date of payment of the principal amount of any Loan or LC Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby,

(iv) change Section 2.18(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender,

(v) change any of the provisions of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or the Issuing Bank hereunder without the prior written consent of the Administrative Agent or the Issuing Bank, as the case may be, or

(vi) other than pursuant to a transaction permitted by the terms of this Agreement or any other Loan Document (including actions by the Borrower as part of its tax planning which cause a Subsidiary Guarantor to become an Affected Foreign Subsidiary, to the extent such actions are expressly permitted by the Loan Documents), release all or substantially all of (A) the Collateral which is subject to the Loan Documents or (B) the Subsidiary Guarantors from their obligations under the Subsidiary Guaranty.

SECTION 9.03. Expenses; Indemnity; Damage Waiver.

(a) The Borrower shall pay

(i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of this Agreement or any amendments, modifications or waivers of the provisions hereof (whether or not the transactions contemplated hereby or thereby shall be consummated),

(ii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and

(iii) all reasonable out-of-pocket expenses incurred by the Administrative Agent, the Issuing Bank or any Lender, including the reasonable fees, charges and disbursements of any counsel for the Administrative Agent, the Issuing Bank or any Lender, (x) in connection with the enforcement or protection of its rights in connection with this Agreement, including its rights under this Section, or (y) in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) The Borrower shall indemnify the Administrative Agent, the Issuing Bank and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnatee") against, and hold each Indemnatee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnatee, incurred by or asserted against any Indemnatee arising out of, in connection with, or as a result of

(i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the Transactions or any other transactions contemplated hereby,

(ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit),

(iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or

(iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent, the Issuing Bank under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent, the Issuing Bank, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent, the Issuing Bank in its capacity as such.

(d) To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable promptly not later than fifteen days after written demand therefor.

SECTION 9.04. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), Participants (to the extent provided in paragraph (c) of this Section) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Bank and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b)(i) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld) of:

(A) the Borrower, provided that no consent of the Borrower shall be required for an assignment to a Lender, an Affiliate of a Lender, an Approved Fund or, if an Event of Default under clause (a), (b), (h) or (i) of Article VII has occurred and is continuing, any other assignee; and

(B) the Administrative Agent, provided that no consent of the Administrative Agent shall be required for an assignment of any Commitment to an assignee that is a Lender with a Commitment immediately prior to giving effect to such assignment.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment or Loans of any Class, the amount of the Commitment or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$5,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, provided that no such consent of the Borrower shall be required if an Event of Default under clause (a), (b), (h) or (i) of Article VII has occurred and is continuing;

(B) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement, provided that this clause shall not be construed to prohibit the assignment of a proportionate part of all the assigning Lender's rights and obligations in respect of one Class of Commitments or Loans;

(C) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500; and

(D) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

For the purposes of this Section 9.04(b), the term "Approved Fund" has the following meaning:

"Approved Fund" means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(iv) of this Section, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17 and 9.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 9.04 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c) of this Section.

(iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent, the Issuing Bank and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Bank and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register; provided that if either the assigning Lender or the assignee shall have failed to make any payment required to be made by it pursuant to Section 2.05(c), 2.06(d) or 2.07(b), 2.18(d) or 9.03(c), the Administrative Agent shall have no obligation to accept such Assignment and Assumption and record the information therein in the Register unless and until such payment shall have been made in full, together with all accrued interest thereon. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c)(i) Any Lender may, without the consent of the Borrower, the Administrative Agent or the Issuing Bank, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided that (A) such Lender's obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations (C) the Borrower, the Administrative Agent, the Issuing Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and (D) the Borrower shall have no obligation to directly or indirectly deal

with the Participant. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 9.02(b) that affects such Participant. Subject to paragraph (c)(ii) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.18(c) as though it were a Lender.

(ii) A Participant shall not be entitled to receive any greater payment under Section 2.15 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.17 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.17(e) as though it were a Lender.

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including without limitation any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

SECTION 9.05. Survival. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement or any other Loan Document is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.15, 2.16, 2.17 and 9.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any other Loan Document or any provision hereof or thereof.

SECTION 9.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each

of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 9.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final and in whatever currency denominated) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 9.09. Governing Law; Jurisdiction; Consent to Service of Process.

(a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or any other Loan Document shall affect any right that the Administrative Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement against the Borrower or its properties in the courts of any jurisdiction.

(c) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement or any other Loan Document will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.12. Confidentiality. Each of the Administrative Agent, the Issuing Bank and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed

(a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential),

(b) to the extent requested by any regulatory authority,

(c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process,

(d) to any other party to this Agreement,

(e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder,

(f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations,

(g) with the written consent of the Borrower, or

(h) to the extent such Information

(i) becomes publicly available other than as a result of a breach of this Section or

(ii) becomes available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis from a source other than the Borrower.

For the purposes of this Section, "Information" means all information received from the Borrower relating to the Borrower or its business, other than any such information that is available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis prior to disclosure by the Borrower; provided that, in the case of information received from the Borrower after the date hereof, such information is clearly identified at the time of delivery as confidential.

Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 9.13. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

SECTION 9.14. USA PATRIOT Act. Each Lender that is subject to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act") hereby notifies the Borrower that pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with the Act.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

HEIDRICK & STRUGGLES INTERNATIONAL,
INC.

By /s/ Kenneth J. Ashley

Name: Kenneth J. Ashley

Title: Treasurer

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION,
individually as a Lender and as Issuing Bank and Administrative
Agent,

By /s/ Suzanne Ergastolo

Name: Suzanne Ergastolo

Title: Vice President

LASALLE BANK NATIONAL ASSOCIATION,
individually as a Lender and as Co-Syndication
Agent

By /s/ Adam F. Lutostanski

Name: Adam F. Lutostanski

Title: Assistant Vice President

BANK OF AMERICA, N.A., individually as a
Lender and as Co-Syndication Agent

By /s/ Craig W. McGuire

Name: Craig W. McGuire

Title: Senior Vice President

CITIBANK, N.A., individually as a Lender

By /s/ Scott A. Miller

Name: Scott A. Miller

Title: Vice President

THE NORTHERN TRUST COMPANY,
individually as a Lender

By /s/ Phillip McCaulay

Name: Phillip McCaulay

Title: 2nd Vice President

SCHEDULE 2.01

COMMITMENTS

LENDER	COMMITMENT
JPMORGAN CHASE BANK, NATIONAL ASSOCIATION	\$ 27,500,000
LASALLE BANK NATIONAL ASSOCIATION	\$ 22,500,000
BANK OF AMERICA, N.A.	\$ 22,500,000
CITIBANK, N.A.	\$ 13,750,000
THE NORTHERN TRUST COMPANY	\$ 13,750,000
AGGREGATE COMMITMENTS	\$ 100,000,000

SCHEDULE 2.02

MANDATORY COST

1. The Mandatory Cost is an addition to the interest rate to compensate Lenders for the cost of compliance with (a) the requirements of the Bank of England and/or the Financial Services Authority (or, in either case, any other authority which replaces all or any of its functions) or (b) the requirements of the European Central Bank.
2. On the first day of each Interest Period (or as soon as possible thereafter) the Administrative Agent shall calculate, as a percentage rate, a rate (the "Associated Costs Rate") for each Lender, in accordance with the paragraphs set out below. The Mandatory Cost will be calculated by the Administrative Agent as a weighted average of the Lenders' Associated Costs Rates (weighted in proportion to the percentage participation of each Lender in the relevant Loan) and will be expressed as a percentage rate per annum.
3. The Associated Costs Rate for any Lender lending from a Facility Office in a Participating Member State will be the percentage notified by that Lender to the Administrative Agent. This percentage will be certified by that Lender in its notice to the Administrative Agent to be its reasonable determination of the cost (expressed as a percentage of that Lender's participation in all Loans made from that Facility Office) of complying with the minimum reserve requirements of the European Central Bank in respect of loans made from that Facility Office.
4. The Associated Costs Rate for any Lender lending from a Facility Office in the United Kingdom will be calculated by the Administrative Agent as follows:

- (a) in relation to a Loan in Pounds Sterling:

$$\frac{AB + C(B - D) + E \times 0.01}{100 - (A + C)} \text{ per cent. per annum}$$

- (b) in relation to a Loan in any currency other than Pounds Sterling:

$$\frac{E \times 0.01}{300} \text{ per cent. per annum}$$

Where:

- A is the percentage of Eligible Liabilities (assuming these to be in excess of any stated minimum) which that Lender is from time to time required to maintain as an interest free cash ratio deposit with the Bank of England to comply with cash ratio requirements.
- B is the percentage rate of interest (excluding the Applicable Rate and the Mandatory Cost and, if the Loan is an Unpaid Sum, the additional rate of interest specified in Section 2.13(c)) payable for the relevant Interest Period on the Loan.
- C is the percentage (if any) of Eligible Liabilities which that Lender is required from time to time to maintain as interest bearing Special Deposits with the Bank of England.

- D is the percentage rate per annum payable by the Bank of England to the Administrative Agent on interest bearing Special Deposits.
- E is designed to compensate Lenders for amounts payable under the Fees Rules and is calculated by the Administrative Agent as being the average of the most recent rates of charge supplied by the Reference Banks to the Administrative Agent pursuant to paragraph 7 below and expressed in pounds per £1,000,000.
5. For the purposes of this Schedule:
- (a) “**Eligible Liabilities**” and “**Special Deposits**” have the meanings given to them from time to time under or pursuant to the Bank of England Act 1998 or (as may be appropriate) by the Bank of England;
 - (b) “**Facility Office**” means the office or offices notified by a Lender to the Administrative Agent in writing on or before the date it becomes a Lender (or, following that date, by not less than five Business Days’ written notice) as the office or offices through which it will perform its obligations under this Agreement.
 - (c) “**Fees Rules**” means the rules on periodic fees contained in the FSA Supervision Manual or such other law or regulation as may be in force from time to time in respect of the payment of fees for the acceptance of deposits;
 - (d) “**Fee Tariffs**” means the fee tariffs specified in the Fees Rules under the activity group A.1 Deposit acceptors (ignoring any minimum fee or zero rated fee required pursuant to the Fees Rules but taking into account any applicable discount rate);
 - (e) “**Participating Member State**” means any member state of the European Union that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Union relating to economic and monetary union.
 - (f) “**Reference Banks**” means, in relation to Mandatory Cost, the principal London offices of JPMorgan Chase Bank, National Association.
 - (g) “**Tariff Base**” has the meaning given to it in, and will be calculated in accordance with, the Fees Rules.
 - (h) “**Unpaid Sum**” means any sum due and payable but unpaid by any Borrower under the Loan Documents.
6. In application of the above formulae, A, B, C and D will be included in the formulae as percentages (i.e. 5 per cent. will be included in the formula as 5 and not as 0.05). A negative result obtained by subtracting D from B shall be taken as zero. The resulting figures shall be rounded to four decimal places.
7. If requested by the Administrative Agent, each Reference Bank shall, as soon as practicable after publication by the Financial Services Authority, supply to the Administrative Agent, the rate of charge payable by that Reference Bank to the Financial Services Authority pursuant to the Fees Rules in respect of the relevant financial year of

the Financial Services Authority (calculated for this purpose by that Reference Bank as being the average of the Fee Tariffs applicable to that Reference Bank for that financial year) and expressed in pounds per £1,000,000 of the Tariff Base of that Reference Bank.

8. Each Lender shall supply any information required by the Administrative Agent for the purpose of calculating its Associated Costs Rate. In particular, but without limitation, each Lender shall supply the following information on or prior to the date on which it becomes a Lender:
 - (i) the jurisdiction of its Facility Office; and
 - (j) any other information that the Administrative Agent may reasonably require for such purpose.

Each Lender shall promptly notify the Administrative Agent of any change to the information provided by it pursuant to this paragraph.

9. The percentages of each Lender for the purpose of A and C above and the rates of charge of each Reference Bank for the purpose of E above shall be determined by the Administrative Agent based upon the information supplied to it pursuant to paragraphs 7 and 8 above and on the assumption that, unless a Lender notifies the Administrative Agent to the contrary, each Lender's obligations in relation to cash ratio deposits and Special Deposits are the same as those of a typical bank from its jurisdiction of incorporation with a Facility Office in the same jurisdiction as its Facility Office.
10. The Administrative Agent shall have no liability to any person if such determination results in an Associated Costs Rate which over or under compensates any Lender and shall be entitled to assume that the information provided by any Lender or Reference Bank pursuant to paragraphs 3, 7 and 8 above is true and correct in all respects.
11. The Administrative Agent shall distribute the additional amounts received as a result of the Mandatory Cost to the Lenders on the basis of the Associated Costs Rate for each Lender based on the information provided by each Lender and each Reference Bank pursuant to paragraphs 3, 7 and 8 above.
12. The Administrative Agent shall deliver to the Borrower a certificate setting forth in reasonable detail any determination by the Administrative Agent pursuant to this Schedule in relation to a formula, the Mandatory Cost, an Associated Costs Rate or any amount payable to a Lender, and such determination shall, in the absence of manifest error, be conclusive and binding on all parties hereto.
13. The Administrative Agent may from time to time, after consultation with the Borrower and the relevant Lenders, determine and notify to all parties hereto any amendments which are required to be made to this Schedule 2.02 in order to comply with any change in law, regulation or any requirements from time to time imposed by the Bank of England, the Financial Services Authority or the European Central Bank (or, in any case, any other authority which replaces all or any of its functions) and any such determination shall, in the absence of manifest error, be conclusive and binding on all parties hereto.

