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

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2002 or

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

For the transition period from to

Commission File Number 0-25837

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in its Charter)

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

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

(Address of Principal Executive Offices)

(312) 496-1200

(Registrant's Telephone Number, Including Area Code)

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, and (2) has been subject to such filing requirements for the past 90 days. Yes X No

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

The number of shares outstanding of the Company's common stock as of August 7, 2002 was 18,123,570.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

| | June 30, 2002 (unaudited) | December 31, 2001 |
| --- | --- | --- |
| Current assets: | | |
| Cash and cash equivalents | $ 84,952 | $108,732 |
| Accounts receivable, net of allowance for doubtful accounts | 71,619 | 54,241 |
| Other receivables | 3,530 | 5,870 |
| Prepaid expenses | 11,807 | 11,445 |
| Income taxes recoverable | 2,675 | 22,958 |
| Deferred income taxes, net | 36,575 | 36,605 |
| Total current assets | 211,158 | 239,851 |
| Non-current assets: | | |
| Property and equipment, net | 44,920 | 54,364 |
| Assets designated for pension plans | 19,069 | 16,624 |
| Investments | 6,681 | 14,836 |
| Other non-current assets | 10,198 | 14,637 |
| Income taxes recoverable | 15,536 | - |
| Deferred income taxes, net | 7,598 | 7,089 |
| Goodwill, net | 51,829 | 51,110 |
| Other intangibles, net | 11,692 | 12,595 |
| Total non-current assets | 167,523 | 171,255 |
| Total assets | $378,681 | $411,106 |

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

| | June 30, 2002 (unaudited) | December 31, 2001 |
|---|---|---|
| Current liabilities: | | |
| Current maturities of long-term debt | $ 2,618 | $ 2,480 |
| Accounts payable | 8,469 | 13,391 |
| Accrued expenses: | | |
| Salaries and employee benefits | 73,128 | 101,341 |
| Other | 37,710 | 29,853 |
| Total current liabilities | 121,925 | 147,065 |
| Non-current liabilities: | | |
| Long-term debt, less current maturities | 1,216 | 1,959 |
| Retirement and pension plans | 22,948 | 19,092 |
| Non-current portion of special charges | 16,097 | 13,282 |
| Other non-current liabilities | 259 | 117 |
| Total non-current liabilities | 40,520 | 34,450 |
| Total liabilities | 162,445 | 181,515 |
| Stockholders' equity | | |
| Preferred stock, $.01 par value, 10,000,000 shares authorized, no shares issued at June 30, 2002 and December 31, 2001. | - | - |
| Common stock, $.01 par value, 100,000,000 shares authorized, of which 18,126,436 and 18,040,779 shares were issued and outstanding at June 30, 2002 and December 31, 2001, respectively. | 196 | 195 |
| Treasury stock at cost, 1,439,532 and 1,435,500 shares at June 30, 2002 and December 31, 2001, respectively. | (27,540) | (27,459) |
| Additional paid-in capital | 261,564 | 258,699 |
| Retained earnings (accumulated deficit) | (7,197) | 13,935 |
| Cumulative foreign currency translation adjustment | (1,975) | (5,881) |
| Unrealized gain on available-for-sale investments, net of tax | 27 | 9 |
| Deferred compensation | (8,839) | (9,907) |
| Total stockholders' equity | 216,236 | 229,591 |
| Total liabilities and stockholders' equity | $ 378,681 | $ 411,106 |

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Revenue: | | | | |
| Revenue before reimbursements (net revenue) | $ 93,476 | $123,171 | $185,199 | $262,439 |
| Reimbursements | 6,834 | 7,192 | 13,317 | 14,264 |
| Total revenue | 100,310 | 130,363 | 198,516 | 276,703 |
| Operating expenses: | | | | |
| Salaries and employee benefits | 64,273 | 80,550 | 133,170 | 167,640 |
| General and administrative expenses | 28,247 | 41,740 | 56,060 | 86,069 |
| Reimbursed expenses | 6,834 | 7,192 | 13,317 | 14,264 |
| Special charges | - | 8,163 | 23,169 | 8,163 |
| Total operating expenses | 99,354 | 137,645 | 225,716 | 276,136 |
| Operating income (loss) | 956 | (7,282) | (27,200) | 567 |
| Non-operating income (expense): | | | | |
| Interest income | 383 | 1,419 | 911 | 3,480 |
| Interest expense | (37) | (38) | (88) | (79) |
| Realized gains on investments | 47 | 394 | 47 | 648 |
| Net unrealized losses on derivative instruments | (1,432) | (1,194) | (1,289) | (2,669) |
| Write-down of long-term investment | (5,000) | - | (5,000) | - |
| Other, net | (144) | (264) | 107 | (426) |
| Net non-operating income (expense) | (6,183) | 317 | (5,312) | 954 |
| Income (loss) before income taxes and cumulative effect of accounting change | (5,227) | (6,965) | (32,512) | 1,521 |
| Provision for (benefit from) income taxes | (1,830) | (2,995) | (11,380) | 654 |
| Net income (loss) before cumulative effect of accounting change | (3,397) | (3,970) | (21,132) | 867 |
| Cumulative effect of accounting change, net of tax | - | - | - | 4,494 |
| Net income (loss) | $ (3,397) | $ (3,970) | $ (21,132) | $ 5,361 |
| Basic earnings (loss) per common share: | | | | |
| Income (loss) before cumulative effect of accounting change | $ (0.19) | $ (0.21) | $ (1.17) | $ 0.04 |
| Cumulative effect of accounting change | - | - | - | 0.23 |
| Total basic earnings (loss) per common share | $ (0.19) | $ (0.21) | $ (1.17) | $ 0.28 |
| Diluted earnings (loss) per common share: | | | | |
| Income (loss) before cumulative effect of accounting change | $ (0.19) | $ (0.21) | $ (1.17) | $ 0.04 |
| Cumulative effect of accounting change | - | - | - | 0.22 |
| Total diluted earnings (loss) per common share | $ (0.19) | $ (0.21) | $ (1.17) | $ 0.26 |
| Weighted average common shares outstanding: | | | | |
| Basic | 18,098 | 19,244 | 18,074 | 19,309 |
| Diluted | 18,098 | 19,244 | 18,074 | 20,458 |

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(in thousands)
(unaudited)

| | Common Stock | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Shares Outstanding | Amount | Treasury Stock | Additional Paid-in Capital | Retained Earnings | Other Comprehensive Income (Loss) | Deferred Compensation | Total |
| Balance as of December 31, 2001 | 18,041 | $ 195 | $(27,459) | $ 258,699 | $ 13,935 | $ (5,872) | $ (9,907) | $ 229,591 |
| Net loss | | - | - | - | (21,132) | - | - | (21,132) |
| Other comprehensive loss: | | | | | | | | |
| Unrealized loss on available-for-sale investments, (pretax $28) | | - | - | - | - | 18 | - | 18 |
| Foreign currency translation adjustment | | - | - | - | - | 3,906 | - | 3,906 |
| Total comprehensive loss | | - | - | - | (21,132) | 3,924 | - | (17,208) |
| Treasury and common stock transactions: | | | | | | | | |
| Issuance of common stock | 37 | 1 | - | 737 | - | - | - | 738 |
| Exercise of stock options | 34 | - | - | 484 | - | - | - | 484 |
| Purchases of treasury stock | (4) | - | (81) | - | - | - | - | (81) |
| Compensation related to performance share plan | | - | - | 1,171 | - | - | - | 1,171 |
| Issuance of restricted stock units | | - | - | 1,954 | - | - | (1,954) | - |
| Forfeitures of restricted stock units | | - | - | (1,317) | - | - | 488 | (829) |
| Vesting of restricted stock units | 18 | - | - | (164) | - | - | - | (164) |
| Amortization of deferred compensation | - | - | - | - | - | - | 2,534 | 2,534 |
| Balance as of June 30, 2002 | 18,126 | $ 196 | $(27,540) | $ 261,564 | $ (7,197) | $ (1,948) | $ (8,839) | $ 216,236 |

