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

FORM 8-K

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

Date of Report (Date of earliest event reported): August 6, 2008

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

0-25837
(Commission File Number)

36-2681268
(IRS Employer
Identification No.)

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

60606-6303
(Zip Code)

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

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-

Item 2.02. Results of Operations and Financial Conditions

On August 6, 2008, Heidrick & Struggles International, Inc. issued a news release reporting its 2008 second quarter financial results. A copy of the news release is attached hereto as Exhibit 99.1 to this report and is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits.

| <u>Exhibit Number</u> | <u>Description</u> |
|---------------------------|---|
| 99.1 | Heidrick & Struggles International, Inc. Press Release Dated August 6, 2008 |

SIGNATURES

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC.
(Registrant)

Date: August 6, 2008

By: /s/ K. Steven Blake
Name: K. Steven Blake
Title: Executive Vice President, General Counsel & Secretary

News

FOR IMMEDIATE RELEASE

Heidrick & Struggles Reports Second Quarter 2008 Financial Results

CHICAGO (August 6, 2008) — Heidrick & Struggles International, Inc. (Nasdaq: HSII), the world's premier executive search and leadership consulting firm, today announced financial results for the second quarter ended June 30, 2008.

Consolidated net revenue of \$169.5 million increased 5.9 percent from \$160.1 million in the 2007 second quarter. The positive impact of changes in foreign currency exchange rates represented approximately 4 percentage points of the growth. Net revenue decreased 1.4 percent in the Americas, increased 1.7 percent in Europe (but decreased approximately 7 percent on a constant currency basis), and increased 50.6 percent in the Asia Pacific region (approximately 41 percent on a constant currency basis).

The number of executive searches confirmed in the quarter decreased 2.1 percent compared to the 2007 second quarter and 2.5 percent compared to the 2008 first quarter. The number of consultants at June 30, 2008 was 408, compared to 398 as of June 30, 2007, and 408 as of March 31, 2008. Productivity, as measured by annualized revenue per executive search consultant, increased to \$1.6 million from \$1.5 million in the 2007 second quarter. The average fee per executive search was \$122,200, compared to \$111,000 in last year's second quarter.

Chief Executive Officer L. Kevin Kelly said, "The strength of our global network and industry practice diversification drove second quarter results. The Asia Pacific region achieved record revenue and improved its operating margin compared to the first quarter, offsetting softness in the Americas and Europe regions. The Life Sciences, Business and Professional Services, and Education/Nonprofit industry groups each achieved record revenue quarters, which along with growth in the Technology and Industrial practices, offset weakness we saw in the Financial Services and Consumer industry

groups. We are also very pleased that initiatives we've taken to increase productivity led to a new record of \$1.6 million of annualized revenue per search consultant."

Consolidated salaries and employee benefits were \$117.3 million, an increase of 6.0 percent from \$110.7 million in the comparable quarter of 2007. This increase primarily reflects an increase in fixed costs related to a 9.4 percent year-over-year increase in employee headcount and an increase in variable expense largely related to higher bonus accruals. Salaries and employee benefits as a percentage of net revenue were 69.2 percent for the quarter, the same as in the 2007 second quarter.

Consolidated general and administrative expenses were \$33.5 million, up 12.3 percent from \$29.9 million reported in the comparable prior-year period. As a percentage of net revenue, consolidated general and administrative expenses were 19.8 percent, compared to 18.7 percent in the 2007 second quarter. The year-over-year increase is primarily related to an increase in premise-related costs for new offices and lease renewals for existing offices.

Operating income decreased 4.3 percent to \$18.7 million from 2007 second quarter operating income of \$19.5 million. The operating margin (measured as a percentage of net revenue) was 11.0 percent, compared to 12.2 percent in the 2007 second quarter.

Net income was \$12.7 million and diluted earnings per share were \$0.72, reflecting an effective tax rate in the quarter of 38.0 percent. These results compare to net income in the 2007 second quarter of \$21.0 million and diluted earnings per share of \$1.11, which reflected an effective tax rate in the quarter of 2.3 percent as a result of the company's release of a valuation allowance related to certain of its foreign tax credits.