[FORM OF]

ASSIGNMENT AND ASSUMPTION

Reference is made to the Credit Agreement dated as of October 26, 2006 (as amended and in effect on the date hereof, the "Credit Agreement"), among Heidrick & Struggles International, Inc., the Lenders named therein and JPMorgan Chase Bank, National Association, as Administrative Agent for the Lenders. Terms defined in the Credit Agreement are used herein with the same meanings.

The Assignor named on the reverse hereof hereby sells and assigns, without recourse, to the Assignee named on the reverse hereof, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Assignment Date set forth on the reverse hereof, the interests set forth on the reverse hereof (the "Assigned Interest") in the Assignor's rights and obligations under the Credit Agreement, including, without limitation, the interests set forth on the reverse hereof in the Commitment of the Assignor on the Assignment Date and Revolving Loans owing to the Assignor which are outstanding on the Assignment Date, together with the participations in Letters of Credit and LC Disbursements held by the Assignor on the Assignment Date, but excluding accrued interest and fees to and excluding the Assignment Date. The Assignee hereby acknowledges receipt of a copy of the Credit Agreement. From and after the Assignment Date (i) the Assignee shall be a party to and be bound by the provisions of the Credit Agreement and, to the extent of the Assigned Interest, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent of the Assigned Interest, relinquish its rights and be released from its obligations under the Credit Agreement.

This Assignment and Assumption is being delivered to the Administrative Agent together with (i) if the Assignee is a Foreign Lender, any documentation required to be delivered by the Assignee pursuant to Section 2.17(e) of the Credit Agreement, duly completed and executed by the Assignee, and (ii) if the Assignee is not already a Lender under the Credit Agreement, an Administrative Questionnaire in the form supplied by the Administrative Agent, duly completed by the Assignee. The [Assignee/Assignor] shall pay the fee payable to the Administrative Agent pursuant to Section 9.04(b) of the Credit Agreement.

This Assignment and Assumption shall be governed by and construed in accordance with the laws of the State of New York.

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

Effective Date of Assignment
("Assignment Date"):

Facility	Principal Amount Assigned	Percentage Assigned of Facility/Commitment (set forth, to at least 8 decimals, as a percentage of the Facility and the Aggregate Commitment of all Lenders thereunder)
Commitment Assigned:	\$	%
Revolving Loans:		

The terms set forth above and on the reverse side hereof are hereby agreed to:

[Name of Assignor] , as Assignor

By: _____
Name:
Title:

[Name of Assignee] , as Assignee

By: _____
Name:
Title:

The undersigned hereby consent to the within assignment:

[Heidrick & Struggles International, Inc.] ¹

JPMorgan Chase Bank, National Association as Administrative Agent,

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

¹ Consent to be included to the extent required by Section 9.04(b) of the Credit Agreement.

FORM OF OPINION OF CHIEF LEGAL OFFICER OF THE BORROWER

[Effective Date]

To the Lenders and the Administrative
Agent Referred to Below
c/o JPMorgan Chase Bank, National Association, as
Administrative Agent

[_____]

[_____]

Dear Sirs:

[I/We] have acted as counsel for (i) Heidrick & Struggles International, Inc., a Delaware corporation (the "Borrower"), in connection with the Credit Agreement dated as of October 26, 2006 (the "Credit Agreement"), among the Borrower, the banks and other financial institutions identified therein as Lenders, and JPMorgan Chase Bank, National Association, as Administrative Agent and (ii) the Subsidiaries listed on Annex A hereto (the "Subsidiary Guarantors"; the Borrower and the Subsidiary Guarantors being hereinafter referred to collectively as the "Loan Parties" and individually as a "Loan Party") in connection with the Guaranty dated as of October 26, 2006 among the Subsidiary Guarantors and the Administrative Agent (the "Subsidiary Guaranty"; the Credit Agreement and the Subsidiary Guaranty being hereinafter referred to collectively as the "Loan Documents" and individually as a "Loan Document"). Terms defined in the Credit Agreement are used herein with the same meanings.

[I, or individuals under my direction,/We] have examined originals or copies, certified or otherwise identified to [my/our] satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such other investigations of fact and law as [I/we] have deemed necessary or advisable for purposes of this opinion.

Upon the basis of the foregoing, [I am/we are] of the opinion that:

1. Each Loan Party (a) is [a corporation] duly organized, validly existing and in good standing under the laws of its organization, (b) has all requisite power and authority to carry on its business as now conducted and (c) except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.
2. The Transactions are within each Loan Party's [corporate] powers and have been duly authorized by all necessary [corporate] and, if required, stockholder action. Each Loan Document has been duly executed and delivered by each Loan Party party thereto.
3. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect, (b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of any Loan Party or any of

its Subsidiaries or any order of any Governmental Authority, (c) will not violate or result in a default under any indenture, agreement or other instrument binding upon any Loan Party or any of its Subsidiaries or its assets, or give rise to a right thereunder to require any payment to be made by any Loan Party or any of its Subsidiaries, and (d) will not result in the creation or imposition of any Lien on any asset of any Loan Party or any of its Subsidiaries.

4. There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to [my/our] knowledge, threatened against or affecting any Loan Party or any of its Subsidiaries (a) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect (other than the Disclosed Matters) or (b) that involve any Loan Document or the Transactions.

5. None of the Loan Parties nor any of their Subsidiaries are an “investment company” as defined in, or subject to regulation under, the Investment Company Act of 1940.

[I am a member/we are members] of the bar of the State of Illinois and the foregoing opinion is limited to the laws of the State of Illinois, the General Corporation Law of the State of Delaware and the Federal laws of the United States of America. This opinion is rendered solely to you in connection with the above matter. This opinion may not be relied upon by you for any other purpose or relied upon by any other Person (other than your successors and assigns as Lenders and Persons that acquire participations in your Loans) without our prior written consent.

Very truly yours,

FORM OF OPINION OF MCDERMOTT, WILL & EMERY LLP

See Attached.

FORM OF SUBSIDIARY GUARANTY

GUARANTY

THIS GUARANTY (this "Guaranty") is made as of the 26th day of October, 2006, by and among each of the undersigned (the "Initial Guarantors" and along with any additional Subsidiaries of the Borrower which become parties to this Guaranty by executing a supplement hereto in the form attached as Annex I, the "Guarantors") in favor of the Administrative Agent, for the ratable benefit of the Holders of Secured Obligations, under the Credit Agreement referred to below.

WITNESSETH:

WHEREAS, HEIDRICK & STRUGGLES INTERNATIONAL, INC., a Delaware corporation (the "Borrower"), the institutions from time to time parties hereto as Lenders, and JPMORGAN CHASE BANK, NATIONAL ASSOCIATION, in its capacity as contractual representative (the "Administrative Agent") for itself and the other Lenders, have entered into a certain Credit Agreement dated as of October 26, 2006 (as the same may be amended, modified, supplemented and/or restated, and as in effect from time to time, the "Credit Agreement"), providing, subject to the terms and conditions thereof, for extensions of credit and other financial accommodations to be made by the Lenders to the Borrower;

WHEREAS, it is a condition precedent to the initial extensions of credit by the Lenders under the Credit Agreement that each of the Guarantors (constituting all of the Subsidiaries of the Borrower required to execute this Guaranty pursuant to Section 5.09 of the Credit Agreement) execute and deliver this Guaranty, whereby each of the Guarantors shall guarantee the payment when due of all principal, interest, letter of credit reimbursement obligations, fees, expenses, indemnities and other obligations and amounts (collectively, the "Obligations") that shall be at any time payable by the Borrower under the Credit Agreement, the other Loan Documents, and any Swap Agreement to which any Lender or affiliate of any Lender shall be a party (each a "Designated Financial Contract"); and

WHEREAS, in consideration of the direct and indirect financial and other support that the Borrower has provided, and such direct and indirect financial and other support as the Borrower may in the future provide, to the Guarantors, and in order to induce the Lenders and the Administrative Agent to enter into the Credit Agreement, each of the Guarantors is willing to guarantee the obligations of the Borrower under the Credit Agreement, any Designated Financial Contract and the other Loan Documents;

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions. Terms defined in the Credit Agreement and not otherwise defined herein have, as used herein, the respective meanings provided for therein.

SECTION 2. Representations, Warranties and Covenants. Each of the Guarantors represents and warrants (which representations and warranties shall be deemed to have been renewed at the time of the making of any Loan or issuance of any Letter of Credit) that:

(A) It is a corporation, partnership or limited liability company duly and properly incorporated or organized, as the case may be, validly existing and (to the extent such concept applies to such entity) in good standing under the laws of its jurisdiction of incorporation or organization and has all requisite authority to conduct its business in each jurisdiction in which its business is conducted, except to the extent that the failure to have such authority could not reasonably be expected to have a Material Adverse Effect.

(B) It (to the extent applicable) has the power and authority and legal right to execute and deliver this Guaranty and to perform its obligations hereunder. The execution and delivery by each Guarantor of this Guaranty and the performance by each of its obligations hereunder have been duly authorized by proper proceedings, and this Guaranty constitutes a legal, valid and binding obligation of each Guarantor, respectively, enforceable against such Guarantor, respectively, in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and subject to general principles of equity whether considered in a proceeding in equity or at law.

(C) Neither the execution and delivery by it of this Guaranty, nor the consummation of the transactions herein contemplated, nor compliance with the provisions hereof will (i) violate any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on it or its articles or certificate of incorporation, limited liability company or partnership agreement, certificate of partnership, articles or certificate of organization, by-laws, or operating agreement or other management agreement, as the case may be, or the provisions of any indenture, instrument or agreement to which the Borrower or any of its Subsidiaries is a party or is subject, or by which it, or its property, is bound, or (ii) conflict with, or constitute a default under, or result in, or require, the creation or imposition of any Lien in, of or on its property pursuant to the terms of, any such indenture, instrument or agreement (other than any Loan Document). No order, consent, adjudication, approval, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of any governmental or public body or authority, or any subdivision thereof, which has not been obtained by it, is required to be obtained by it in connection with the execution, delivery and performance by it of, or the legality, validity, binding effect or enforceability against it of, this Guaranty.

In addition to the foregoing, each of the Guarantors covenants that, so long as any Lender has any Commitment outstanding under the Credit Agreement or any amount payable under the Credit Agreement or any other Guaranteed Obligations (other than contingent indemnity obligations) shall remain unpaid, it will, and, if necessary, will enable the Borrower to, fully comply with those covenants and agreements of the Borrower applicable to such Guarantor set forth in the Credit Agreement.

SECTION 3. The Guaranty. Each of the Guarantors hereby unconditionally guarantees, jointly with the other Guarantors and severally, the full and punctual payment when due (whether at stated maturity, upon acceleration or otherwise) of the Obligations, including, without limitation, (i) the principal of and interest on each Loan made to the Borrower pursuant to the Credit Agreement, (ii) any obligations of the Borrower to reimburse LC Disbursements (“Reimbursement Obligations”), (iii) all obligations of the Borrower owing to any Lender or any affiliate of any Lender under any Designated Financial Contract, and (iv) all other amounts payable by the Borrower or any of its Subsidiaries under the Credit Agreement, any Designated Financial Contract and the other Loan Documents (all of the foregoing being referred to collectively as the “Guaranteed Obligations”); provided that the liability of any Guarantor hereunder shall not exceed the maximum amount of the claim which could then be recovered from such Guarantor under this Guaranty without rendering such claim voidable or avoidable under Section 548 of Chapter 11 of the Bankruptcy Code or under any applicable state Uniform Fraudulent Transfer Act, Uniform Fraudulent Conveyance Act or similar statute or common law. Upon failure by the Borrower or any of its Affiliates, as applicable, to pay punctually any such amount, each of the Guarantors agrees that it shall forthwith on demand pay such amount at the place and in the manner specified in the Credit Agreement, any Designated Financial Contract or the relevant Loan Document, as the case may be. Each of the Guarantors hereby agrees that this Guaranty is an absolute, irrevocable and unconditional guaranty of payment and is not a guaranty of collection.