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

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

| | Six Months Ended June 30, 2002 | Six Months Ended June 30, 2001 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ (21,132) | $ 5,361 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 7,589 | 10,439 |
| Realized gains on investments | (47) | (648) |
| Deferred income taxes | 505 | (3,971) |
| Net unrealized losses on derivative instruments | 1,289 | 2,669 |
| Cumulative effect of accounting change, net of tax | - | (4,494) |
| Write-down of long-term investment | 5,000 | - |
| Stock-based compensation expense, net | 3,789 | 1,458 |
| Special charges | 23,169 | 8,163 |
| Cash paid for special charges | (13,453) | (1,538) |
| Changes in assets and liabilities: | | |
| Trade and other receivables | (13,306) | 10,960 |
| Accounts payable | (5,331) | 4,008 |
| Accrued expenses | (19,733) | (45,357) |
| Income taxes recoverable, current | 20,107 | - |
| Income taxes payable | - | (12,947) |
| Income taxes recoverable, non-current | (15,536) | - |
| Other, net | 6,999 | (2,025) |
| Net cash used in operating activities | (20,091) | (27,922) |
| Cash flows from investing activities: | | |
| Acquisitions, net of cash acquired | - | (810) |
| Purchases of property and equipment | (3,185) | (11,402) |
| Proceeds from sales of equity securities, net | 127 | 648 |
| Other, net | (203) | 2,471 |
| Net cash used in investing activities | (3,261) | (9,093) |
| Cash flows from financing activities: | | |
| Proceeds from stock options exercised | 484 | 395 |
| Purchases of treasury stock, net of reissuances | (81) | (7,320) |
| Payments of long-term debt | (913) | (736) |
| Net cash used in financing activities | (510) | (7,661) |
| Effect of foreign currency exchange rates on cash and cash equivalents | 82 | (6,791) |
| Net decrease in cash and cash equivalents | (23,780) | (51,467) |
| Cash and cash equivalents: | | |
| Beginning of period | 108,732 | 184,836 |
| End of period | $ 84,952 | $ 133,369 |

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

## 1. Interim Financial Data

The accompanying unaudited consolidated financial statements of Heidrick & Struggles International, Inc. and Subsidiaries (the "Company"), included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates. In the opinion of management, the statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly the Company's financial position, results of operations, stockholders' equity and cash flows. Certain prior year amounts have been reclassified to conform to the 2002 classifications. These financial statements and notes are to be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included in the Company's Annual Report to Shareholders on Form 10-K for the year ended December 31, 2001, as filed with the Securities and Exchange Commission on March 29, 2002.

## 2. Recently Issued Financial Accounting Standards

In October 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." This statement establishes a number of rules for the recognition, measurement and display of long-lived assets which are impaired and either held for sale or for continuing use within the business. In addition, the statement broadly expands the definition of a discontinued operation to individual reporting units or asset groupings for which identifiable cash flows exist. The recognition of discontinued operations will become more common as a result of these new guidelines. The Company adopted SFAS No. 144 on January 1, 2002. The Company does not anticipate that adoption of SFAS No. 144 will have a material impact on its financial condition or results of operations.

In November 2001, the Emerging Issues Task Force reached a consensus on Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred," (EITF No. 01-14). EITF No. 01-14 establishes that reimbursements received for certain out-of-pocket expenses should be reported as revenue. The Company adopted this guidance in 2002. Historically, the Company classified reimbursements of out-of-pocket expenses as a reduction of operating expenses. The change in presentation has no impact on the Company's operating income (loss). Prior period information was revised to reflect the change in presentation.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement requires companies to recognize costs associated with exit or disposal activities when they are incurred and can be measured at fair value rather than at the date of a commitment to an exit or disposal plan. This Statement also requires companies to disclose, for each reportable segment, the exit or disposal activity costs incurred in the period and the cumulative amount incurred, net of any changes in the liability, with an explanation of the reasons for the changes. Companies will also be required to disclose the total amount of costs expected to be incurred in connection with the exit or disposal activity. The new requirements are effective prospectively for exit and disposal activities initiated after December 31, 2002. The Company does not anticipate that adoption of SFAS No. 146 will have a material impact on its financial condition or results of operations.

3. Derivative Instruments

The Company receives warrants for equity securities in its client companies, in addition to its 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. Upon adoption of SFAS No. 133 on January 1, 2001, subsequent changes in the fair value of the derivatives are recorded in earnings. Each quarter's earnings are affected by the fluctuations in the fair value of these derivative instruments. In the three months ended June 30, 2002 and 2001, respectively, the Company recognized unrealized losses on derivative instruments of $1.4 million and $1.2 million, net of consultants' bonuses and administrative and other costs. In the six months ended June 30, 2002 and 2001, respectively, the Company recognized unrealized losses on derivative instruments of $1.3 million and $2.7 million, net of consultants' bonuses and administrative and other costs.

4. Cumulative Effect of Change in Accounting Principle

As a result of the adoption of SFAS No. 133 on January 1, 2001, the Company recorded, as the cumulative effect of an accounting change, a transition adjustment to income of $4.5 million, net of consultants' bonuses, administrative and other costs, and taxes (See Note 3).

5. Goodwill and Other Intangible Assets

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." Under the new rule, goodwill and intangible assets that have indefinite useful lives are no longer amortized. Rather, these assets are subject to, at a minimum, an annual assessment for impairment by applying a fair-value based test. Intangible assets that have finite useful lives continue to be amortized over their useful lives.