Net cash generated by operating activities was \$36.0 million, compared to \$30.0 million in the 2007 second quarter. Cash and cash equivalents at June 30, 2008 were \$146.1 million, compared to cash and cash equivalents and short-term investments of \$180.0 million at June 30, 2007 and \$142.8 million at March 31, 2008.

During the second quarter, the company repurchased 773,414 shares of its common stock at an average price of \$28.23 per share for a total of \$21.8 million. As of June 30, 2008, \$28.2 million remained available under the \$50 million stock repurchase program authorized by the company's Board of Directors in February 2008.

Regional Review for the 2008 Second Quarter

In the second quarter, the Americas represented 51 percent of consolidated net revenue, Europe represented 32 percent, and Asia Pacific was 17 percent. This compares to the 2007 second quarter when the Americas represented 55 percent, Europe was 33 percent and Asia Pacific was 12 percent.

Net revenue in the Americas of \$87.0 million decreased 1.4 percent from the second quarter of 2007. The Technology, Industrial, and Education/Nonprofit industry groups delivered strong year-over-year net revenue growth, but this growth was offset by weakness in the Consumer and Financial Services industry groups. Net revenue in the Americas increased 12.5 percent compared to the 2008 first quarter driven largely by growth in the Financial Services industry group. Operating income of \$12.6 million decreased 35.3 percent year over year, and the operating margin was 14.4 percent, compared to 22.0 percent in the 2007 second quarter. The decrease in operating income and the resulting operating margin are a result of an increase in salaries and employee benefits expense, as well as premise-related expenses for new offices and lease renewals for existing offices. Consultant headcount in the Americas was 213 at June 30, 2008 compared to 207 at March 31, 2008 and 212 at June 30, 2007.

In Europe, net revenue of \$53.3 million increased 1.7 percent from the prior-year quarter; however, on a constant currency basis it declined approximately 7 percent. All of the industry groups in this region achieved double-digit net revenue growth except Financial Services, which declined year over year. Compared to the 2008 first quarter, net revenue in Europe increased 0.9 percent. Operating income increased to \$7.7 million and the operating margin improved to 14.4 percent, compared to 14.1 percent in the 2007 second quarter. Consultant headcount in Europe was 120 at June 30, 2008 compared to 131 at March 31, 2008 and at June 30, 2007.

In Asia Pacific, net revenue of \$29.2 million increased 50.6 percent year over year and increased 27.2 percent compared to the 2008 first quarter. On a constant currency basis, year-over-year net revenue growth in Asia Pacific was approximately 41 percent. The Financial Services, Industrial, Technology, and Business and Professional Services industry groups were the primary drivers of growth. Operating income of \$6.6 million represents an increase of 27.3 percent year over year and the operating margin was 22.7 percent, compared to 26.8 percent in the 2007 second quarter. The lower operating margin reflects planned investments to grow this region implemented during the past year, including salaries and employee benefits expense associated with new consultant hires who are not yet fully productive as well as infrastructure costs related to new and existing offices. Consultant headcount in Asia Pacific was 75 at June 30, 2008, compared to 70 at March 31, 2008, and 55 at June 30, 2007.

Six Months Results

For the six months ended June 30, 2008, consolidated net revenue was \$322.7 million, a 6.4 percent increase from \$303.2 million in the first six months of 2007. The number of executive searches confirmed in the first six months of 2008 declined 2.4 percent compared to the first six months of 2007. Operating income in the first six months of 2008 was \$29.5 million, representing an operating margin of 9.2 percent, compared to operating income in the first six months of 2007 of \$35.8 million and an operating margin of 11.8 percent. Net income for the first six months of 2008 was \$19.8 million, and diluted earnings per share were \$1.10, reflecting an effective tax rate of 38.8 percent. For the same period of 2007, net income was \$31.1 million and diluted earnings per share were \$1.64, reflecting an effective tax rate of 22.0 percent, which included a net tax benefit of \$8.5 million realized in the 2007 second quarter related to a tax valuation allowance reversal related to certain foreign tax credits.

2008 Outlook

Based on current economic conditions in each of its regions and after considering its other operating metrics, the company expects to achieve net revenue in 2008 of between \$650 and \$660 million and continues to target a full-year operating margin of approximately 13%. The company's ability to achieve this guidance is based on its performance to date, but is also dependent on achieving anticipated cost savings from certain initiatives it has implemented, effectively deploying its resources, and reacting quickly to any unexpected deterioration in market conditions. Net income and earnings

per share in 2008 are expected to reflect a full-year effective tax rate of between 38% and 40%. Quarterly and full-year tax estimates can be impacted by country level results and can also vary significantly by reporting period as a result of discrete items that require immediate recognition in a particular period.