SECTION 4. Guaranty Unconditional. The obligations of each of the Guarantors hereunder shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by:

(A) any extension, renewal, settlement, indulgence, compromise, waiver or release of or with respect to the Guaranteed Obligations or any part thereof or any agreement relating thereto, or with respect to any obligation of any other guarantor of any of the Guaranteed Obligations, whether (in any such case) by operation of law or otherwise, or any failure or omission to enforce any right, power or remedy with respect to the Guaranteed Obligations or any part thereof or any agreement relating thereto, or with respect to any obligation of any other guarantor of any of the Guaranteed Obligations;

(B) any modification or amendment of or supplement to the Credit Agreement, any Designated Financial Contract or any other Loan Document, including, without limitation, any such amendment which may increase the amount of, or the interest rates applicable to, any of the Obligations guaranteed hereby;

(C) any release, surrender, compromise, settlement, waiver, subordination or modification, with or without consideration, of any collateral securing the Guaranteed Obligations or any part thereof, any other guaranties with respect to the Guaranteed Obligations or any part thereof, or any other obligation of any person or entity with respect to the Guaranteed Obligations or any part thereof, or any nonperfection or invalidity of any direct or indirect security for the Guaranteed Obligations;

(D) any change in the corporate, partnership or other existence, structure or ownership of the Borrower or any other guarantor of any of the Guaranteed Obligations, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting the Borrower or any other guarantor of the Guaranteed Obligations, or any of their respective assets or any resulting release or discharge of any obligation of the Borrower or any other guarantor of any of the Guaranteed Obligations;

(E) the existence of any claim, setoff or other rights which the Guarantors may have at any time against the Borrower, any other guarantor of any of the Guaranteed Obligations, the Administrative Agent, any Holder of Secured Obligations or any other Person, whether in connection herewith or in connection with any unrelated transactions, provided that nothing herein shall prevent the assertion of any such claim by separate suit or compulsory counterclaim;

(F) the enforceability or validity of the Guaranteed Obligations or any part thereof or the genuineness, enforceability or validity of any agreement relating thereto or with respect to any collateral securing the Guaranteed Obligations or any part thereof, or any other invalidity or unenforceability relating to or against the Borrower or any other guarantor of any of the Guaranteed Obligations, for any reason related to the Credit Agreement, any Designated Financial Contract, any other Loan Document, or any provision of applicable law or regulation purporting to prohibit the payment by the Borrower or any other guarantor of the Guaranteed Obligations, of any of the Guaranteed Obligations;

(G) the failure of the Administrative Agent to take any steps to perfect and maintain any security interest in, or to preserve any rights to, any security or collateral for the Guaranteed Obligations, if any;

(H) the election by, or on behalf of, any one or more of the Holders of Secured Obligations, in any proceeding instituted under Chapter 11 of Title 11 of the United States Code (11 U.S.C. 101 et seq.) (the "Bankruptcy Code"), of the application of Section 1111(b)(2) of the Bankruptcy Code;

(I) any borrowing or grant of a security interest by the Borrower, as debtor-in-possession, under Section 364 of the Bankruptcy Code;

(J) the disallowance, under Section 502 of the Bankruptcy Code, of all or any portion of the claims of any of the Holders of Secured Obligations or the Administrative Agent for repayment of all or any part of the Guaranteed Obligations;

(K) the failure of any other Guarantor to sign or become party to this Guaranty or any amendment, change, or reaffirmation hereof; or

(L) any other act or omission to act or delay of any kind by the Borrower, any other guarantor of the Guaranteed Obligations, the Administrative Agent, any Holder of

Secured Obligations or any other Person or any other circumstance whatsoever which might, but for the provisions of this Section 4, constitute a legal or equitable discharge of any Guarantor's obligations hereunder.

SECTION 5. Discharge Only Upon Payment In Full; Reinstatement In Certain Circumstances. Each of the Guarantors' obligations hereunder shall remain in full force and effect until all Guaranteed Obligations (other than contingent indemnity obligations) shall have been paid in full in cash and the Commitments and all Letters of Credit issued under the Credit Agreement shall have terminated or expired; provided that any Guarantor that becomes an Affected Foreign Subsidiary shall (so long as no Default or Event of Default exists under the Credit Agreement) be immediately released from its obligations hereunder and the Administrative Agent shall, at the sole cost and expense of the Borrower, execute such release documentation, if any, reasonably requested by the Borrower to evidence the same (with the form of such release to be on terms reasonably acceptable to the Administrative Agent). If at any time any payment of the principal of or interest on any Loan, any Reimbursement Obligation or any other amount payable by the Borrower or any other party under the Credit Agreement, any Designated Financial Contract or any other Loan Document is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, each of the Guarantors' obligations hereunder with respect to such payment shall be reinstated as though such payment had been due but not made at such time. The parties hereto acknowledge and agree that each of the Guaranteed Obligations shall be due and payable in the same currency as such Guaranteed Obligation is denominated but if currency control or exchange regulations are imposed in the country which issues such currency with the result that such currency (the "Original Currency") no longer exists or the relevant Guarantor is not able to make payment in such Original Currency, then all payments to be made by such Guarantor hereunder in such currency shall instead be made when due in Dollars in an amount equal to the Dollar Amount (as of the date of payment) of such payment due, it being the intention of the parties hereto that each Guarantor takes all risks of the imposition of any such currency control or exchange regulations.

SECTION 6. General Waivers. Each of the Guarantors irrevocably waives acceptance hereof, presentment, demand or action on delinquency, protest, the benefit of any statutes of limitations and, to the fullest extent permitted by law, any notice not provided for herein, as well as any requirement that at any time any action be taken by any Person against the Borrower, any other guarantor of the Guaranteed Obligations, or any other Person.

SECTION 7. Subordination of Subrogation; Subordination of Intercompany Indebtedness.

(A) Subordination of Subrogation. Until the Guaranteed Obligations (other than contingent indemnity obligations) have been indefeasibly paid in full in cash, the Guarantors (i) shall have no right of subrogation with respect to such Guaranteed Obligations and (ii) waive any right to enforce any remedy which the Holders of Secured Obligations now have or may hereafter have against the Borrower, any endorser or any guarantor of all or any part of the Guaranteed Obligations or any other Person, and the Guarantors waive any benefit of, and any right to participate in, any security or collateral given to the Holders of Secured Obligations to secure the payment or performance of all

or any part of the Guaranteed Obligations or any other liability of the Borrower to the Holders of Secured Obligations. Should any Guarantor have the right, notwithstanding the foregoing, to exercise its subrogation rights, each Guarantor hereby expressly and irrevocably (A) subordinates any and all rights at law or in equity to subrogation, reimbursement, exoneration, contribution, indemnification or set off that such Guarantor may have to the indefeasible payment in full in cash of the Guaranteed Obligations (other than contingent indemnity obligations) and (B) waives any and all defenses available to a surety, guarantor or accommodation co-obligor until the Guaranteed Obligations (other than contingent indemnity obligations) are indefeasibly paid in full in cash. Each Guarantor acknowledges and agrees that this subordination is intended to benefit the Administrative Agent and the other Holders of Secured Obligations and shall not limit or otherwise affect such Guarantor's liability hereunder or the enforceability of this Guaranty, and that the Administrative Agent, the other Holders of Secured Obligations and their respective successors and assigns are intended third party beneficiaries of the waivers and agreements set forth in this Section 7(a).

(B) Subordination of Intercompany Indebtedness. Each Guarantor agrees that any and all claims of such Guarantor against the Borrower or any other Guarantor hereunder (each an "Obligor") with respect to any "Intercompany Indebtedness" (as hereinafter defined), any endorser, obligor or any other guarantor of all or any part of the Guaranteed Obligations, or against any of its properties shall be subordinate and, during the existence of an Event of Default, subject in right of payment to the prior payment, in full and in cash, of all Guaranteed Obligations. Notwithstanding any right of any Guarantor to ask, demand, sue for, take or receive any payment from any Obligor, all rights, liens and security interests of such Guarantor, whether now or hereafter arising and howsoever existing, in any assets of any other Obligor shall be and are subordinated to the rights of the Holders of Secured Obligations and the Administrative Agent in those assets. No Guarantor shall have any right to possession of any such asset or to foreclose upon any such asset, whether by judicial action or otherwise, unless and until all of the Guaranteed Obligations (other than contingent indemnity obligations) shall have been fully paid and satisfied (in cash) and all financing arrangements pursuant to any Loan Document or any Designated Financial Contract have been terminated. If all or any part of the assets of any Obligor, or the proceeds thereof, are subject to any distribution, division or application to the creditors of such Obligor, whether partial or complete, voluntary or involuntary, and whether by reason of liquidation, bankruptcy, arrangement, receivership, assignment for the benefit of creditors or any other action or proceeding, or if the business of any such Obligor is dissolved or if substantially all of the assets of any such Obligor are sold, then, and in any such event (such events being herein referred to as an "Insolvency Event"), any payment or distribution of any kind or character, either in cash, securities or other property, which shall be payable or deliverable upon or with respect to any indebtedness of any Obligor to any Guarantor ("Intercompany Indebtedness") shall be paid or delivered directly to the Administrative Agent for application on any of the Guaranteed Obligations, due or to become due, until such Guaranteed Obligations (other than contingent indemnity obligations) shall have first been fully paid and satisfied (in cash). Should any payment, distribution, security or instrument or proceeds thereof be received by the applicable Guarantor upon or with respect to the Intercompany Indebtedness after any Insolvency Event and prior to the

satisfaction of all of the Guaranteed Obligations (other than contingent indemnity obligations) and the termination of all financing arrangements pursuant to any Loan Document among the Borrower and the Holders of Secured Obligations, such Guarantor shall receive and hold the same in trust, as trustee, for the benefit of the Holders of Secured Obligations and shall forthwith deliver the same to the Administrative Agent, for the benefit of the Holders of Secured Obligations, in precisely the form received (except for the endorsement or assignment of the Guarantor where necessary), for application to any of the Guaranteed Obligations, due or not due, and, until so delivered, the same shall be held in trust by the Guarantor as the property of the Holders of Secured Obligations. If any such Guarantor fails to make any such endorsement or assignment to the Administrative Agent, the Administrative Agent or any of its officers or employees is irrevocably authorized to make the same. Each Guarantor agrees that until the Guaranteed Obligations (other than the contingent indemnity obligations) have been paid in full (in cash) and satisfied and all financing arrangements pursuant to any Loan Document among the Borrower and the Holders of Secured Obligations have been terminated, no Guarantor will assign or transfer to any Person (other than the Administrative Agent) any claim any such Guarantor has or may have against any Obligor.

SECTION 8. Contribution with Respect to Guaranteed Obligations.

(A) To the extent that any Guarantor shall make a payment under this Guaranty (a "Guarantor Payment") which, taking into account all other Guarantor Payments then previously or concurrently made by any other Guarantor, exceeds the amount which otherwise would have been paid by or attributable to such Guarantor if each Guarantor had paid the aggregate Guaranteed Obligations satisfied by such Guarantor Payment in the same proportion as such Guarantor's "Allocable Amount" (as defined below) (as determined immediately prior to such Guarantor Payment) bore to the aggregate Allocable Amounts of each of the Guarantors as determined immediately prior to the making of such Guarantor Payment, then, following indefeasible payment in full in cash of the Guaranteed Obligations (other than contingent indemnity obligations) and termination of the Credit Agreement and the Designated Financial Contracts, such Guarantor shall be entitled to receive contribution and indemnification payments from, and be reimbursed by, each other Guarantor for the amount of such excess, pro rata based upon their respective Allocable Amounts in effect immediately prior to such Guarantor Payment.

(B) As of any date of determination, the "Allocable Amount" of any Guarantor shall be equal to the maximum amount of the claim which could then be recovered from such Guarantor under this Guaranty without rendering such claim voidable or avoidable under Section 548 of Chapter 11 of the Bankruptcy Code or under any applicable state Uniform Fraudulent Transfer Act, Uniform Fraudulent Conveyance Act or similar statute or common law.

(C) This Section 8 is intended only to define the relative rights of the Guarantors, and nothing set forth in this Section 8 is intended to or shall impair the obligations of the

Guarantors, jointly and severally, to pay any amounts as and when the same shall become due and payable in accordance with the terms of this Guaranty.

(D) The parties hereto acknowledge that the rights of contribution and indemnification hereunder shall constitute assets of the Guarantor to which such contribution and indemnification is owing.

(E) The rights of the indemnifying Guarantors against other Guarantors under this Section 8 shall be exercisable upon the full and indefeasible payment of the Guaranteed Obligations (other than contingent indemnity obligations) in cash and the termination of the Credit Agreement and the Designated Financial Contracts.

SECTION 9. Stay of Acceleration. If acceleration of the time for payment of any amount payable by the Borrower under the Credit Agreement, any Designated Financial Contract or any other Loan Document is stayed upon the insolvency, bankruptcy or reorganization of the Borrower, all such amounts otherwise subject to acceleration under the terms of the Credit Agreement, any Designated Financial Contract or any other Loan Document shall nonetheless be payable by each of the Guarantors hereunder forthwith on demand by the Administrative Agent.