The Company adopted SFAS No. 142 on January 1, 2002. A fair-value based test was performed and indicated that the fair-value of each reporting unit exceeded its carrying amount. As a result, no impairment charge was recorded. Intangible assets continue to be amortized over their estimated useful lives and have been segregated on a separate line in the Consolidated Balance Sheets. As of January 1, 2002, the Company no longer amortizes goodwill. Operating results excluding goodwill amortization are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Reported net income (loss) | $ (3,397) | $ (3,970) | $ (21,132) | $ 5,361 |
| Addback: Goodwill amortization, net of tax | -- | 295 | -- | 615 |
| Adjusted net income (loss) | $ (3,397) | $ (3,675) | $ (21,132) | $ 5,976 |
| Basic earnings (loss) per common share: | | | | |
| Reported net income (loss) | $ (0.19) | $ (0.21) | $ (1.17) | $ 0.28 |
| Goodwill amortization | -- | 0.02 | -- | 0.03 |
| Adjusted net income (loss) | $ (0.19) | $ (0.19) | $ (1.17) | $ 0.31 |
| Diluted earnings (loss) per common share: | | | | |
| Reported net income (loss) | $ (0.19) | $ (0.21) | $ (1.17) | $ 0.26 |
| Goodwill amortization | -- | 0.02 | -- | 0.03 |
| Adjusted net income (loss) | $ (0.19) | $ (0.19) | $ (1.17) | $ 0.29 |

The following tables provide the carrying amount of amortizable intangible assets and the related accumulated amortization at June 30, 2002, the aggregate amortization expense for the six months ended June 30, 2002 and estimated amortization expense for each of the next five years.

| | June 30, 2002 | | |
|---|---|---|---|
| Amortizable Intangible Assets: | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Client relationships | $13,512 | $ (2,859) | $ 10,653 |
| Other intangibles | 2,471 | (1,432) | 1,039 |
| Total | $15,983 | $ (4,291) | $ 11,692 |

| | |
|---|---|
| **Aggregate Amortization Expense:** | |
| For the six months ended June 30, 2002 | $ 1,036 |
| **Estimated Amortization Expense:** | |
| For the year ending December 31, 2003 | $ 1,677 |
| For the year ending December 31, 2004 | 1,426 |
| For the year ending December 31, 2005 | 1,193 |
| For the year ending December 31, 2006 | 1,009 |
| For the year ending December 31, 2007 | 940 |

Changes in the carrying amount of goodwill for the six months ended June 30, 2002 are as follows:

| | North America | Europe | Asia Pacific | Total |
|---|---|---|---|---|
| Balance at December 31, 2001 | $ 18,362 | $ 31,645 | $ 1,103 | $ 51,110 |
| Earnout payments | - | - | 218 | 218 |
| Exchange rate fluctuations | - | 485 | 16 | 501 |
| Balance at June 30, 2002 | $ 18,362 | $ 32,130 | $ 1,337 | $ 51,829 |

## 6. Basic and Diluted Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is computed by dividing net income (loss) by the weighted average common shares outstanding for the period. Diluted earnings (loss) per common share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted. For the three months ended June 30, 2002 and 2001, there were approximately 1.0 million and 1.1 million dilutive common shares, respectively, that were not included in the computation of the diluted loss per common share because the effect of their inclusion would be antidilutive. For the six months ended June 30, 2002, there were approximately 0.9 million dilutive common shares that were not included in the computation of the diluted loss per common share because the effect of their inclusion would be antidilutive.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Basic earnings (loss) per common share: | | | | |
| Income (loss) available to common stockholders | $ (3,397) | $ (3,970) | $(21,132) | $ 5,361 |
| Weighted average common shares outstanding | 18,098 | 19,244 | 18,074 | 19,309 |
| Basic earnings (loss) per common share | $ (0.19) | $ (0.21) | $ (1.17) | $ 0.28 |
| Diluted earnings (loss) per common share: | | | | |
| Income (loss) available to common stockholders | $ (3,397) | $ (3,970) | $(21,132) | $ 5,361 |
| Weighted average common shares outstanding | 18,098 | 19,244 | 18,074 | 19,309 |
| Dilutive common shares | - | - | - | 1,149 |
| Weighted average diluted common shares outstanding | 18,098 | 19,244 | 18,074 | 20,458 |
| Diluted earnings (loss) per common share | $ (0.19) | $ (0.21) | $ (1.17) | $ 0.26 |

7. Segment Information

The Company operates its Executive Search and complementary services in four geographic regions: North America which includes the United States (except Miami) and Canada; Latin America which includes Mexico and the rest of Latin America, as well as Miami, which serves as the gateway office to the region; Europe, which includes the Middle East; and Asia Pacific.

In accordance with EITF No. 01-14, reimbursements of out-of-pocket expenses are classified as revenue. For segment purposes, reimbursements are reported separately and therefore are not included in the net revenue by geographic region. The presentation required by EITF No. 01-14 has no impact on the operating income (loss) of the geographic regions.

As of January 1, 2002 the Company completed the integration of LeadersOnline, the Company's mid-level management recruiting service, into the Executive Search business. As a result, the Company no longer reports LeadersOnline as a separate segment. As LeadersOnline was North America based, the net revenue and operating income (loss) has been included as part of the North America region.

Also, in conjunction with the adoption of SFAS No. 142 on January 1, 2002, all goodwill and intangible assets have been assigned to the appropriate reporting unit. Goodwill previously included as part of the corporate identifiable assets has been assigned to the Europe region.

Prior period segment disclosures were revised to reflect these changes.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Revenue: | | | | |
| North America | $ 52,226 | $ 72,658 | $102,061 | $147,964 |
| Latin America | 2,575 | 3,534 | 5,471 | 7,869 |
| Europe | 32,867 | 39,544 | 66,295 | 91,288 |
| Asia Pacific | 5,808 | 7,435 | 11,372 | 15,318 |
| Revenue before reimbursements (net revenue) | 93,476 | 123,171 | 185,199 | 262,439 |
| Reimbursements | 6,834 | 7,192 | 13,317 | 14,264 |
| Total | $100,310 | $130,363 | $198,516 | $276,703 |
| Operating Income (Loss): | | | | |
| North America | $ 9,607 | $ 6,967 | $ 12,609 | $ 12,569 |
| Latin America | (1,224) | (378) | (1,577) | (595) |
| Europe | (300) | 1,296 | (1,257) | 10,732 |
| Asia Pacific | 432 | 909 | 1,091 | 1,643 |
| Total regions | 8,515 | 8,794 | 10,866 | 24,349 |
| Corporate | (7,559) | (7,913) | (14,897) | (15,619) |
| Operating income (loss) before special charges | 956 | 881 | (4,031) | 8,730 |
| Special charges | - | (8,163) | (23,169) | (8,163) |
| Total | $ 956 | $ (7,282) | $(27,200) | $ 567 |

| | June 30, 2002 | December 31, 2001 |
|---|---|---|
| Identifiable Assets: | | |
| North America | $ 85,380 | $ 90,202 |
| Latin America | 6,687 | 8,506 |
| Europe | 156,195 | 159,995 |
| Asia Pacific | 22,672 | 21,346 |
| Total regions | 270,934 | 280,049 |
| Corporate | 107,747 | 131,057 |
| Total | $378,681 | $411,106 |

## 8. Special Charges

In June 2001 and October 2001, the Company announced cost reduction initiatives to better align costs with the expected revenue levels. Through December 31, 2001, the Company recorded $53.2 million of special charges related to reductions in its workforce and the consolidation and closing of offices. During the 2002 first quarter, the Company recorded an additional $23.2 million of special charges related to these announced initiatives. No special charges were recorded during the 2002 second quarter, as all plans related to announcements made in October 2001 were completed by the end of the first quarter of 2002.

During the second quarter of 2001, the Company announced a reduction of its workforce and as a result recorded special charges of $8.2 million for severance and other related costs. As of June 30, 2001, the Company notified 285 employees that they would be part of the reduction in workforce, most of whom were in the core Executive Search business, including 63 consultants. The remaining employees were support staff in Executive Search; in LeadersOnline; and in the corporate departments. Nearly two-thirds of the reduction was in North America, 20% in Europe, and the rest in Latin America and Asia Pacific. The reduction impacted all practice groups.