“We are confident that worldwide demand for executive talent, driven in part by secular and demographic trends, will continue to provide us with opportunities for growth,” Kelly said. “We expect there will be continued pockets of softness in our business in the Americas and in Europe, but our consolidated results will highlight the advantages of being a global firm with consultants in more than 30 countries around the world specializing in many industries. We are aggressively pursuing the benefit of cost savings initiatives identified in the second quarter as well as additional measures we have recently taken, while balancing investments in our business that will position us to capitalize on improving market conditions.”

Quarterly Conference Call

Executives of Heidrick & Struggles will host a conference call to review 2008 second quarter results today, August 6, at 9:00 am central time. Participants may access the company’s call and supporting slides at www.heidrick.com. For those unable to participate on the live call, a webcast and copy of the slides will be archived at www.heidrick.com and available for up to 30 days following the investor call.

About Heidrick & Struggles International, Inc.

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

Safe Harbor Statement

This press release contains forward-looking statements. The forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate and management’s beliefs and assumptions. Forward-looking statements may be identified by the use of words such as “expects,” “anticipates,”

“intends,” “plans,” “believes,” “seeks,” “estimates,” “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; our ability to realize our tax loss carryforwards; the timing of a partial release or full reversal of deferred tax asset valuation allowance; the mix of profit and loss by country; an impairment of our goodwill and other intangible assets; and delays in the development and/or implementation of new technology and systems. Our reports filed with the U.S. Securities and Exchange Commission also include information on factors that may affect the outcome of forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

###

Contacts

Investors & Analysts:

Julie Creed, VP, Investor Relations: +1 312 496 1774 or jcreed@heidrick.com

Media:

Eric Sodorff, Director, Corporate Communications: +1 312 496 1613 or esodorff@heidrick.com

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

| | Three Months Ended June 30, | | \$ Change | % Change |
|--|--------------------------------|------------|-----------|----------|
| | 2008 | 2007 | | |
| Revenue: | | | | |
| Revenue before reimbursements (net revenue) | \$ 169,518 | \$ 160,053 | \$ 9,465 | 5.9% |
| Reimbursements | 8,297 | 7,308 | 989 | 13.5% |
| Total revenue | 177,815 | 167,361 | 10,454 | 6.2% |
| Operating expenses: | | | | |
| Salaries and employee benefits | 117,318 | 110,686 | 6,632 | 6.0% |
| General and administrative expenses | 33,533 | 29,855 | 3,678 | 12.3% |
| Reimbursed expenses | 8,297 | 7,308 | 989 | 13.5% |
| Total operating expenses | 159,148 | 147,849 | 11,299 | 7.6% |
| Operating income | 18,667 | 19,512 | (845) | -4.3% |
| Non-operating income (expense): | | | | |
| Interest income | 942 | 1,627 | | |
| Interest expense | (37) | (8) | | |
| Other, net | 982 | 384 | | |
| Net non-operating income | 1,887 | 2,003 | | |
| Income before income taxes | 20,554 | 21,515 | | |
| Provision for income taxes | 7,810 | 496 | | |
| Net income | \$ 12,744 | \$ 21,019 | | |
| Basic weighted average common shares outstanding | 16,884 | 18,034 | | |
| Diluted weighted average common shares outstanding | 17,672 | 18,981 | | |
| Basic earnings per common share | \$ 0.75 | \$ 1.17 | | |
| Diluted earnings per common share | \$ 0.72 | \$ 1.11 | | |
| Salaries and employee benefits as a percentage of net revenue | 69.2% | 69.2% | | |
| General and administrative expense as a percentage of net revenue | 19.8% | 18.7% | | |
| Operating income as a percentage of net revenue | 11.0% | 12.2% | | |
| Effective tax rate | 38.0% | 2.3% | | |