SECTION 10. Notices. All notices, requests and other communications to any party hereunder shall be given in the manner prescribed in Article IX of the Credit Agreement with respect to the Administrative Agent at its notice address therein and with respect to any Guarantor at the address set forth below or such other address or teletype number as such party may hereafter specify for such purpose by notice to the Administrative Agent in accordance with the provisions of such Article IX.

Notice Address for Guarantors:

c/o Heidrick & Struggles International, Inc.
Sears Tower – Suite 4200
233 South Wacker Drive
Chicago, Illinois 60606
Attention: Treasurer
Phone: (312) 496-1383
Fax: (312) 496-1686

SECTION 11. No Waivers. No failure or delay by the Administrative Agent or any other Holder of Secured Obligations in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided in this Guaranty, the Credit Agreement, any Designated Financial Contract and the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 12. Successors and Assigns. This Guaranty is for the benefit of the Administrative Agent and the other Holders of Secured Obligations and their respective successors and permitted assigns, provided, that no Guarantor shall have any right to assign its

rights or obligations hereunder without the consent of all of the Lenders, and any such assignment in violation of this Section 12 shall be null and void; and in the event of an assignment of any amounts payable under the Credit Agreement, any Designated Financial Contract or the other Loan Documents in accordance with the respective terms thereof, the rights hereunder, to the extent applicable to the indebtedness so assigned, may be transferred with such indebtedness. This Guaranty shall be binding upon each of the Guarantors and their respective successors and assigns.

SECTION 13. Changes in Writing. Other than in connection with the addition of additional Subsidiaries, which become parties hereto by executing a supplement hereto in the form attached as Annex I, neither this Guaranty nor any provision hereof may be changed, waived, discharged or terminated orally, but only in writing signed by each of the Guarantors and the Administrative Agent with the consent of the Required Lenders under the Credit Agreement.

SECTION 14. GOVERNING LAW. THIS GUARANTY SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK.

SECTION 15. CONSENT TO JURISDICTION; SERVICE OF PROCESS; JURY TRIAL.

(A) CONSENT TO JURISDICTION. EACH GUARANTOR HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR NEW YORK STATE COURT SITTING IN NEW YORK COUNTY IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTY AND EACH GUARANTOR HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE ADMINISTRATIVE AGENT, THE ISSUING BANK OR ANY LENDER TO BRING PROCEEDINGS AGAINST ANY GUARANTOR IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY ANY GUARANTOR AGAINST THE ADMINISTRATIVE AGENT, THE ISSUING BANK OR ANY LENDER OR ANY AFFILIATE OF THE ADMINISTRATIVE AGENT, THE ISSUING BANK OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS GUARANTY OR ANY OTHER LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN NEW YORK COUNTY OR THE CITY IN WHICH THE PRINCIPAL OFFICE OF THE ADMINISTRATIVE AGENT, LENDER OR AFFILIATE, AS THE CASE MAY BE, IS LOCATED.

(B) WAIVER OF JURY TRIAL. EACH GUARANTOR (AND, BY ACCEPTING THE BENEFITS HEREOF, EACH HOLDER OF SECURED

OBLIGATIONS) HEREBY WAIVES TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS GUARANTY OR ANY OTHER LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

(C) TO THE EXTENT THAT ANY GUARANTOR HAS OR HEREAFTER MAY ACQUIRE ANY IMMUNITY FROM JURISDICTION OF ANY COURT OR FROM ANY LEGAL PROCESS (WHETHER FROM SERVICE OR NOTICE, ATTACHMENT PRIOR TO JUDGMENT, ATTACHMENT IN AID OF EXECUTION OF A JUDGMENT, EXECUTION OR OTHERWISE), EACH GUARANTOR HEREBY WAIVES SUCH IMMUNITY IN RESPECT OF ITS OBLIGATIONS UNDER THIS GUARANTY.

SECTION 16. No Strict Construction. The parties hereto have participated jointly in the negotiation and drafting of this Guaranty. In the event an ambiguity or question of intent or interpretation arises, this Guaranty shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Guaranty.

SECTION 17. Taxes, Expenses of Enforcement, etc.

(A) Taxes.

(i) All payments by any Guarantor to or for the account of any Lender, the Issuing Bank, the Administrative Agent or any other Holder of Secured Obligations hereunder shall be made free and clear of and without deduction for any and all Taxes. If any Guarantor shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to any Lender, the Issuing Bank, the Administrative Agent or any other Holder of Secured Obligations, (a) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 17(A)) such Lender, the Issuing Bank, the Administrative Agent or any other Holder of Secured Obligations (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (b) such Guarantor shall make such deductions, (c) such Guarantor shall pay the full amount deducted to the relevant authority in accordance with applicable law and (d) such Guarantor shall furnish to the Administrative Agent the original copy of a receipt evidencing payment thereof within thirty (30) days after such payment is made.

(ii) In addition, the Guarantors hereby agree to pay any present or future stamp or documentary taxes and any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution or delivery of, or otherwise with respect to, this Guaranty or any promissory note ("Other Taxes").

(iii) The Guarantors hereby agree to indemnify the Administrative Agent, the Issuing Bank, each Lender and any other Holder of Secured Obligations for the full

amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed on amounts payable under this Section 17(A)) paid by the Administrative Agent, the Issuing Bank, such Lender or such other Holder of Secured Obligations and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. Payments due under this indemnification shall be made within thirty (30) days of the date the Administrative Agent, the Issuing Bank, such Lender or such other Holder of Secured Obligations makes demand therefor.

(iv) By accepting the benefits hereof, each Foreign Lender agrees that it will comply with Section 2.17(e) of the Credit Agreement.

(B) Expenses of Enforcement, Etc. Subject to the terms of the Credit Agreement, after the occurrence of an Event of Default under the Credit Agreement, the Lenders shall have the right at any time to direct the Administrative Agent to commence enforcement proceedings with respect to the Guaranteed Obligations. The Guarantors agree to reimburse the Administrative Agent and the other Holders of Secured Obligations for any reasonable costs and out-of-pocket expenses (including reasonable attorneys' fees and time charges of attorneys for the Administrative Agent and the other Holders of Secured Obligations, which attorneys may be employees of the Administrative Agent or the other Holders of Secured Obligations) paid or incurred by the Administrative Agent or any other Holders of Secured Obligations in connection with the collection and enforcement of amounts due under the Loan Documents, including without limitation this Guaranty. The Administrative Agent agrees to promptly distribute payments received from any of the Guarantors hereunder to the other Holders of Secured Obligations on a pro rata basis for application in accordance with the terms of the Credit Agreement.

SECTION 18. Setoff. At any time after all or any part of the Guaranteed Obligations have become due and payable (by acceleration or otherwise), each Holder of Secured Obligations (including the Administrative Agent) may, without notice to any Guarantor and regardless of the acceptance of any security or collateral for the payment hereof, appropriate and apply in accordance with the terms of the Credit Agreement toward the payment of all or any part of the Guaranteed Obligations (i) any indebtedness due or to become due from such Holder of Secured Obligations or the Administrative Agent to any Guarantor, and (ii) any moneys, credits or other property belonging to any Guarantor, at any time held by or coming into the possession of such Holder of Secured Obligations (including the Administrative Agent) or any of their respective affiliates.

SECTION 19. German Guarantors. Each of the Lenders, by its acceptance of the benefits hereof, agrees to release (or to instruct the Administrative Agent to release) proceeds from the enforcement of this Guaranty if and to the extent that the application of proceeds towards the Obligations would otherwise lead to the situation that, if a Guarantor is organized as a GmbH & Co. KG. (a "German Guarantor") under the laws of the Federal Republic of Germany, its general partner does not have sufficient assets to maintain its stated share capital (Stammkapital) provided that for the purposes of the calculation of the amount to be released (if any) the following balance sheet items shall be adjusted as follows:

(A) the amount of any increase of stated share capital after the date hereof that has been effected without the prior written consent of the Administrative Agent (acting on behalf of the Lenders) shall be deducted from the stated share capital; and

(B) loans provided to the such German Guarantor by the Borrower or any of its subsidiaries as far as such loans are subordinated or qualified under § 32a GmbHG (German Limited Liability Companies Act) shall be disregarded.

SECTION 20. Financial Information. Each Guarantor hereby assumes responsibility for keeping itself informed of the financial condition of the Borrower and any and all endorsers and/or other Guarantors of all or any part of the Guaranteed Obligations, and of all other circumstances bearing upon the risk of nonpayment of the Guaranteed Obligations, or any part thereof, that diligent inquiry would reveal, and each Guarantor hereby agrees that none of the Holders of Secured Obligations (including the Administrative Agent) shall have any duty to advise such Guarantor of information known to any of them regarding such condition or any such circumstances. In the event any Holder of Secured Obligations (including the Administrative Agent), in its sole discretion, undertakes at any time or from time to time to provide any such information to a Guarantor, such Holder of Secured Obligations (including the Administrative Agent) shall be under no obligation (i) to undertake any investigation not a part of its regular business routine, (ii) to disclose any information which such Holder of Secured Obligations (including the Administrative Agent), pursuant to accepted or reasonable commercial finance or banking practices, wishes to maintain confidential or (iii) to make any other or future disclosures of such information or any other information to such Guarantor.

SECTION 21. Severability. Wherever possible, each provision of this Guaranty shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Guaranty shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Guaranty.

SECTION 22. Merger. This Guaranty, taken together with the other Loan Documents, represents the final agreement of each of the Guarantors with respect to the matters contained herein and may not be contradicted by evidence of prior or contemporaneous agreements, or subsequent oral agreements, between the Guarantor and any Holder of Secured Obligations (including the Administrative Agent).

SECTION 23. Headings. Section headings in this Guaranty are for convenience of reference only and shall not govern the interpretation of any provision of this Guaranty.

SECTION 24. Judgment Currency. If for the purposes of obtaining judgment in any court it is necessary to convert a sum due from any Guarantor hereunder in the currency expressed to be payable herein (the "specified currency") into another currency, the parties hereto agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Administrative Agent could purchase the specified currency with such other currency at the Administrative Agent's main New York City office on the Business Day preceding that on which final, non-appealable judgment is given. The obligations of each Guarantor in respect of any sum due hereunder shall,

notwithstanding any judgment in a currency other than the specified currency, be discharged only to the extent that on the Business Day following receipt by any Holder of Secured Obligations (including the Administrative Agent), as the case may be, of any sum adjudged to be so due in such other currency such Holder of Secured Obligations (including the Administrative Agent), as the case may be, may in accordance with normal, reasonable banking procedures purchase the specified currency with such other currency. If the amount of the specified currency so purchased is less than the sum originally due to such Holder of Secured Obligations (including the Administrative Agent), as the case may be, in the specified currency, each Guarantor agrees, to the fullest extent that it may effectively do so, as a separate obligation and notwithstanding any such judgment, to indemnify such Holder of Secured Obligations (including the Administrative Agent), as the case may be, against such loss, and if the amount of the specified currency so purchased exceeds (a) the sum originally due to any Holder of Secured Obligations (including the Administrative Agent), as the case may be, in the specified currency and (b) amounts shared with other Holders of Secured Obligations as a result of allocations of such excess as a disproportionate payment to such other Holder of Secured Obligations under Section 2.18 of the Credit Agreement, such Holder of Secured Obligations (including the Administrative Agent), as the case may be, agrees, by accepting the benefits hereof, to remit such excess to such Guarantor.

REMAINDER OF PAGE INTENTIONALLY BLANK

IN WITNESS WHEREOF, each of the Initial Guarantors has caused this Guaranty to be duly executed by its authorized officer as of the day and year first above written.

By: _____

Its: _____

By: _____

Its: _____

By: _____

Its: _____

By: _____

Its: _____

SIGNATURE PAGE TO GUARANTY

ANNEX I TO GUARANTY

Reference is hereby made to the Guaranty (the "Guaranty") made as of the 26th day of October, 2006, by and among _____, a _____, _____, a _____, _____, a _____ and _____, a _____ (the "Initial Guarantors" and along with any additional Subsidiaries of Heidrick & Struggles International, Inc., which become parties thereto and together with the undersigned, the "Guarantors") in favor of the Administrative Agent, for the ratable benefit of the Holders of Secured Obligations, under the Credit Agreement. Capitalized terms used herein and not defined herein shall have the meanings given to them in the Guaranty. By its execution below, the undersigned [NAME OF NEW GUARANTOR], a [corporation] [partnership] [limited liability company], agrees to become, and does hereby become, a Guarantor under the Guaranty and agrees to be bound by such Guaranty as if originally a party thereto. By its execution below, the undersigned represents and warrants as to itself that all of the representations and warranties contained in Section 2 of the Guaranty are true and correct in all respects as of the date hereof.