During the fourth quarter of 2001, the Company announced additional reductions in its workforce and the consolidation and closing of offices. In the first quarter of 2002, the Company incurred special charges of $23.2 million related to these announced initiatives. The plans, which were completed during the 2002 first quarter, affected 166 employees, including 51 executive search and management search consultants. The remaining employees were search and corporate support staff. Over two-thirds of the reduction was in North America, 20% was in Europe, and the rest in Latin America and Asia Pacific. The reduction impacted all practice groups. The 2002 first quarter special charges include severance and other employee-related costs of $10.4 million and $12.8 million related to the consolidation and closing of offices. By segment, the special charges recorded in the first quarter of 2002 are as follows: North America $13.3 million, Latin America $0.1 million, Europe $7.0 million, Asia Pacific $0.3 million and Corporate $2.5 million. Approximately $15.2 million of the $23.2 million of special charges incurred in the 2002 first quarter represents cash charges.

In the Consolidated Statements of Operations, the charges have been segregated on a separate line titled, "Special charges." For segment reporting, the special charges have been segregated and therefore do not impact the quarter-to-quarter comparisons. The special charges for severance and office closings were recorded in accordance with Emerging Issues Task Force No. 94-3 and Staff Accounting Bulletin No. 100.

The table below outlines the special charges recorded in 2001 and for the six months ended June 30, 2002, along with related cash payments and non-cash charges.

| | Severance and Other Employee-Related Costs | Office Closings | Other Cash Charges | Total |
|---|---|---|---|---|
| Total special charges recorded in 2001 | $ 23,740 | $ 28,067 | $ 1,423 | $ 53,230 |
| Cash payments | (18,759) | (877) | (1,156) | (20,792) |
| Non-cash items | - | (3,908) | - | (3,908) |
| Special charges unpaid as of December 31, 2001 | 4,981 | 23,282 | 267 | 28,530 |
| Total special charges recorded in 2002 | 10,373 | 12,796 | - | 23,169 |
| Cash payments | (6,619) | (6,567) | (267) | (13,453) |
| Non-cash items | (2,282) | (5,686) | - | (7,968) |
| Special charges unpaid as of June 30, 2002 | $ 6,453 | $ 23,825 | $ - | $ 30,278 |

9. Business Combinations - Accounted for Using the Purchase Method

During the six months ended June 30, 2001, the Company acquired one executive search firm for $0.8 million. Results of operations of this business have been included in the consolidated financial statements from the acquisition date of June 8, 2001, and are not material to the consolidated financial statements.

10. Investments

During the second quarter of 2002, the Company wrote down its remaining investment in ETF Group, incurring a non-cash charge of $5.0 million. ETF Group is a Europe-based venture capital firm that helps emerging companies expand into international markets. In the fourth quarter of 2001, the Company wrote down half of its $10.0 million investment in ETF Group, because the portfolio of companies had been adversely affected by the downturn in the valuation of technology start-ups. Due to the continuing decline in the valuation of start-up technology companies, the Company wrote down the remainder of its investment in ETF Group in the second quarter of 2002.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Management's Discussion and Analysis of Financial Condition and Results of Operations as well as other sections of this Quarterly Report on Form 10-Q contain forward-looking statements. The forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate and management's beliefs and assumptions. Forward-looking statements may be identified by the use of words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and similar expressions. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, forecasted or implied in the forward-looking statements. Factors that may affect the outcome of the forward-looking statements include, among other things, our ability to attract and retain qualified executive search consultants; economic weakness in the United States, Europe, or elsewhere; social or political instability in overseas markets; price competition; bad debt write-offs far in excess of allowances for doubtful accounts; an inability to achieve the planned cost savings from our cost reduction initiatives; an inability to sublease or assign unused office space; and delays in the development and/or implementation of new technology and systems. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

General

Heidrick & Struggles International, Inc. is a premier provider of executive-level search and leadership consulting services. We help our clients build leadership teams by facilitating the recruitment, development and retention of their executive and mid-level management positions. We also provide other human capital management services, including management assessment, executive coaching and placement of interim executive management.

On February 26, 1999, Heidrick & Struggles, Inc., which operated primarily in North America, Latin America and Asia Pacific, merged with and into Heidrick & Struggles International, Inc. ("HSI"), which operated in Europe (the "Merger"). The resulting company was named Heidrick & Struggles International, Inc. In addition to the Merger, our results of operations reflect the operations of several entities acquired in 1999, 2000 and 2001, accounted for using the purchase method. The results of these acquired companies are included in the consolidated financial statements beginning with the date of acquisition. These acquisitions did not have a material effect on the consolidated financial statements. In addition, in 1999, we merged with one entity and accounted for this merger using the pooling-of-interests method.

During 1999 and 2000, the executive search industry experienced a dramatic increase in demand for its services in all markets based on increased competition for executive talent, the need for executives with diverse and global leadership skills, and the proliferation of Internet and e-commerce businesses. Our rate of growth in net revenue during this period exceeded both the industry trend and our historical average because of the need for management at start-up companies, the creation of new e-commerce positions at more established companies and the growth in the financial services industry. We responded to these trends by increasing the number of consultants and the number of offices from which we served our clients. In 2000, we added more than 100 consultants, including consultants experienced in executive search and employees from other disciplines who were new to the search profession.

The slow down in the United States economy that began early in 2001, especially in the financial services and technology sectors, followed by a slow down in other geographic markets, created an environment where the previous trends began to reverse. Commencing in June 2001, when we anticipated a reduction in revenue compared to 2000, we took steps to lower our cost base by reducing our workforce while retaining capacity to meet demand when the economy recovers. In October 2001, we announced further reductions in our workforce and consolidated or eliminated office space.

The plans related to these announcements were completed during the 2002 first quarter. We do not anticipate any additional special charges for the foreseeable future.

We operate our Executive Search and complementary services in four geographic regions: North America which includes the United States (except Miami) and Canada; Latin America which includes Mexico and the rest of Latin America, as well as Miami, which serves as our gateway office to the region; Europe, which includes the Middle East; and Asia Pacific. As of January 1, 2002 we completed the integration of LeadersOnline (now called Management Search), our mid-level management recruiting service, into our Executive Search business. As a result, we no longer report LeadersOnline as a separate segment.

We adopted Emerging Issues Task Force Issue No. 01-14 (EITF No. 01-14), "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred," in 2002, which requires that reimbursements of out-of-pocket expenses be reported on a gross basis as revenue and as operating expenses. Historically, the reimbursements of out-of-pocket expenses were classified as a reduction of operating expenses. The change in presentation has no impact on our operating income (loss). For segment purposes, the reimbursements are reported on a separate line, and therefore do not influence the segment analysis by geographic region.