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

| | Three Months Ended June 30, | | | | 2008 Margin * | 2007 Margin * |
|---|-----------------------------|------------------|-----------------|----------|------------------|------------------|
| | 2008 | 2007 | \$ Change | % Change | | |
| Revenue: | | | | | | |
| Americas | \$ 87,002 | \$ 88,204 | \$ (1,202) | -1.4% | | |
| Europe | 53,344 | 52,475 | 869 | 1.7% | | |
| Asia Pacific | 29,172 | 19,374 | 9,798 | 50.6% | | |
| Revenue before reimbursements (net revenue) | 169,518 | 160,053 | 9,465 | 5.9% | | |
| Reimbursements | 8,297 | 7,308 | 989 | 13.5% | | |
| Total revenue | <u>\$177,815</u> | <u>\$167,361</u> | <u>\$10,454</u> | 6.2% | | |
| Operating Income: | | | | | | |
| Americas | \$ 12,558 | \$ 19,421 | \$ (6,863) | -35.3% | 14.4% | 22.0% |
| Europe | 7,680 | 7,385 | 295 | 4.0% | 14.4% | 14.1% |
| Asia Pacific | 6,619 | 5,199 | 1,420 | 27.3% | 22.7% | 26.8% |
| Total regions | 26,857 | 32,005 | (5,148) | -16.1% | 15.8% | 20.0% |
| Corporate | (8,190) | (12,493) | 4,303 | 34.4% | | |
| Operating income | <u>\$ 18,667</u> | <u>\$ 19,512</u> | <u>\$ (845)</u> | -4.3% | 11.0% | 12.2% |

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

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

| | Six Months Ended June 30, | | \$ Change | % Change |
|--|------------------------------|-----------|-----------|----------|
| | 2008 | 2007 | | |
| Revenue: | | | | |
| Revenue before reimbursements (net revenue) | \$322,657 | \$303,179 | \$19,478 | 6.4% |
| Reimbursements | 15,099 | 13,758 | 1,341 | 9.7% |
| Total revenue | 337,756 | 316,937 | 20,819 | 6.6% |
| Operating expenses: | | | | |
| Salaries and employee benefits | 227,924 | 209,045 | 18,879 | 9.0% |
| General and administrative expenses | 65,190 | 58,295 | 6,895 | 11.8% |
| Reimbursed expenses | 15,099 | 13,758 | 1,341 | 9.7% |
| Total operating expenses | 308,213 | 281,098 | 27,115 | 9.6% |
| Operating income | 29,543 | 35,839 | (6,296) | -17.6% |
| Non-operating income (expense): | | | | |
| Interest income | 3,000 | 3,503 | | |
| Interest expense | (54) | (46) | | |
| Other, net | (105) | 558 | | |
| Net non-operating income | 2,841 | 4,015 | | |
| Income before income taxes | 32,384 | 39,854 | | |
| Provision for income taxes | 12,572 | 8,759 | | |
| Net income | \$ 19,812 | \$ 31,095 | | |
| Basic weighted average common shares outstanding | 17,090 | 17,939 | | |
| Diluted weighted average common shares outstanding | 18,066 | 19,002 | | |
| Basic earnings per common share | \$ 1.16 | \$ 1.73 | | |
| Diluted earnings per common share | \$ 1.10 | \$ 1.64 | | |
| Salaries and employee benefits as a percentage of net revenue | 70.6% | 69.0% | | |
| General and administrative expense as a percentage of net revenue | 20.2% | 19.2% | | |
| Operating income as a percentage of net revenue | 9.2% | 11.8% | | |
| Effective tax rate | 38.8% | 22.0% | | |