IN WITNESS WHEREOF, [NAME OF NEW GUARANTOR], a [corporation] [partnership] [limited liability company] has executed and delivered this Annex I counterpart to the Guaranty as of this __ day of _____, ____.

[NAME OF NEW GUARANTOR]

By: _____
Its: _____

FORM OF COMMITMENT AND ACCEPTANCE

Dated [_____]

Reference is made to the Credit Agreement dated as of October 26, 2006 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement") among Heidrick & Struggles International, Inc. (the "Borrower"), the financial institutions party thereto (the "Lenders"), and JPMorgan Chase Bank, National Association, in its capacity as contractual representative for the Lenders (the "Agent"). Terms defined in the Credit Agreement are used herein with the same meaning.

Pursuant to Section 2.23 of the Credit Agreement, the Borrower has requested an increase in the Aggregate Commitment from \$_____ to \$_____. Such increase in the Aggregate Commitment is to become effective on the date (the "Effective Date") which is the later of (i) _____, _____ and (ii) the date on which the conditions precedent set forth in Section 2.23 in respect of such increase have been satisfied. In connection with such requested increase in the Aggregate Commitment, the Borrower, the Administrative Agent and _____ (the "Accepting Bank") hereby agree as follows:

1. Effective as of the Effective Date, [the Accepting Bank shall become a party to the Credit Agreement as a Lender and shall have all of the rights and obligations of a Lender thereunder and shall thereupon have a Commitment under and for purposes of the Credit Agreement in an amount equal to the] [the Commitment of the Accepting Bank under the Credit Agreement shall be increased from \$_____ to the] amount set forth opposite the Accepting Bank's name on the signature page hereof.

[2. The Accepting Bank hereby (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Commitment and Acceptance Agreement; (ii) agrees that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) appoints and authorizes the Administrative Agent to take such action as contractual representative on its behalf and to exercise such powers under the Credit Agreement and the other Loan Documents as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto; and (iv) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement are required to be performed by it as a Lender]

3. The Borrower hereby represents and warrants that as of the date hereof and as of the Effective Date, (a) all representations and warranties shall be true and correct in all material respects as though made on such date and (b) no event shall have occurred and then be continuing which constitutes a Default or an Event of Default.

4. THIS COMMITMENT AND ACCEPTANCE AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

5. This Commitment and Acceptance Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Commitment and Acceptance Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

HEIDRICK & STRUGGLES INTERNATIONAL,
INC.

By: _____

Title: _____

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION
as Administrative Agent

By: _____

Title: _____

COMMITMENT
\$

ACCEPTING BANK
[BANK]

By: _____

Title: _____

Reaffirmations of Subsidiary Guarantors

Each of the undersigned hereby acknowledges receipt of the foregoing Commitment and Acceptance. Capitalized terms used in this Reaffirmation and not defined herein shall have the meanings given to them in the Credit Agreement referred to in the foregoing Commitment and Acceptance. Without in any way establishing a course of dealing by the Administrative Agent or any Lender, the undersigned reaffirms the terms and conditions of the Guaranty dated as of October 26, 2006 executed by it and acknowledges and agrees that such Guaranty and each and every other Loan Document executed by the undersigned in connection with the Credit Agreement remain in full force and effect and are hereby ratified, reaffirmed and confirmed. All references to the Credit Agreement contained in the above-referenced documents shall be references to the Credit Agreement as so amended by the Commitment and Acceptance and as the same may from time to time hereafter be amended, modified or restated. The failure of any Subsidiary Guarantor to sign this Reaffirmation shall not release, discharge or otherwise affect the obligations of any of the other such Subsidiary Guarantors.

[SUBSIDIARY GUARANTORS]

By: _____
Its: _____

\$100,000,000

**HEIDRICK & STRUGGLES INTERNATIONAL, INC.
CREDIT FACILITIES**

October 26, 2006

LIST OF CLOSING DOCUMENTS¹

LOAN DOCUMENTS

1. Credit Agreement (the "Credit Agreement") by and among Heidrick & Struggles International, Inc., a Delaware corporation, (the "Borrower"), the institutions from time to time parties thereto as Lenders (the "Lenders"), JPMorgan Chase Bank, National Association, in its capacity as Administrative Agent for itself and the other Lenders (the "Administrative Agent"), evidencing a \$100,000,000 revolving credit facility to the Borrower from the Lenders.

EXHIBITS

Exhibit A	—	Form of Assignment and Assumption
Exhibit B-1	—	Form of Opinion of Chief Legal Counsel
Exhibit B-2	—	Form of Opinion of McDermott Will & Emery LLP
Exhibit C	—	Form of Subsidiary Guaranty
Exhibit D	—	Form of Commitment and Acceptance
Exhibit E	—	List of Closing Documents

SCHEDULES

<i>Schedule 2.01</i>	—	<i>Commitments</i>
<i>Schedule 2.02</i>	—	<i>Mandatory Cost</i>
<i>Schedule 2.06</i>	—	<i>Existing Letters of Credit</i>
<i>Schedule 3.01</i>	—	<i>Subsidiaries</i>
<i>Schedule 3.06</i>	—	<i>Disclosed Matters</i>
<i>Schedule 6.01</i>	—	<i>Existing Indebtedness</i>
<i>Schedule 6.02</i>	—	<i>Existing Liens</i>
<i>Schedule 6.04</i>	—	<i>Existing Investments</i>
<i>Schedule 6.08</i>	—	<i>Existing Restrictions</i>

2. Subsidiary Guaranty (the "Guaranty") made by each of the Subsidiary Guarantors in favor of the Administrative Agent for the benefit of the Holders of Secured Obligations.

¹ Each capitalized term used herein and not defined herein shall have the meaning assigned to such term in the above-defined Credit Agreement. Items appearing in **bold** and *italics* shall be prepared and/or provided by the Borrower and/or Borrower's counsel.

3. Notes executed by the Borrower in favor of each of the Lenders, if any, which has requested a note pursuant to Section 2.10(e) of the Credit Agreement.

B. CORPORATE DOCUMENTS

4. *Certificate of the Secretary or an Assistant Secretary of the Borrower and each of the Subsidiary Guarantors identified on Appendix A attached hereto certifying (i) that there have been no changes in the Articles or Certificate of Incorporation, Certificate of Formation or other charter document of the Borrower and each such Subsidiary Guarantor, as attached thereto and as certified as of a recent date by the secretary of state (or the equivalent thereof) of its jurisdiction of organization, if applicable, since the date of the certification thereof by such secretary of state (or equivalent thereof), if applicable, (ii) the By-Laws, Operating Agreement, or other applicable organizational document, as attached thereto, of the Borrower and each such Subsidiary Guarantor as in effect on the date of such certification, (iii) resolutions of the Board of Directors, Board of Managers, or other governing body of the Borrower and each such Subsidiary Guarantor authorizing the execution, delivery and performance of each Loan Document to which it is a party, and (iv) the names and true signatures of the incumbent officers of the Borrower and each such Subsidiary Guarantor authorized to sign the Loan Documents to which it is a party, and, in the case of the Borrower, authorized to request Credit Events under the Credit Agreement.*
5. *Good Standing Certificates (or the equivalents thereof) for the Borrower and each Subsidiary Guarantor identified on Appendix A attached hereto from the Secretaries of State (or the equivalents thereof) of their respective jurisdictions of organization.*

C. OPINIONS

6. *Opinion of Chief Legal Officer of the Borrower and the Subsidiary Guarantors.*
7. *Opinion of McDermott Will & Emery LLP, special counsel for the Borrower and the Subsidiary Guarantors.*

D. CLOSING CERTIFICATES AND MISCELLANEOUS

8. *A Certificate signed by the Chief Executive Officer or a Financial Officer of the Borrower certifying the following: (i) all of the representations and warranties in the Credit Agreement are true and correct and (ii) no Default has occurred and is then continuing.*
9. Termination Letter executed by the Borrower terminating the Existing Credit Agreement.

Appendix A

Subsidiary Guarantors

Jurisdiction of Organization

Heidrick & Struggles, Inc.

Delaware

Heidrick & Struggles Unternehmensberatung GmbH & Co. KG

Germany

Heidrick & Struggles Latin America, Inc.

Illinois

Heidrick & Struggles Asia-Pacific, Ltd.

Illinois

Heidrick & Struggles Espana, Inc.

Illinois

HEIDRICK & STRUGGLES
Consultants in Executive Search

Marvin B. Berenblum
Managing Partner

June 11, 1999

Mr. Michael Franzino
829 Park Avenue, Apt. 3D
New York, New York 10021

Dear Mike:

It is a great pleasure to confirm Heidrick & Struggles, Inc.'s offer of employment to you. We are excited about your joining us.

Following are the terms of our offer to you:

1. You will join our New York Office recruiting staff with the title of Partner at a monthly base salary of \$16,666.67 (which is \$200,000.00 annually), commencing on your first day of employment, which shall be June 15, 1999, unless otherwise mutually agreed in writing. In your new role at H&S you will be reporting to me as the Managing Partner of the New York office. Currently salaries are reviewed annually in November/December, so that your first salary review will be in November/December 1999.
2. You will first be eligible to be considered for a discretionary bonus for the bonus year ending in 1999. Currently all bonuses are paid in December and the following March. You understand that, except for the buy-out, minimum, and special bonus referred to below, all bonuses are discretionary and not earned until declared by the Board of Directors or appropriate committee of the Board of Directors, and that all bonuses, including the buy-out, minimum, and special bonus referred to below, are payable only if you are in our employ on the bonus payment dates. A copy of our current U.S. Partner/Principal Cash Compensation Policy is enclosed with this letter.

As we discussed, you will be eligible to receive the following bonuses:

- A. Buy-Out Bonus. You will be paid a buy-out (non-performance related) bonus of \$514,150.00 on August 31, 1999.

If you should resign from our firm within two years from your employment start date, you will repay the entire \$514,150.00 buy-out bonus within five (5) business days following your notice of resignation. If you leave within the first two years, you authorize us to deduct and/or offset the amount referred to in the foregoing sentence from any compensation or other sums that may be due to you at that time, and you will repay the balance, if any, after such deduction/offset of the \$514,150.00 remaining due to us; provided, however, that the "two year" period referred to in this sentence shall become "one year" in the event that more than two-thirds of the voting common stock of our company is sold or otherwise transferred to another person or entity resulting in a substantial change of stockholder control of our company.

245 Park Avenue New York, NY 10167-0152 Phone: 212/867-9876 FAX: 212/370-9035

Heidrick & Struggles, Inc. Offices in Principal Cities of the World

- B. Bonus Year 1999 Minimum Bonus. You will receive a \$550,000.00 minimum bonus for the bonus year ending December 31,1999, payable when bonuses are paid for the bonus year ending December 31,1999, provided that you are in our employ on the bonus payment date(s) and provided, however, that if the combined fee and source of business ("SOB") credits actually generated by you during the calendar year 1999 and collected by you by February 28, 2000, are less than \$2.0 million, then the minimum bonus payment shall be reduced by 55¢ for each \$1.00 the above described combined fee and SOB credits are less than \$2.0 million.

For the bonus year ending in 1999 only, your 1999 performance bonus will be calculated at 25% times the total fee credits plus 30% times the total SOB credits generated by you and collected at our firm from your date of employment through December 31, 1999. In all other respects the U.S. Partner/Principal Cash Compensation Policy will apply.

Our actual Fee and SOB expectations of you are as follows:

<u>Bonus Year</u>	<u>Fee</u>	<u>SOB</u>
June 15, 1999 to December 31, 1999	\$ 1.5 million	\$ 1.5 million
January 1, 2000 to December 31, 2000	\$2.25 million	\$ 2.25 million
January 1, 2001 to December 31, 2001	\$2.50 million	\$ 2.50 million

with future years' numbers exceeding the foregoing (after inflation). You understand that you are expected to be a "self-starter" and you have stated that you will be developing business from your own contacts.

- In addition to your base and bonus compensation set forth in section 2 above, you will be paid a one-time special bonus (non-performance related) either in cash or equivalent value in stock options, discounted stock purchase opportunities, restricted stock units, phantom shares, or other stock related programs (at the firm's option) the equivalent of \$200,000.00 by March 31, 2000, with a three year ratable annual vesting schedule.
- You will be eligible to participate in our fringe benefit programs in accordance with the programs' terms. Copies of the booklets and Summary Plan Descriptions describing our group health, life/AD&D insurance, long-term disability, time-off benefits such as vacation, paid holidays, paid sick time, short-term disability salary continuation, and the Flexible Spending Account and Heidrick & Struggles, Inc. 401 (k) Profit-Sharing and Retirement Plan will be provided at a later date.
- Our fringe benefit programs, bonus programs, and policies are reviewed from time to time by the company's management. Therefore, our programs and policies may be modified, amended or terminated at any time.