Results of Operations

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Revenue: | | | | |
| Revenue before reimbursements (net revenue) | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Reimbursements | 7.3 | 5.8 | 7.2 | 5.4 |
| Total revenue | 107.3 | 105.8 | 107.2 | 105.4 |
| Operating expenses: | | | | |
| Salaries and employee benefits | 68.8 | 65.4 | 71.9 | 63.9 |
| General and administrative expenses | 30.2 | 33.9 | 30.3 | 32.8 |
| Reimbursed expenses | 7.3 | 5.8 | 7.2 | 5.4 |
| Special charges | - | 6.6 | 12.5 | 3.1 |
| Total operating expenses | 106.3 | 111.8 | 121.9 | 105.2 |
| Operating income (loss) | 1.0 | (5.9) | (14.7) | 0.2 |
| Non-operating income (expense): | | | | |
| Interest income | 0.4 | 1.2 | 0.5 | 1.3 |
| Interest expense | - | - | - | - |
| Realized gains on investments | 0.1 | 0.3 | - | 0.2 |
| Net unrealized losses on derivative instruments | (1.5) | (1.0) | (0.7) | (1.0) |
| Write-down of long-term investment | (5.3) | - | (2.7) | - |
| Other, net | (0.2) | (0.2) | 0.1 | (0.2) |
| Net non-operating income (expense) | (6.6) | 0.3 | (2.9) | 0.4 |
| Income (loss) before income taxes and cumulative effect of accounting change | (5.6) | (5.7) | (17.6) | 0.6 |
| Provision for (benefit from) income taxes | (2.0) | (2.4) | (6.1) | 0.2 |
| Net income (loss) before cumulative effect of accounting change | (3.6) | (3.2) | (11.4) | 0.3 |
| Cumulative effect of accounting change, net of tax | - | - | - | 1.7 |
| Net income (loss) | (3.6)% | (3.2)% | (11.4)% | 2.0 % |

Note: Tables may not equal the sum of individual line items due to rounding.

The following table sets forth, for the periods indicated, our revenue and operating income (loss) by segment. Prior period segment disclosures were revised to reflect the following changes:

1. As a result of the integration of LeadersOnline into our Executive Search business, we no longer report our mid-level management recruiting service as a separate segment. As LeadersOnline was North America based, the revenue and operating income (loss) has been included as part of the North America region.

2. Reimbursements received for out-of-pocket expenses are reported as revenue in accordance with EITF No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred." For segment purposes, the revenue from reimbursements is reported on a separate line, and therefore does not affect the analysis by geographic region. The presentation required by EITF No. 01-14 had no impact on the operating income (loss) of the geographic regions.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Revenue: | | | | |
| North America | $ 52,226 | $ 72,658 | $ 102,061 | $ 147,964 |
| Latin America | 2,575 | 3,534 | 5,471 | 7,869 |
| Europe | 32,867 | 39,544 | 66,295 | 91,288 |
| Asia Pacific | 5,808 | 7,435 | 11,372 | 15,318 |
| Revenue before reimbursements (net revenue) | 93,476 | 123,171 | 185,199 | 262,439 |
| Reimbursements | 6,834 | 7,192 | 13,317 | 14,264 |
| Total | $ 100,310 | $ 130,363 | $ 198,516 | $ 276,703 |
| Operating Income (Loss): | | | | |
| North America | $ 9,607 | $ 6,967 | $ 12,609 | $ 12,569 |
| Latin America | (1,224) | (378) | (1,577) | (595) |
| Europe | (300) | 1,296 | (1,257) | 10,732 |
| Asia Pacific | 432 | 909 | 1,091 | 1,643 |
| Total regions | 8,515 | 8,794 | 10,866 | 24,349 |
| Corporate | (7,559) | (7,913) | (14,897) | (15,619) |
| Operating income before special charges | 956 | 881 | (4,031) | 8,730 |
| Special charges | - | (8,163) | (23,169) | (8,163) |
| Total | $ 956 | $ (7,282) | $ (27,200) | $ 567 |

Three Months Ended June 30, 2002 Compared to the Three Months Ended June 30, 2001

Revenue before reimbursements (net revenue). Consolidated net revenue decreased $29.7 million, or 24.1%, to $93.5 million for the three months ended June 30, 2002 from $123.2 million for the three months ended June 30, 2001. Excluding the effect of exchange rate fluctuations, net revenue would have declined 25%. The decline was due to decreased demand for our executive search services across most industries and disciplines, especially the Technology, Financial Services, and Professional Services practice groups. We believe this decrease reflects the impact of the continuing global economic slow down. The number of confirmed executive searches decreased 9% compared to the second quarter of 2001.

Net revenue in North America was $52.2 million for the three months ended June 30, 2002, a decrease of $20.5 million, or 28.1%, from $72.7 million in the second quarter of 2001. Almost all of the practice groups produced lower net revenue in the second quarter compared to last year. In Latin America, net revenue was $2.6 million for the three months ended June 30, 2002, a decrease of $0.9 million, or 27.1%, from $3.5 million in the second quarter of 2001, reflecting declines across most of the practice groups. Net revenue in Europe was $32.9 million for the three months ended June 30, 2002, a decrease of $6.6 million, or 16.9%, from $39.5 million in the second quarter of 2001. Excluding the impact of exchange rate fluctuations, net revenue decreased 20% from the comparable quarter in 2001. All practice groups experienced declines compared to the 2001 second quarter. In Asia Pacific, net revenue was $5.8 million for the three months ended June 30, 2002, a decrease of $1.6 million, or 21.9%, from $7.4 million in the second quarter of 2001. Excluding the impact of exchange rate fluctuations, net revenue decreased 24% compared to the comparable quarter in 2001. Most practice groups experienced a decrease in net revenue.

Salaries and employee benefits. Consolidated salaries and employee benefits expense decreased $16.3 million, or 20.2%, to $64.3 million for the three months ended June 30, 2002 from $80.6 million for the three months ended June 30, 2001. The decrease in dollar terms was primarily attributable to lower fixed costs as a result of the elimination of more than 780 positions or approximately one-third of our workforce, since June 2001. As a percentage of net revenue, salaries and employee benefits expense increased to 68.8% in the second quarter of 2002 from 65.4% in the second quarter of 2001. The increase as a percentage of net revenue was primarily due to a higher percentage of net revenue being accrued for performance based compensation for executive search consultants, management, and support staff and the impact of lower net revenue against our fixed salaries and employee benefits expense.

General and administrative expenses. Consolidated general and administrative expenses decreased $13.5 million, or 32.3%, to $28.2 million for the three months ended June 30, 2002 from $41.7 million for the three months ended June 30, 2001 due primarily to lower fixed costs resulting from office consolidations, reduced spending on discretionary items such as marketing, internal meetings and non-client-related travel, and lower bad debt expense. As a percentage of net revenue, general and administrative expenses declined to 30.2% in the second quarter of 2002 from 33.9% in the second quarter of 2001.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," goodwill and those intangible assets that have indefinite useful lives are no longer amortized. We adopted SFAS No. 142 on January 1, 2002 and, as a result, we did not record goodwill amortization for the three months ended June 30, 2002. For the three months ended June 30, 2001, general and administrative expenses include $0.5 million of goodwill amortization.

Special charges. No special charges were recorded during the 2002 second quarter, as all plans related to announcements made in October 2001 were completed by the end of the first quarter of 2002.

During the second quarter of 2001, we announced a reduction of our workforce and as a result we incurred special charges of $8.2 million for the three months ended June 30, 2001, for severance and other related costs. As of June 30, 2001, 285 employees were notified that they would be part of the reduction in workforce. This workforce reduction affected all levels of employees. Most were in our core Executive Search business, including 63 consultants. The remaining employees were support staff in Executive Search; in LeadersOnline, our mid-level management recruiting service; and in the corporate departments. Nearly two-thirds of the reduction was in North America, 20% in Europe, and the rest in Latin America and Asia Pacific. The reduction impacted all practice groups.