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

| | Six Months Ended June 30, | | | | 2008 | 2007 |
|---|---------------------------|------------------|-------------------|----------|----------|----------|
| | 2008 | 2007 | \$ Change | % Change | Margin * | Margin * |
| Revenue: | | | | | | |
| Americas | \$ 164,339 | \$ 171,603 | \$ (7,264) | -4.2% | | |
| Europe | 106,210 | 95,030 | 11,180 | 11.8% | | |
| Asia Pacific | 52,108 | 36,546 | 15,562 | 42.6% | | |
| Revenue before reimbursements (net revenue) | 322,657 | 303,179 | 19,478 | 6.4% | | |
| Reimbursements | 15,099 | 13,758 | 1,341 | 9.7% | | |
| Total revenue | <u>\$337,756</u> | <u>\$316,937</u> | <u>\$ 20,819</u> | 6.6% | | |
| Operating Income: | | | | | | |
| Americas | \$ 24,282 | \$ 36,089 | \$(11,807) | -32.7% | 14.8% | 21.0% |
| Europe | 12,941 | 11,184 | 1,757 | 15.7% | 12.2% | 11.8% |
| Asia Pacific | 9,341 | 9,578 | (237) | -2.5% | 17.9% | 26.2% |
| Total regions | 46,564 | 56,851 | (10,287) | -18.1% | 14.4% | 18.8% |
| Corporate | (17,021) | (21,012) | 3,991 | 19.0% | | |
| Operating income | <u>\$ 29,543</u> | <u>\$ 35,839</u> | <u>\$ (6,296)</u> | -17.6% | 9.2% | 11.8% |

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

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

| | June 30, 2008 (Unaudited) | December 31, 2007 |
|---|---------------------------------|--------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 146,074 | \$ 260,580 |
| Short-term investments | — | 22,275 |
| Accounts receivable, net of allowance for doubtful accounts | 115,828 | 82,240 |
| Other receivables | 7,072 | 5,868 |
| Prepaid expenses | 21,159 | 15,026 |
| Other current assets | 1,537 | 1,419 |
| Income taxes recoverable, net | 4,039 | — |
| Deferred income taxes, net | 15,211 | 15,290 |
| Total current assets | <u>310,920</u> | <u>402,698</u> |
| Non-current assets: | | |
| Property and equipment, net | 19,615 | 18,730 |
| Restricted cash | 9,806 | 9,826 |
| Assets designated for retirement and pension plans | 28,106 | 26,067 |
| Investments | 9,831 | 7,832 |
| Other non-current assets | 6,002 | 6,296 |
| Goodwill | 92,223 | 84,217 |
| Other intangible assets, net | 15,621 | 15,363 |
| Deferred income taxes, net | 40,986 | 45,855 |
| Total non-current assets | <u>222,190</u> | <u>214,186</u> |
| Total assets | <u>\$ 533,110</u> | <u>\$ 616,884</u> |
| Current liabilities: | | |
| Accounts payable | \$ 8,251 | \$ 8,699 |
| Accrued salaries and employee benefits | 113,763 | 197,954 |
| Other accrued liabilities | 43,856 | 44,376 |
| Current portion of accrued restructuring charges | 2,741 | 2,813 |
| Income taxes payable, net | — | 995 |
| Total current liabilities | <u>168,611</u> | <u>254,837</u> |
| Non-current liabilities: | | |
| Retirement and pension plans | 33,271 | 28,831 |
| Non-current portion of accrued restructuring charges | 5,439 | 6,735 |
| Other non-current liabilities | 24,276 | 16,681 |
| Total non-current liabilities | <u>62,986</u> | <u>52,247</u> |
| Stockholders' equity | <u>301,513</u> | <u>309,800</u> |
| Total liabilities and stockholders' equity | <u>\$ 533,110</u> | <u>\$ 616,884</u> |