HEIDRICK & STRUGGLES
Consultants in Executive Search

Mr. Michael Franzino
June 11, 1999
Page Two

6. You will be an "employee at will" unless or until we may otherwise agree in writing. This gives both of us maximum flexibility and permits either of us to terminate employment and compensation at any time for any reason.
7. Two copies of an agreement relating to trade secrets, confidential information, clients, et cetera, are enclosed. We ask that all Partners sign this agreement. Please review and sign both copies and return one to me for processing. Of course, please call me if you have any questions about this agreement.
8. You have advised us that you have not signed any agreements that will, in any way, prohibit your joining our firm or performing your work with us.
9. This agreement, which contains our entire understanding, can be amended only in writing which is signed by you, the New York Office Managing Partner, together with any one of the CEO, the CAO, or the North America Managing Partner of the company. You specifically acknowledge that no promises or commitments have been made to you that are not set forth in this letter.

To acknowledge your acceptance of our offer of employment, please sign and return to me the enclosed copy of this letter, together with the agreement referred to in Item 7 above.

Mike, I am confident that your association with H&S will be a most rewarding and productive one in the years ahead and I very much look forward to working with you.

Sincerely,

/s/ Marvin B. Berenblum

Marvin B. Berenblum
Office Managing Partner

Enclosures (3) U.S. Partner/Principal Cash Compensation Policy
Confidentially Agreement
GlobalShare

cc: Patrick S. Pittard
David C. Anderson
Donald M. Kilinski
Richard D. Nelson

ACCEPTED:

/s/ Michael Franzino

Michael Franzino

June 14, 1999

Date

HEIDRICK & STRUGGLES
Consultants in Executive Search

HEIDRICK & STRUGGLES
Consultants in Executive Search

October 7, 1999

Marvin B. Berenblum
Managing Partner

Mr. Michael Franzino
829 Park Avenue, Apt. 3D
New York, New York. 10021

Dear Mike:

This letter will serve as a first amendment to the June 11, 1999, employment agreement letter ("Agreement") between you and Heidrick & Struggles, Inc. Your agreement is amended as follows:

1. Section 2 A is amended to read as follows:

"A. Buy-Out Bonus. You will be paid a buy-out (non-performance related) bonus of \$514,150.00 on December 29, 1999."

2. Except as amended above, the Agreement, as amended, remains in full force and effective without change.

To acknowledge your acceptance of this amendment, please sign and return to me the enclosed copy of this letter.

Sincerely yours,

/s/ Marvin B. Berenblum
Marvin B. Berenblum

/jjp

Enclosure

ACCEPTED:

/s/ Michael Franzino
Michael Franzino

Oct. 12, 1999
Date

APPROVED:

/s/ Richard D. Nelson
Richard D. Nelson

10-13-99
Date

245 Park Avenue New York, NY 10167-0152 Phone: 212/867-9876 FAX: 212/370-9035

Heidrick & Struggles, Inc. Offices in Principal Cities of the World

14 March 2003

Michael Franzino
Heidrick & Struggles International, Inc.
40 Wall Street, 48th Floor
New York, NY 10005

Dear Mike

Last year Heidrick & Struggles put in place a suite of highly competitive compensation programs that strongly align individual reward opportunity to the short and long term success of the Company.

We are pleased to confirm that as a member of the Company's leadership team you will participate in the Company's annual Management Incentive Plan (MIP) as well as the Long Term Incentive Plan (LTIP) for 2003. The LTIP has two components - the Performance Share Program (PSP) and the Management Stock Option Plan (MSOP). These programs, along with your annual base salary (and other Fee/SOB compensation where applicable), provide the opportunity for you to earn extraordinary total compensation based on individual and Company performance.

Here is a summary of your participation in these programs for 2003:

£ **MIP** - You will be in Tier I of the Plan and your Tier Target Bonus will be **\$400,000**. You may earn from 0% to **150%** of your Tier Target Bonus based on Company performance against its Profitability (Operating Income) target, your Strategic Business Unit (SBU) performance (if applicable) against specific financial metrics, and your own individual performance against Key Performance Indicators (KPIs). Where applicable you will receive information on your SBU metrics soon and your KPIs should be developed in collaboration with your manager within the next 30 days. The Company's Operating Income target for the 2003 MIP is:

<u>Threshold</u>	<u>Target</u>	<u>Maximum</u>
\$6.4 MM	\$9.8 MM	\$18.0 MM

It is important for you to know that the Company must meet its Threshold level of Operating Income before any MIP bonuses may be paid out.

£ **PSP**—Your Target Award will be **25,000** Performance Shares

Performance Shares are like phantom shares of HSII Stock. You will be eligible to earn from 0% to **150%** of your target number of Performance Shares at the end of the three-year PSP cycle based on the Company's cumulative performance against Operating Income Targets. Operating Income is critical to long-term growth and building shareholder value. The better the Company performs against its targets during the PSP cycle, the more Performance Shares you will earn. Further, the more HSII Stock grows during the performance cycle, the more your earn-out will be worth. The PSP Targets for Cycle 2, 2003 to 2005, are:

<u>Cumulative Operating Income</u>	
Threshold	\$45.4 MM
Target	\$56.8 MM
Maximum	\$68.2 MM

£ **MSOP**—you will receive **50,000** Stock Options

The exercise price for these options is \$11.90, which was the fair market value of HSII stock at closing on the date of grant, March 6, 2003. Your stock options will vest ratably over three years and have a five-year term from the date of grant.

We hope you will agree that your participation in these programs reflects the value the Company places on your long-term commitment and contributions to our organization. We look forward to working together with you as we strive to deliver long-term growth and profitability for our various stakeholders.

Yours sincerely

/s/ Piers Marmion

Piers Marmion
Chief Executive Officer
Heidrick & Struggles International, Inc.

cc: Grover N. Wray

Thomas J. Friel
Chairman and CEO

April 29, 2004

Michael Franzino
Heidrick & Struggles International, Inc.
40 Wall Street
48th Floor
New York NY 10005

Dear Mike:

We are pleased to confirm that as a member of the Company's management team in 2004, you will participate in the following compensation programs – programs designed to balance rewards for both short-term and long-term performance. Inclusion in these programs is an annual decision and communicated in writing each year.

Fee/SOB salary – a combination of a Fee/SOB salary (paid monthly) and a bonus program for amounts earned over and above the Fee/SOB salary.

Management salary – a salary separate from Fee/SOB payments, sized to reflect your management duties

Management bonus (MIP) – an annual bonus opportunity based upon performance against operating income targets (firm-wide or regional performance depending upon your position) and your individual performance as measured by your Key Performance Indicators (KPI).

Management stock options (MSOP) – an award of stock options to help align your work with firm-wide strategy and priorities over time

While the attached materials provide more detailed information on these programs, here is a summary of your participation and some important program highlights:

Fee/SOB Salary & Bonus

Your Fee/SOB salary for 2004 is \$300,000. This salary will be paid in accordance with regular payroll practices. Personal performance is reviewed quarterly and can impact the Fee/SOB salary amount. The Fee/SOB salary is offset against your total Fee/SOB performance and any amount over the Fee/SOB salary is paid as a bonus in accordance with normal bonus distributions.

Sears Tower-Suite 4200 233 South Wacker Drive Chicago, IL 60606-6303 Phone: 312/496-1352 Fax: 312/496-1283

2740 Sand Hill Road Menlo Park, CA 94025-7096 Phone: 650/234-1511 Fax: 650/233-7585

Heidrick & Struggles, Inc. Offices in Principal Cities of the World www.heidrick.com

Michael Franzino
Page Two
April 29, 2004

Management Salary

Your management base salary for 2004 is \$125,000. This salary will be paid in accordance with regular payroll practices and is retroactive to January 1, 2004. The management salary is distinct from your Fee/SOB salary, if any, and is not applied against the relevant Fee/SOB tiers.

Management Bonus

Your target management bonus is \$125,000. You may earn from 0% to 150% of your Target Bonus based on either Company or Regional performance against the Operating Income Target and your own individual performance against KPIs. Your bonus amount will be determined by your management and is discretionary, based upon performance.

Attached to this letter is a copy of the Company/Regional matrix, which outlines the Threshold, Target and Maximum payout levels, based upon operating income levels. Additionally, the matrix shows the corresponding projected revenue numbers at each level. If the operating income numbers fall between the levels that are shown on the matrix, the bonus pool will be adjusted accordingly.

It is important to note that the Company and the Region must meet its Threshold level of Operating Income before any MIP bonuses may be paid out.

Stock Options

MSOP—Your stock option grant is 20,000 options. Your stock options will vest ratably over three years and have a five-year term from the date of grant. Your Grant Agreement and related documentation will follow shortly under separate cover.

We hope you will agree that your participation in these programs reflects the value the Company places on your long-term commitment and contributions to our organization. We look forward to working together with you as we continue to strive to deliver long-term growth and profitability.

Sincerely,

/s/ Thomas J. Friel

Thomas J. Friel
Chief Executive Officer

Attachments

HEIDRICK & STRUGGLES
Consultants in Executive Search

June 21, 2004

Vincent C. Perro
78 West 12th Street
New York, New York 10011

Dear Vince:

On behalf of Heidrick & Struggles International, Inc., I am pleased to confirm the terms of your employment arrangement.

1. Start Date. You will commence employment on July 1, 2004 (the "Effective Date").
2. Title. You will serve as Managing Partner, Leadership Services of Heidrick & Struggles International, Inc. (the "Company"), reporting to the Chief Executive Officer of the Company. As Managing Partner, Leadership Services, you will have senior executive responsibility for our existing and planned worldwide non-search leadership consulting activities. Your objective will be to lead this business to the achievement of mutually developed goals.
3. You will be located in the New York – Park Avenue office.
4. Base Management Salary. You will receive a monthly base salary of \$20,834, which is \$250,000.00 annually, subject to review annually, starting in 2006.
5. SOB Salary. In addition to the salary provided for in section 4, you will be eligible to participate in our source-of-business (SOB) salary and bonus program subject to normal guidelines. For the remainder of 2004, your monthly SOB salary will be \$16,667. For 2005, your SOB salary will be re-set, based upon our mutual learnings in 2004, but the monthly draw will be at least the 2004 amount.
6. Target Management Bonus. Your target bonus for 2004 is \$250,000.00 (guaranteed at 100% for 2004, pro rated for the portion of 2004 during which you are employed). You will also participate in the Company's Management Incentive Plan (Tier I). Bonuses are discretionary and are not earned until approved by the Compensation Committee and/or Board of Directors of the Company. The annual bonus (including the guaranteed 2004 bonus amount) will be payable only if you are in the Company's employ on the regular bonus payment date.

2740 Sand Hill Road Menlo Park, CA 94025-7096 Phone: 650/234-1500 FAX: 650/854-4191

Heidrick & Struggles, Inc. Offices in Principal Cities of the World

7. Incentive Compensation and Other Plans. You will be entitled to participate in other management compensation plans, including the Management Stock Option Plan, the Change in Control Severance Plan at Tier I and the Severance Pay Plan as a Top Management employee, as such plans may be amended from time to time. With respect to the Severance Pay Plan the term "Good Reason" shall have the meaning defined below and any resignation by you for Good Reason shall be deemed a termination by the Company without Cause under the Severance Plan.

The term "Good Reason" shall mean (i) the elimination of your position (excluding a change to a position of equal or greater seniority in the Company) or a diminution of responsibilities associated with your position or (ii) a change in the location of your principal place of employment more than 50 miles from its initial location without your approval. Notwithstanding the foregoing, an action by the Company which is cured within 30 days after receipt of written notice of such occurrence shall not constitute Good Reason.
8. Sign-On Stock Option. As of the Effective Date, you will receive a stock option grant to purchase 30,000 shares of Heidrick & Struggles International, Inc. common stock. The options will be granted at the closing price of the common stock as reported on NASDAQ on the date of grant, will vest 33.3% per year over a three year period, and will have a five year term. You will be eligible for consideration for a grant during our Q1 2005 grant cycle, even though you will not have been with the firm for a year.
9. Benefits. You will be eligible to participate in the Company's benefit programs at the same level as other senior executives of the Company on your effective date. Our benefits program includes group health, dental, vision, life/AD&D, long-term disability, short-term disability salary continuation, paid holidays, Flexible Spending Account, and the Heidrick & Struggles, Inc. 401(k) Profit-Sharing and Retirement Plan. You will also be eligible to participate in the Company's Physical Examination and Financial Planning Program. Our benefits program, compensation programs, and policies are reviewed from time to time by Company management and may be modified, amended, or terminated at any time.
10. Expenses. The Company will reimburse you for all of your business expenses in accordance with its policies.
11. Confidentiality. Your employment with the Company under this Agreement necessarily involves your access to and understanding of certain trade secrets and confidential information pertaining to the business of the Company and its affiliates. During the term of your employment with the Company and thereafter, you will not, directly or indirectly, without the prior written consent of the Company, disclose or use for the benefit of any person, corporation or other entity, or for yourself any and all files, trade secrets or other confidential information concerning the internal affairs of the Company and its affiliates, including, but not limited to, information pertaining to its clients, services, products, earnings, finances, operations, methods or other activities; provided, however, that the

foregoing shall not apply to information which is of public record or is generally known, disclosed or available to the general public or the industry generally (other than as a result of your breach of this covenant). Notwithstanding the foregoing, you may disclose such information as is required by law during any legal proceeding or to your personal representatives and professional advisers and, with respect to such personal representatives and professional advisers, you shall inform them of your obligations hereunder and take all reasonable steps to ensure that such professional advisers do not disclose the existence or substance thereof. Further, you shall not, directly or indirectly, remove or retain, and upon termination of employment for any reason you shall return to the Company, any records, computer disks, computer printouts, business plans or any copies or reproductions thereof, or any information or instruments derived therefrom, arising out of or relating to the business of the Company and its affiliates or obtained as a result of your employment by the Company.