Operating income (loss). The following table summarizes our consolidated operating income (loss) for the quarters ended June 30, 2002 and 2001, respectively:

| Consolidated operating income (loss) | Three Months Ended June 30, 2002 | Three Months Ended June 30, 2001 | Increase (decrease) in operating income |
|---|---|---|---|
| | (in millions) | | |
| Total regions | $ 8.5 | $ 8.8 | $ (0.3) |
| Corporate | (7.6) | (7.9) | 0.3 |
| Operating income before special charges | 1.0 | 0.9 | 0.1 |
| Special charges | - | (8.2) | 8.2 |
| Consolidated operating income (loss) | $ 1.0 | $ (7.3) | $ 8.3 |

Note: Tables may not equal the sum of individual line items due to rounding

Consolidated operating income was $1.0 million for the three months ended June 30, 2002, an increase of $8.3 million from an operating loss of $7.3 million for the three months ended June 30, 2001. The increase was driven primarily by the fact that no special charges were recorded during the second quarter of 2002. On a regional basis, improvement in the North America operating income was offset by declines in Latin America, Europe and Asia Pacific.

In North America, operating income increased $2.6 million, or 37.9%, to $9.6 million for the three months ended June 30, 2002 from $7.0 million for the three months ended June 30, 2001. The decline of $20.5 million in North America's net revenue was offset by lower levels of fixed salaries and employee benefits expense due to the workforce reductions which have occurred since June 2001, and to lower general and administrative expenses, primarily lower bad debt expense and discretionary spending.

In Latin America, the operating loss increased $0.8 million to $1.2 million for the three months ended June 30, 2002, compared to an operating loss of $0.4 million for the three months ended June 30, 2001. The increased loss was due primarily to the costs associated with converting certain wholly-owned subsidiaries into licensees.

In Europe, the operating loss was $0.3 million for the three months ended June 30, 2002, a decrease of $1.6 million compared to operating income of $1.3 million for the three months ended June 30, 2001. The decline of $6.6 million in Europe's net revenue was partially offset by lower salaries and employee benefits expense. Cost savings in most general and administrative expense categories were offset by an increase in bad debt expense.

In Asia Pacific, operating income declined $0.5 million, or 52.5%, to $0.4 million for the three months ended June 30, 2002 compared to operating income of $0.9 million for the three months ended June 30, 2001. The decline of $1.6 million in Asia Pacific's net revenue was offset by lower salaries and employee benefits expense.

Corporate expense declined $0.3 million to $7.6 million for the three months ended June 30, 2002 from $7.9 million for the three months ended June 30, 2001. Lower discretionary spending, reduced costs associated with corporate staffing, and the elimination of goodwill amortization were partially offset by an increase in systems-related spending.

Net non-operating income (expense). Our net non-operating expense for the three months ended June 30, 2002 was $6.2 million compared to net non-operating income of $0.3 million for the three months ended June 30, 2001. The following table presents the components of our net non-operating income (expense) for the three months ended June 30, 2002 and 2001, respectively:

| Consolidated net non-operating income (expense) | Three Months Ended June 30, 2002 | Three Months Ended June 30, 2001 | Increase (decrease) in net non-operating income |
|---|---|---|---|
| | | in millions) | |
| Interest income | $ 0.4 | $ 1.4 | $ (1.0) |
| Interest expense | - | - | - |
| Realized gains on investments | - | 0.4 | (0.4) |
| Net unrealized losses on derivative instruments | (1.4) | (1.2) | (0.2) |
| Write-down of long-term investment | (5.0) | - | (5.0) |
| Other, net | (0.1) | (0.3) | 0.2 |
| Consolidated net non-operating income (expense) | $ (6.2) | $ 0.3 | $ (6.5) |

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Note: Tables may not equal the sum of individual line items due to rounding.

Interest income declined by $1.0 million, reflecting lower cash balances available for investment and lower yields on invested balances.

Realized gains on investments result from sales of equity obtained as part of our warrant program. During the three months ended June 30, 2002, we recognized $47,000 of realized gains, net of consultants' bonuses and administrative and other costs. During the three months ended June 30, 2001, realized gains of $0.4 million were recognized.

Unrealized gains and losses on derivative instruments result from the valuation of a portion of our warrant portfolio in accordance with SFAS No. 133, (See Note 3 in the Notes to Consolidated Financial Statements). During the three months ended June 30, 2002, we recognized unrealized losses of $1.4 million, net of consultants' bonuses and administrative and other costs, due primarily to lower valuations of technology sector holdings in the warrant portfolio. During the comparable period in 2001, we recognized unrealized losses of $1.2 million, net of consultants' bonuses and administrative and other costs.

The write-down of the long-term investment in the second quarter of 2002 results from the write-down of the remainder of our investment in ETF Group. ETF Group is a Europe-based venture capital firm that helps emerging companies expand into international markets. In the fourth quarter of 2001 we wrote down half of our $10.0 million investment in ETF Group, because the portfolio of companies had been adversely affected by the downturn in the valuation of technology start-ups. Due to the continuing decline in the valuation of start-up technology companies, we wrote down the remainder of our investment in ETF Group, incurring a non-cash charge of $5.0 million in the second quarter of 2002.

Income taxes. For the three months ended June 30, 2002, the tax benefit reflected a rate of 35%, compared to a rate of 43% for the three months ended June 30, 2001. During the three months ended June 30, 2002, we had a pretax loss of $5.2 million compared to a pretax loss of $7.0 million for the three months ended June 30, 2001. The effective tax rate decreased as a result of certain tax losses incurred in foreign jurisdictions that have not been benefited due to uncertainty of recovery.

Six Months Ended June 30, 2002 Compared to the Six Months Ended June 30, 2001

Revenue before reimbursements (net revenue). Consolidated net revenue decreased $77.2 million, or 29.4%, to $185.2 million for the six months ended June 30, 2002 compared to $262.4 million for the six months ended June 30, 2001. The decline was due to decreased demand for our executive search services across most industries and disciplines, especially the Technology, Financial Services, and Industrial practice groups. The number of confirmed executive searches in the six months ended June 30, 2002 decreased 23% from the six months ended June 30, 2001. We believe this decrease reflects the impact of the continuing global economic slow down.

Net revenue in North America was $102.1 million in the six months ended June 30, 2002, a decrease of $45.9 million, or 31.0%, from $148.0 million in the six months ended June 30, 2001. Almost all of the practices produced lower net revenue in the first six months of 2002 compared to the prior year. In Latin America, net revenue decreased $2.4 million, or 30.5%, to $5.5 million in the six months ended June 30, 2002 from $7.9 million in the six months ended June 30, 2001, as the region felt the effects of a weakening U.S. economy. Most of the practices reported declines, although the Industrial practice reported an increase. Net revenue in Europe decreased $25.0 million, or 27.4%, to $66.3 million for the six months ended June 30, 2002 from $91.3 million in the six months ended June 30, 2001, reflecting decreases across all industry practice groups. The impact of exchange rate fluctuations on Europe's net revenue was minimal. In Asia Pacific, net revenue was $11.4 million for the six months ended June 30, 2002, a decrease of $3.9 million, or 25.8%, from $15.3 million in the six months ended June 30, 2001. Excluding the impact of exchange rate fluctuations, net revenue decreased 25% from the comparable period in 2001.