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

| | Three Months Ended June 30, | |
|---|--------------------------------|------------------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net income | \$ 12,744 | \$ 21,019 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,653 | 2,816 |
| Deferred income taxes | 3,457 | (8,728) |
| Net realized and unrealized (gains) losses on equity and warrant portfolio | (22) | 64 |
| Stock-based compensation expense, net | 5,920 | 10,488 |
| Cash paid for restructuring charges | (681) | (972) |
| Changes in assets and liabilities: | | |
| Trade and other receivables | (7,346) | (13,806) |
| Accounts payable | 668 | 1,902 |
| Accrued expenses | 27,274 | 23,639 |
| Income taxes recoverable, net | (4,319) | (6,904) |
| Other assets and liabilities, net | (4,311) | 463 |
| Net cash provided by operating activities | <u>36,037</u> | <u>29,981</u> |
| Cash flows from investing activities: | | |
| Restricted cash | (53) | (1,236) |
| Acquisition of businesses, net of cash acquired | (10,874) | (235) |
| Capital expenditures | (1,616) | (1,093) |
| Proceeds from sales of equity securities | 346 | 80 |
| Payments to consultants related to sales of equity securities | (151) | (35) |
| Proceeds from sales of short-term investments | — | 29,825 |
| Purchases of short-term investments | — | (70,775) |
| Proceeds from sale of a business | 1,559 | — |
| Other, net | 8 | 10 |
| Net cash used in investing activities | <u>(10,781)</u> | <u>(43,459)</u> |
| Cash flows from financing activities: | | |
| Proceeds from stock options exercised | 249 | 8,750 |
| Purchases of treasury stock | (23,974) | (12,155) |
| Excess tax benefits related to stock-based compensation | — | 3,590 |
| Cash dividends paid | (2,235) | — |
| Other | (12) | (835) |
| Net cash used in financing activities | <u>(25,972)</u> | <u>(650)</u> |
| Effect of foreign currency exchange rates on cash and cash equivalents | <u>3,967</u> | <u>1,846</u> |
| Net increase (decrease) in cash and cash equivalents | 3,251 | (12,282) |
| Cash and cash equivalents at beginning of period | 142,823 | 121,476 |
| Cash and cash equivalents at end of period | <u>\$146,074</u> | <u>\$109,194</u> |
| Supplemental schedule of noncash financing activities: | | |
| Beginning of period—Accrued treasury stock purchases | \$ 2,847 | \$ 724 |
| Treasury stock purchases | 21,833 | 12,451 |
| Cash paid for treasury stock purchases | (23,974) | (12,155) |
| Accrued treasury stock purchases | <u>\$ 706</u> | <u>\$ 1,020</u> |

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

| | Six Months Ended June 30, | |
|---|------------------------------|-------------------|
| | 2008 (Unaudited) | 2007 |
| Cash flows from operating activities: | | |
| Net income | \$ 19,812 | \$ 31,095 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 5,360 | 5,516 |
| Deferred income taxes | 4,975 | (8,444) |
| Net realized and unrealized losses on equity and warrant portfolio | 2 | 123 |
| Stock-based compensation expense, net | 12,569 | 18,047 |
| Cash paid for restructuring charges | (1,405) | (2,047) |
| Changes in assets and liabilities: | | |
| Trade and other receivables | (33,783) | (33,554) |
| Accounts payable | 361 | 682 |
| Accrued expenses | (76,963) | (41,888) |
| Income taxes recoverable, net | (7,093) | (1,847) |
| Other assets and liabilities, net | (7,493) | (6,097) |
| Net cash used in operating activities | <u>(83,658)</u> | <u>(38,414)</u> |
| Cash flows from investing activities: | | |
| Restricted cash | 138 | (1,236) |
| Acquisition of businesses, net of cash acquired | (11,045) | (1,261) |
| Capital expenditures | (5,168) | (3,010) |
| Proceeds from sales of equity securities | 426 | 305 |
| Payments to consultants related to sales of equity securities | (169) | (124) |
| Proceeds from sales of short-term investments | 22,275 | 81,325 |
| Purchases of short-term investments | — | (78,725) |
| Proceeds from sale of a business | 1,559 | — |
| Other, net | 8 | 17 |
| Net cash provided by (used in) investing activities | <u>8,024</u> | <u>(2,709)</u> |
| Cash flows from financing activities: | | |
| Proceeds from stock options exercised | 580 | 16,983 |
| Purchases of treasury stock | (41,987) | (24,887) |
| Excess tax benefits related to stock-based compensation | — | 7,571 |
| Cash dividends paid | (4,481) | — |
| Other | 128 | 293 |
| Net cash used in financing activities | <u>(45,760)</u> | <u>(40)</u> |
| Effect of foreign currency exchange rates on cash and cash equivalents | | |
| | 6,888 | 2,917 |
| Net decrease in cash and cash equivalents | (114,506) | (38,246) |
| Cash and cash equivalents at beginning of period | 260,580 | 147,440 |
| Cash and cash equivalents at end of period | <u>\$ 146,074</u> | <u>\$ 109,194</u> |
| Supplemental schedule of noncash financing activities: | | |
| Beginning of period—Accrued treasury stock purchases | \$ 1,605 | \$ — |
| Treasury stock purchases | 41,088 | 25,907 |
| Cash paid for treasury stock purchases | (41,987) | (24,887) |
| Accrued treasury stock purchases | <u>\$ 706</u> | <u>\$ 1,020</u> |