12. Non-Solicitation/Non-Competition. During the term of your employment with the Company and for a period of six-months after the termination of your employment with the Company, you shall not (i) become an employee of or consultant to any principal search competitor of the Company in substantially the same function as your employment with the Company or its affiliates in the twelve-months prior to termination of your employment or (ii) directly or indirectly solicit, any client of the Company or any of its affiliates with whom you have had a direct relationship or supervisory responsibility in the 24 month period immediately preceding such termination, or (iii) directly or indirectly solicit or hire, or assist any other person in soliciting or hiring, any employee of the Company or its affiliates (as of your termination of employment with the Company) or any person who, as of such date, was in the process of being recruited by the Company or its affiliates, or induce any such employee to terminate his or her employment with the Company or its affiliates.

13. Other Legal Matters.

You will be an "employee at will" of the Company, meaning that either party may terminate the employment relationship at any time for any reason (with or without Cause or Good Reason), except for such period of notice as may be expressly provided in writing under written Company employment policies in effect at the time of such termination. Your initial and continuing employment will be subject to your having the ability to work legally in the United States.

You have advised the Company that your execution and performance of the terms of this Agreement do not and will not violate any other agreement binding on you or the rights of any third parties and you understand that in the event this advice is not accurate the Company will not have any obligation to you under this Agreement.

This letter agreement contains our entire understanding and can be amended only in writing and signed by you and the Chief Executive Officer or Chief Legal Officer. You specifically acknowledge that no promises or commitments have been made to you that are not set forth in this letter.

Any controversy or claim arising out of or relating to this agreement or for the breach thereof, or your employment, including without limitation any statutory claims (for example, claims for discrimination including but not limited to discrimination based on race, sex, sexual orientation, religion, national origin, age, marital status, handicap or disability; and claims relating to leaves of absence mandated by state or federal law), breach of any contract or covenant (express or implied), tort claims, violation of public policy or any other alleged violation of statutory, contractual or common law rights (and including claims against the Company's officers, directors, employees or agents) if not otherwise settled between the parties, shall be conclusively settled by arbitration to be held in New York, New York, in accordance with the American Arbitration Association's Employment Dispute Resolution Rules (the "Rules"). Arbitration shall be the parties' exclusive remedy for any such controversies, claims or breaches. The parties agree they shall not seek any award for punitive damages for any claims they may have under this Agreement. The parties also consent to personal jurisdiction in New York, New York with respect to such arbitration. The award resulting from such arbitration shall be final and binding upon both parties. Judgment upon said award may be entered in any court having jurisdiction. This agreement shall be governed by the laws of the State of New York without regard to any conflict of law provisions of any jurisdiction.

You and the Company hereby waive the right to pursue any claims, including but not limited to employment termination - related claims, through civil litigation outside the arbitration procedures of this provision, unless otherwise required by law. You and the Company each have the right to be represented by counsel with respect to arbitration of any dispute pursuant to this paragraph. The arbitrator shall be selected by agreement between the parties, but if they do not agree on the selection of an arbitrator within 30 days after the date of the request for arbitration, the arbitrator shall be selected pursuant to the Rules.

In the event of any arbitration hereunder, the parties agree each shall bear its or his own attorneys' fees and costs associated with or arising from such arbitration or other proceeding.

Yours sincerely,

/s/ Thomas J. Friel

Thomas J. Friel
Chief Executive Officer

cc: Fritz E. Freidinger
Scott W. Sherwood

I hereby accept the terms and conditions of employment as outlined above:

/s/ Vincent C. Perro
Vincent C. Perro

6/22/04
Date

HEIDRICK & STRUGGLES

Thomas J. Friel
Chairman and CEO

April 26, 2005

Mr. Vincent Perro
Heidrick & Struggles, Inc.
245 Park Avenue
New York, NY 10167

Dear Vince:

During these initial months in 2005, we have spent considerable effort developing our operating plans for the year. As a member of the Company's Global Leadership Team, I am pleased to confirm how your 2005 compensation opportunities will be linked to these objectives. Since the terms of our compensation programs are made in conjunction with any existing employment agreement, this letter is not intended to replace any existing employment terms or conditions not described within this memorandum.

The foundation of our 2005 compensation programs is based on profitable growth and employee ownership. By providing a mix of short-term and long-term performance compensation, we strive to balance the desire to meet our annual operating objectives while also staying focused on long-term progress. Shown below is a summary of your participation and some important program highlights. The attached materials provide complete information on these programs.

For 2005, you are eligible to participate in the following compensation programs:

Management Salary

Effective January 1, 2005, your management base salary is \$350,000. This salary will be paid in accordance with regular payroll practices. The management salary is distinct from your Fee/SOB salary, if any, and is not applied against the relevant Fee/SOB tiers. This salary will be reviewed on an ongoing basis and formally at the end of the year.

Management Bonus (MIP)

Your target management bonus is \$350,000. You may earn from 0% to 200% of your target bonus based on Company and the applicable regional performance against certain revenue and operating income targets (see chart on the next page), as well as your own individual performance against KPIs.

Your bonus amount will be determined by your management and is discretionary, based upon performance. For the bonus year ending in 2005, \$100,000 is guaranteed and will be paid monthly along with your management salary. Assuming normal business conditions, for years beyond 2005, your combined annual salary and guaranteed bonus may increase, but will not be less than \$450,000 paid monthly. Additionally, 10% of any performance bonus will be paid in the form of restricted stock units (RSUs).

Sears Tower – Suite 4200 233 South Wacker Drive Chicago, IL 60606-6303 Phone: 312/496-1352 Fax: 312/496-1283

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Under Company policy, the management bonus is paid the following March. Discretionary bonuses are not earned until declared by the Board of Directors or an appropriate committee of the Board of Directors, and are payable only if you are employed on the bonus payment dates.

It is important to note that the Company and the Region must meet its Threshold level of Operating Income before any MIP bonuses may be paid out.

2005 Alignment Matrix: Target Performance (\$000 million)

<u>Organization Unit</u>	<u>Net Revenue</u>	<u>Operating Income \$/%</u>	<u>Percent of Target Bonus Opportunity Available</u>
All Company	\$425.0	\$ 45.5/10%	100%
Asia/Pacific	\$ 39.0	\$ 11.3/29%	100%
Austria, Germany, Poland, Switzerland	\$ 47.3	\$ 9.8/21%	100%
Benelux and Nordic	\$ 16.3	\$ 2.2/13%	100%
Latin America	\$ 13.2	\$ 1.9/14.1%	100%
North America	\$222.8	\$ 68.9/30.9%	100%
Southern Europe	\$ 28.4	\$ 4.5/16%	100%
UK	\$ 42.9	\$ 4.7/11%	100%

Management Stock Awards

You have been granted shares of restricted stock units (RSUs) and nonqualified stock options to align your efforts with shareholder interests and firm-wide priorities. Your stock option grant is for 5,000 shares. The exercise price for this stock option is \$36.17, which was the fair market value of HSII stock at closing on the date of grant, March 10, 2005. Your RSU grant is for 5,000 shares. The stock option and RSUs will vest ratably over three years and the stock option has a five-year term from the date of grant. Detailed grant documents will follow under separate cover.

I look forward to working together to achieve the very aggressive targets we have set for 2005 and beyond. Thanks for all you have contributed as a key member of the management team. I personally am very appreciative.

All the best for a great 2005.

Sincerely,

/s/ Thomas J. Friel

Thomas J. Friel
Chairman and Chief Executive Officer

Thomas J. Friel
Chairman and CEO

September 19, 2005

Mr. Vincent Perro
Heidrick & Struggles, Inc.
245 Park Avenue
New York, NY 10167

Dear Vince:

As a member of the Company's Global Operating Team, I am pleased to confirm your revised 2005 compensation opportunities. Since the terms of our compensation programs are made in conjunction with any existing employment agreement, this letter is not intended to replace any existing employment terms or conditions not described within this memorandum.

The foundation of our 2005 compensation programs is based on profitable growth and employee ownership. By providing a mix of short-term and long-term performance compensation, we strive to balance the desire to meet our annual operating objectives while also staying focused on long-term progress. Shown below is a summary of your participation and some important program highlights. More complete information on these programs can be obtained in plan documents.

For 2005, you are eligible to participate in the following compensation programs:

Management Salary

Effective January 1, 2005, your management base salary is \$450,000. This salary will be paid in accordance with regular payroll practices. The management salary is distinct from a Fee/SOB salary, if any, and is not applied against the relevant Fee/SOB tiers. This salary will be reviewed on an ongoing basis.

Management Bonus (MIP)

Your target management bonus is \$350,000. You may earn from 0% to 200% of your target bonus based on Company and the applicable regional performance against certain revenue and operating income targets (see chart on the next page), as well as your own individual performance against KPIs.

Your bonus amount will be determined by your management and is discretionary, based upon performance. Additionally, 10% of any performance bonus will be paid in the form of restricted stock units (RSUs). Under Company policy, the management bonus is paid the following March. Discretionary bonuses are not earned until declared by the Board of Directors or an appropriate committee of the Board of Directors, and are payable only if you are employed on the bonus payment dates.

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It is important to note that the Company and the Region must meet its Threshold level of Operating Income before any MIP bonuses may be paid out.

2005 Alignment Matrix: Target Performance (\$000 million)

Organization Unit	Net Revenue	Operating Income \$/%	Percent of Target Bonus Opportunity Available
All Company	\$ 425.0	\$ 45.5/10%	100%
Asia/Pacific	\$ 39.0	\$ 11.3/29%	100%
Austria, Germany, Poland, Switzerland	\$ 47.3	\$ 9.8/21%	100%
Benelux and Nordic	\$ 16.3	\$ 2.2/13%	100%
Latin America	\$ 13.2	\$ 1.9/14.1%	100%
North America	\$ 222.8	\$ 68.9/30.9%	100%
Southern Europe	\$ 28.4	\$ 4.5/16%	100%
UK	\$ 42.9	\$ 4.7/11%	100%
Leadership Consulting	\$ 15.2	\$ 0.10/1%	100%

Management Stock Awards

You have been granted shares of restricted stock units (RSUs) and nonqualified stock options to align your efforts with shareholder interests and firm-wide priorities. Your stock option grant is for 5,000 shares. The exercise price for this stock option is \$36.17, which was the fair market value of HSII stock at closing on the date of grant, March 10, 2005. Your RSU grant is for 5,000 shares. The stock option and RSUs will vest ratably over three years and the stock option has a five-year term from the date of grant. Detailed grant documents will follow under separate cover.

Special Severance Arrangement

Due to your unique circumstances, we are pleased to offer a special severance arrangement over and above our normal Tier 1 program for Top Management. This special severance amount will be one times your then current salary and targeted annual bonus (\$450,000 + \$350,000 = \$800,000; based upon your 2005 compensation) and will be in effect through December 31, 2007 or your qualification for the yet to be finalized LTIP termination fee (LTIP plan under development and expected to be finalized and approved in December 2005), whichever comes first. All standard severance qualification rules also apply to this special severance arrangement.

I look forward to working together to achieve the very aggressive targets we have set for 2005 and beyond. Thanks for all you have contributed as a key member of the management team. I personally am very appreciative.

Sincerely,

/s/ Thomas J. Friel

Thomas J. Friel
Chairman and Chief Executive Officer

HEIDRICK & STRUGGLES
Consultants in Executive Search

Jeffrey W. Hodge
Managing Partner

December 29, 1999

Mr. Kelvin Thompson
234 Reed Street
Mill Valley, CA 94941

Dear Kelvin:

I am pleased to confirm Heidrick & Struggles, Inc.'s offer of employment to you.