Salaries and employee benefits. Consolidated salaries and employee benefits expense decreased $34.4 million, or 20.6%, to $133.2 million for the six months ended June 30, 2002 from $167.6 million for the six months ended June 30, 2001. The decrease in dollar terms was primarily attributable to lower fixed costs as a result of the elimination of more than 780 positions from our workforce since June 2001. As a percentage of net revenue, salaries and employee benefits expense increased to 71.9% for the six months ended June 30, 2002 from 63.9% for the comparable period of 2001. This increase as a percentage of net revenue was primarily due to a higher percentage of net revenue being accrued for performance based compensation for executive search consultants, management and support staff and the impact of lower net revenue against our fixed salaries and employee benefits expense.

During 2001, a downward adjustment to the anticipated target payouts to executive search consultants, management and support staff, and the impact of higher bad debt-related expenses were factors in the lower accrual amounts, which resulted in a reduction of salaries and employee benefits expense as a percentage of net revenue. Under our variable compensation structure, consultants do not earn compensation on fees not collected and we recorded $10.3 million in bad debt related expenses in the first quarter of 2001. In addition, the reduction was due to the recoupment of previously recorded performance-related bonus accruals that were not earned due to individuals not meeting required performance goals in 2000.

General and administrative expenses. Consolidated general and administrative expenses decreased $30.0 million, or 34.9%, to $56.1 million for the six months ended June 30, 2002 from $86.1 million for the six months ended June 30, 2001. This decrease was due to lower bad debt expense, lower discretionary spending, and cost savings from the consolidation and closing of offices. As a percentage of net revenue, general and administrative expenses decreased to 30.3% in the six months ended June 30, 2002 from 32.8% in the six months ended June 30, 2001, primarily because of better alignment of the fixed component of our cost structure with substantially lower net revenue.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," we did not record goodwill amortization for the six months ended June 30, 2002. For the six months ended June 30, 2001, general and administrative expenses included $1.1 million of goodwill amortization.

Special charges. In June 2001 and October 2001, we announced cost reduction initiatives to better align costs with the expected net revenue levels. Through December 31, 2001, we recorded $53.2 million of special charges related to reductions in headcount and the consolidation and closing of offices. During the 2002 first quarter, we recorded an additional $23.2 million of special charges related to these announced initiatives.

During the second quarter of 2001, we announced a reduction of our workforce. As a result of this workforce reduction, we incurred special charges of $8.2 million in the second quarter of 2001, for severance and other related costs. As of June 30, 2001, we notified 285 employees that they would be part of the reduction in workforce. This workforce reduction affected all levels of employees. Most were in the core Executive Search business, including 63 consultants. The remaining employees were support staff in Executive Search; in LeadersOnline; and in the corporate departments. Nearly two-thirds of the reduction was in North America, 20% in Europe, and the rest in Latin America and Asia Pacific. The reduction impacted all practice groups.

During the fourth quarter of 2001, we announced additional reductions in our workforce and the consolidation and closing of offices. In the first quarter of 2002, we incurred special charges of $23.2 million related to these announced initiatives. The plans which were completed during the 2002 first quarter affected 166 employees, including 51 executive search and management search consultants. The remaining employees were search and corporate support staff. Over two-thirds of the reduction was in North America, 20% were in Europe, and the rest in Latin America and Asia Pacific. The reduction impacted all practice groups. The 2002 first quarter special charges include severance and other employee-related costs of $10.4 million and $12.8 million related to the consolidation and closing of offices. Approximately $15.2 million of the $23.2 million of special charges incurred in the 2002 first quarter represents cash charges.

Operating income (loss). The following table summarizes our consolidated operating income (loss) for the six months ended June 30, 2002 and 2001, respectively:

| Consolidated operating income (loss) | Six Months Ended June 30, 2002 | Six Months Ended June 30, 2001 | Increase (decrease) in operating income |
| --- | --- | --- | --- |
| | (in millions) | | |
| Total regions | $ 10.9 | $ 24.3 | $ (13.4) |
| Corporate | (14.9) | (15.6) | 0.7 |
| Operating income (loss) before special charges | (4.0) | 8.7 | (12.7) |
| Special charges | (23.2) | (8.2) | (15.0) |
| Consolidated operating income (loss) | $ (27.2) | $ 0.6 | $ (27.8) |

Note: Tables may not equal the sum of individual line items due to rounding

Our consolidated operating loss was $27.2 million for the six months ended June 30, 2002, a decrease of $27.8 million from $0.6 million of consolidated operating income for the six months ended June 30, 2001. The decline in operating income was primarily due to the special charges recognized in the first quarter of 2002. Excluding the special charges, operating income declined $12.7 million to an operating loss of $4.0 million for the six months ended June 30, 2002 from operating income of $8.7 million for the six months ended June 30, 2001. The decline in operating income was driven primarily by the $77.2 million decline in net revenue, partially offset by reductions in salaries and employee benefits expense and general and administrative expenses resulting from reductions in our workforce, office consolidations, and reduced spending on discretionary items.

In North America, operating income for the six months ended June 30, 2002 was $12.6 million, approximately equal to the operating income in the comparable period of 2001. The decline of $45.9 million in North America's net revenue was offset by lower levels of fixed salaries and employee benefits expense, as well as lower discretionary spending, bad debt expense, and office-related expenses. The cost savings are attributable to the reductions in workforce, and the consolidation and closing of offices which have occurred since June 2001.

In Latin America, the operating loss increased $1.0 million, to $1.6 million for the six months ended June 30, 2002, compared to an operating loss of $0.6 million for the six months ended June 30, 2001. The increase in the operating loss was attributable to a decline of $2.4 million in Latin America's net revenue and costs related to converting certain wholly-subsidiaries into licensees during the second quarter of 2002.

In Europe, the operating loss was $1.3 million for the six months ended June 30, 2002, compared to operating income of $10.7 million for the six months ended June 30, 2001. The decline of $12.0 million was attributable to a $25.0 million decline in Europe's net revenue, partially offset by lower salaries and employee benefits expense reflecting the workforce reductions which have occurred since June 2001. Cost savings in most general and administrative expense categories were offset by an increase in bad debt expense. In the six months ended June 30, 2001, Europe's operating income had benefited from a reduction in its allowance for doubtful accounts.

In Asia Pacific, our operating income for the six months ended June 30, 2002 was $1.1 million compared to operating income of $1.6 million for the six months ended June 30, 2001. The decline of $4.0 million in Asia Pacific's net revenue was partially offset by lower salaries and employee benefits expense.

Corporate expense declined $0.7 million, to $14.9 million for the six months ended June 30, 2002 from $15.6 million for the six months ended June 30, 2001 as lower discretionary spending, reduced costs associated with corporate staffing, and the elimination of goodwill amortization were partially offset by an increase in systems-related spending.