We are looking forward to your arrival and want to set forth our understanding:

1. You will join our San Francisco Office recruiting staff with the title of Partner at a monthly base salary of \$20,833.33 (which is \$250,000.00 annually), commencing on your first day of employment, which shall be April 24, 2000, or the date you receive your employment pass making you eligible to work legally for us in the United States. Currently salaries are reviewed annually in November/December, so that your first salary review will be in November/December 2000.
2. You will first be eligible to be considered for a discretionary bonus for the bonus year ending in 2000. Currently all bonuses are paid in December and the following March. You understand that except for the signing bonus referred to below, all bonuses are discretionary and not earned until declared by the Board of Directors or appropriate committee of the Board of Directors, and that all bonuses, including the signing bonus referred to below, are payable only if you are in our employ on the bonus payment dates. A copy of our current U.S. Partner/Principal Cash Compensation Policy is enclosed with this letter.

Your total cash compensation will be subject to our GlobalShare program. As such, any bonus you receive (except for the signing bonus referred to below) may be partially paid in equity in accordance with our GlobalShare program.

As we discussed, you will be eligible to receive the following bonus:

- A. Signing Bonus. You will receive a signing (non-performance related) bonus of \$600,000.00 to be paid on your regular payroll date within 30 days of your hire date.

This payment to you is made subject to the condition that you not resign your employment during the first two years. If you should resign from our firm within two years from your employment start date, you will repay the entire

Four Embarcadero Center Suite 3570 San Francisco, CA 94111 Phone: 415/981-2854 FAX: 415/981-0482

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\$600,000.00 signing bonus within five (5) business days following your notice of resignation. You will be entitled to retain all interest or investment return realized from such payment. If you voluntarily resign within the first two years, you authorize us to deduct and/or offset the amount referred to in the foregoing sentence from any compensation or other sums that may be due to you at that time, and you will repay the balance, if any, after such deduction/offset of the \$600,000.00 remaining due to us.

Our actual Fee and SOB expectations of you are as follows:

Bonus Year	Fee	SOB
February 1, 2000 to December 31, 2000	\$2,000,000	\$2,500,000
January 1, 2001 to December 31, 2001	\$2,100,000	\$2,600,000
January 1, 2002 to December 31, 2002	\$2,700,000	\$2,700,000

with future years' numbers exceeding the foregoing (after inflation). You understand that you are expected to be a "self-starter" and you have stated that you will be developing business from your own contacts.

3. You have agreed to purchase within 60 days following your hire date, \$165,000.00 of Heidrick & Struggles, Inc. common stock on the market, and to send us a copy of your stockbrokers purchase confirmation evidencing such purchase. You have also agreed not to sell such shares for two (2) years following your purchase of such shares.
4. You will be eligible to participate in our benefit programs in accordance with the programs' written terms as set forth in plan documents. Copies of the booklets and Summary Plan Descriptions describing our group health, life/AD&D insurance, long-term disability, time-off benefits such as vacation, paid holidays, paid sick time, short-term disability salary continuation, and the Flexible Spending Account and Heidrick & Struggles, Inc. 401 (k) Profit-Sharing and Retirement Plan will be provided at a later date.
5. Our benefit programs, bonus programs, and policies are reviewed from time to time by the company's management, and our programs and policies may be modified, amended or completely terminated at any time.
6. Pursuant to the Immigration and Nationality Act, our company is required to verify the identity and employment authorization of all new hires. In order to comply with this legal obligation, we must complete an Employment Eligibility Verification Form I-9 within three days of hire. We have enclosed a Form I-9 for your review. Please note that you will need to provide either (i) one document from "List A" **or** (ii) one

HEIDRICK & STRUGGLES
Consultants in Executive Search

document from "List B" **and** one document from "List C" of the form (see page two of the enclosed I-9 Form). Your initial and continuing employment will be subject to your having the ability to work legally in the United States. If you anticipate having difficulty completing the Form I-9 or producing the required documents, please advise me as soon as possible.

7. You will be an "employee at will" unless or until we may otherwise agree in writing. This gives both of us maximum flexibility and permits either of us to terminate employment and compensation at any time with or without cause or notice except for such period of notice as may be expressly provided in writing under written company employment policies in effect at the time of such termination.
8. Two copies of an agreement relating to trade secrets, confidential information, clients, et cetera, are enclosed. We ask that all Partners sign this agreement. Please review and sign both copies and return one to me for processing. Of course, please call me if you have any questions about this agreement.
9. You have advised us that you have not signed any agreements that will, in any way, prohibit your joining our firm or performing your work with us.
10. This agreement, which contains our entire understanding, can be amended only in writing which is signed by you, the San Francisco Office Managing Partner, together with any one of the CEO, the CAO, or the President, the Americas of the company. You specifically acknowledge that no promises or commitments have been made to you that are not set forth in this letter.

To acknowledge your acceptance of our offer of employment, please sign and return to me the enclosed copy of this letter, together with the agreement referred to in Item 8 above.

Sincerely,

/s/ Jeffrey W. Hodge

Jeffrey W. Hodge
Office Managing Partner

Enclosures

cc: Patrick S. Pittard
David C. Anderson
Donald M. Kilinski
Richard D. Nelson

HEIDRICK & STRUGGLES
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Mr. Kelvin Thompson
December 29, 1999
Page Four

ACCEPTED:

/s/ Kelvin Thompson
Kelvin Thompson

04/07/00
Date

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HEIDRICK & STRUGGLES
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May 31, 2000

Jeffrey W. Hodge
Managing Partner

Mr. Kelvin J.R. Bolli-Thompson
234 Reed Street
Mill Valley, CA 94941

Dear Kelvin:

This letter will serve as a first amendment to your employment agreement dated December 29, 1999, between you and Heidrick & Struggles, Inc. ("Agreement") as follows:

1. The following paragraph is being added to Section 1 of your Agreement to read as follows:

"You will be a "Senior Partner-elect" which will entitle you to be automatically considered to be appointed the internal title of "Senior Partner" when such appointments are next made. This title will be in effect from the date you join the firm until the next Senior Partner appointment process."

2. Except as amended above, the Agreement remains in full force and effect without change.

To acknowledge acceptance of this amendment, please sign and return to me the enclosed copy of this letter.

Very truly yours,

/s/ Jeffrey W. Hodge
Jeffrey W. Hodge

Enclosure

ACCEPTED:

/s/ Kelvin J.R. Bolli-Thompson
Kelvin J.R. Bolli-Thompson

June 2, 2000
Date

APPROVED:

/s/ Richard D. Nelson
Richard D. Nelson

6-6-2000
Date

One California Street Suite 2400 San Francisco, CA 94111 Phone: 415/981-2854 Fax: 415/981-0482
Heidrick & Struggles, Inc. Offices in Principal Cities of the World www.heidrick.com

December 19, 2006

Mr. Kelvin J.R. Bolli-Thompson
234 Reed Street
Mill Valley, CA 94941

Dear Kelvin:

This letter will serve to amend your offer letter dated December 29, 1999, and the subsequent amendment to that letter dated May 31, 2000, between you and Heidrick & Struggles, Inc (“Agreement”).

This will confirm the proposed change to your Guaranteed Total Compensation Minimum (“GTCM”), which GTCM for the 2006 calendar year will consist of the following:

1. Base Fee/SOB Salary - Your Fee/SOB monthly salary is \$29,166.67 (which is equivalent to \$350,000.00 annually).
2. Management Salary - Your management monthly salary is \$12,500.00 (which is equivalent to \$150,000.00 annually).
3. Target Management Bonus - Your Target Management Bonus is \$150,000.00 (20% of which will be paid in equivalent value RSU’s), and, subject to the Company Performance Factor (CPF).
4. Fee/SOB Bonus - The expectation by the Company is for you to earn a minimum in Fee/SOB Bonus of \$850,000.00 (20% of which will be paid in RSU’s, valued at the time the Company makes such equity grants in 2007), and, subject to the Company Performance Factor (CPF).

Accordingly, your 2006 GTCM of \$1,500,000 will be subject to CPF (as noted in items 3 and 4 above). Plus, any bonus of any kind earned in 2006 (whether or not paid in 2006), will count toward any unearned portion of your Fee/SOB Bonus as set forth in item no. 4 above.

This Agreement will terminate as of 31 December 2006.

To acknowledge acceptance of this amendment, please sign and return to me the enclosed copy of this letter.

Sincerely,

/s/ Patricia Willard

Patricia Willard
Chief Human Resources Officer

Enclosure

ACCEPTED:

/s/ Kelvin J.R. Bolli-Thompson

Kelvin J.R. Bolli-Thompson

December 26, 2006

Date

SUBSIDIARIES OF REGISTRANT

BEIJING HEIDRICK & STRUGGLES INTERNATIONAL MANAGEMENT CONSULTING COMPANY LIMITED, a China Limited Partnership (Joint Venture 90% Ownership)

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

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

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

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

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

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

HEIDRICK & STRUGGLES AB, a Sweden corporation

HEIDRICK & STRUGGLES AG, a Switzerland corporation

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

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

HEIDRICK & STRUGGLES AUSTRALIA, LTD., an Illinois corporation

HEIDRICK & STRUGGLES BV, a Netherlands corporation

HEIDRICK & STRUGGLES CANADA, INC., a Canada corporation

HEIDRICK & STRUGGLES CONSULTORES de GESTAO Lda, a Portugal corporation

HEIDRICK & STRUGGLES DE CHILE LIMITADA, a Chile corporation

HEIDRICK & STRUGGLES DO BRASIL LTDA, a Brazilian corporation

HEIDRICK & STRUGGLES DUTCH PARTNERSHIP, a Netherlands partnership

HEIDRICK & STRUGGLES ESPANA, INC., an Illinois corporation

HEIDRICK & STRUGGLES FAR EAST LIMITED (Hong Kong), a Hong Kong corporation

HEIDRICK & STRUGGLES HOLDINGS DO BRASIL LTDA, a Brazilian corporation

HEIDRICK & STRUGGLES HONG KONG LTD., an Illinois corporation

HEIDRICK & STRUGGLES, INC., a Delaware corporation

HEIDRICK & STRUGGLES INTERIM EXECUTIVE GmbH, a Germany Limited Liability Company

HEIDRICK & STRUGGLES INTERNATIONAL SRL, an Italy corporation

HEIDRICK & STRUGGLES JAPAN, LTD., an Illinois corporation

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

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

HEIDRICK & STRUGGLES LTD., an Israel corporation

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

HEIDRICK & STRUGGLES Sp.zo.o, a Poland corporation

HEIDRICK & STRUGGLES SINGAPORE PTE LTD., a Singapore corporation

HEIDRICK & STRUGGLES TAIWAN LIMITED, a Taiwan corporation

HEIDRICK & STRUGGLES UK LIMITED, a UK corporation

HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG, GmbH, an Austria corporation

HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG GmbH & Co. KG, a Germany Limited Partnership

HEIDRICK & STRUGGLES UNTERNEHMENSBERATUNG VERWALTUNG, GmbH, a Germany Limited Liability Company

LEADERSONLINE EUROPE S.A.R.L, a Luxembourg corporation

LEADERSONLINE NETHERLANDS B.V., a Netherlands corporation

SHP ESOP, LTD., a UK corporation

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We consent to the incorporation by reference in the registration statements (No. 333-130143, No. 333-82424, No. 333-58118, No. 333-32544, and No. 333-73443) on Form S-8 of Heidrick & Struggles International, Inc. of our reports dated March 15, 2007, with respect to the consolidated balance sheets of Heidrick & Struggles International, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2006, and the related financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 and the effectiveness of internal control over financial reporting as of December 31, 2006, which reports appear in the December 31, 2006 annual report on Form 10-K of Heidrick & Struggles International, Inc.

Our report on the consolidated financial statements refers to the Company's change in method of accounting for pension and postretirement benefits effective December 31, 2006 and the change in method of accounting for share-based compensation effective January 1, 2006.

Chicago, Illinois
March 15, 2007

CERTIFICATION

I, L. Kevin Kelly, certify that:

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

Dated: March 15, 2007

/s/ L. Kevin Kelly

L. Kevin Kelly
Chief Executive Officer

CERTIFICATION

I, Eileen A. Kamerick, certify that:

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

Dated: March 15, 2007

/s/ Eileen A. Kamerick

Eileen A. Kamerick
Executive Vice President, Chief Financial Officer and
Chief Administrative Officer

CERTIFICATION

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

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

The Annual Report on Form 10-K for the year ended December 31, 2006 (the "Form 10-K") of the Company fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 15, 2007

/s/ L. Kevin Kelly

L. Kevin Kelly
Chief Executive Officer

CERTIFICATION

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

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

The Annual Report on Form 10-K for the year ended December 31, 2006 (the "Form 10-K") of the Company fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 15, 2007

/s/ Eileen A. Kamerick

Eileen A. Kamerick

Executive Vice President, Chief Financial Officer and Chief Administrative Officer