Net non-operating income (expense). Consolidated net non-operating expense for the six months ended June 30, 2002 was $5.3 million compared to net non-operating income of $1.0 million for the six months ended June 30, 2001. The following table presents the components of our net non-operating income (expense) for the six months ended June 30, 2002 and 2001, respectively:

| Consolidated net non-operating income (expense) | Six Months Ended June 30, 2002 | Six Months Ended June 30, 2001 | Increase (decrease) in net non-operating income |
|---|---|---|---|
| | (in millions) | | |
| Interest income | $ 0.9 | $ 3.5 | $ (2.6) |
| Interest expense | (0.1) | (0.1) | - |
| Realized gains on investments | - | 0.6 | (0.6) |
| Net unrealized losses on derivative instruments | (1.3) | (2.7) | 1.4 |
| Write-down of long-term investment | (5.0) | - | (5.0) |
| Other, net | 0.1 | (0.4) | 0.5 |
| Consolidated net non-operating income (expense) | $ (5.3) | $ 1.0 | $ (6.3) |

Note: Tables may not equal the sum of individual line items due to rounding

The decline in net non-operating income is attributable to lower interest income due to lower cash balances available for investment and lower returns on the invested cash, fewer realized gains on sales of warrants, and the write-down of the remainder of our investment in ETF Group. The decline was partially offset by lower net unrealized losses on derivative instruments, net of consultants' bonuses and administrative and other costs, from a portion of our warrant portfolio. (See Note 3 in the Notes to Consolidated Financial Statements).

Cumulative effect of change in accounting principle. On January 1, 2001 we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its subsequent amendments. As a result, we recorded as the cumulative effect of a change in accounting principle, a transition adjustment to income of $4.5 million, net of consultants' bonuses, administrative and other costs, and taxes. (See Note 4 in the Notes to Consolidated Financial Statements).

Income taxes. For the six months ended June 30, 2002 the tax benefit reflected a rate of 35%. For the six months ended June 30, 2001, the effective tax rate was 43%. During the six months ended June 30, 2002, we had a pretax loss of $32.5 million compared to income before taxes and the cumulative effect of the accounting change of $1.5 million for the six months ended June 30, 2001. The effective tax rate decreased as a result of certain tax losses incurred in foreign jurisdictions that have not been benefited due to uncertainty of recovery.

Liquidity and Capital Resources

General. We continually evaluate our liquidity requirements, capital needs and availability of capital resources based on our operating needs. Historically, we have financed our operations with cash on hand and funds generated by operations, together with the net proceeds of our initial public offering in April 1999 and follow-on public offering in February 2000.

We believe that the funds expected to be generated from operations and funds available under our line of credit will be sufficient to finance our operations for the foreseeable future, as well as to finance the cash payments associated with our special charges. We historically have paid a portion of our bonuses in December and the remainder in March. Employee bonuses are accrued throughout the year and are based on our performance and the performance of the individual employee. Our ability to undertake acquisitions may depend, in part, on access to additional funds.

We do not have material off-balance sheet arrangements, special purpose entities, trading activities of non-exchange traded contracts, or transactions with related parties except as related to our investment in Silicon

Valley Internet Capital (See Note 9 in the Notes to Consolidated Financial Statements included in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2001, as filed with the Securities and Exchange Commission on March 29, 2002).

Some deferred compensation arrangements with certain employees are structured as forgivable loans. The forgivable loans are accounted for as deferred compensation, and are therefore amortized to compensation expense over the forgiveness period. At June 30, 2002, we had $4.6 million of deferred compensation structured as forgivable loans. The terms of deferred compensation arrangements structured as forgivable loans and granted to executive officers, are included in these employees' employment agreements as filed with the Securities and Exchange Commission.

Line of credit. In December 2001 we replaced our $40.0 million revolving credit facility which expired on December 31, 2001, with a new $50.0 million revolving credit facility. The new facility will expire on December 28, 2004. There were no borrowings outstanding under either line of credit at June 30, 2002 or December 31, 2001.

Under the new facility we may borrow U.S. dollars, euros, or other major currencies, as agreed with the banks. Borrowings under this facility bear interest at the existing ABR (Alternate Base Rate) or LIBOR, plus a margin as determined by certain tests of our financial condition. The new facility has certain financial covenants we must meet relating to consolidated EBITDA (defined as earnings before interest expense, taxes, depreciation and amortization and designated special charges); fixed charge coverage (defined as the ratio of EBITDA to interest expense and capital expenditures); leverage (defined as the ratio of total indebtedness to EBITDA); tangible net worth; working capital; and capital expenditures. In addition, the new facility limits our ability to pay dividends, make acquisitions and incur additional debt. At June 30, 2002 and December 31, 2001 we were in compliance with these financial covenants, and no event of default existed.

Cash and cash equivalents. Cash and cash equivalents at June 30, 2002 and 2001 were $85.0 million and $133.4 million, respectively. The amount of cash and cash equivalents at December 31, 2001 was $108.7 million.

Cash used in operating activities. For the six months ended June 30, 2002, cash used in operating activities was $20.1 million, reflecting the payment of bonuses in March 2002, payments related to our special charges and our net loss, partially offset by the refund of approximately $20 million of estimated income taxes paid during 2001 and refunds of income taxes paid in prior years arising from net operating losses carried back to prior years.

For the six months ended June 30, 2001, cash used in operating activities was $27.9 million, due primarily to the payment of the remaining 2000 bonuses in March 2001.

Cash used in investing activities. Cash used in investing activities was $3.3 million for the six months ended June 30, 2002 and $9.1 million for the six months ended June 30, 2001. This decrease between the periods was primarily due to a lower level of investments in office furniture and fixtures, leasehold improvements, and computer equipment. Capital expenditures were $3.2 million and $11.4 million for the six months ended June 30, 2002 and 2001, respectively.

During the first half of 2001, we acquired an executive search firm in Turkey for $0.8 million.

During the six months ended June 30, 2002 and 2001, the amount of cash received from the sale of equity securities received as part of our warrant program was $0.1 million and $0.6 million, respectively, net of consultants' bonuses and administrative and other costs.

Cash used in financing activities. Cash used in financing activities for the six months ended June 30, 2002 was $0.5 million, resulting primarily from payments on debt related to acquisitions. Cash used in financing activities was $7.7 million for the six months ended June 30, 2001, resulting primarily from purchases of treasury stock.

On March 16, 2001, we announced that our Board of Directors had authorized management to repurchase up to two million shares of our common stock over the next two years. During the six months ended June 30, 2002 we repurchased 4,032 shares of common stock. During the six months ended June 30, 2001, we repurchased 477,500 shares of common stock, for which some of the cash settlement occurred in July 2001. As of June 30, 2002, approximately 560,000 shares may be repurchased under this authorization.

## Significant Accounting Policies

The preparation of our consolidated financial statements requires management to make certain estimates and assumptions required under generally accepted accounting principles which may differ from the actual results. The more significant areas requiring management estimates include revenue recognition, accruals for compensation and employee benefits expense, allowance for doubtful accounts, allowance for deferred tax assets and investment valuations. See Note 1 in the Notes to Consolidated Financial Statements included in our Annual Report to Shareholders on Form 10-K for the year ended December 31, 2001, as filed with the Securities and Exchange Commission on March 29, 2002.

## Recently Issued Financial Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, "Goodwill and Other Intangible Assets." Under this statement, goodwill and intangible assets that have indefinite useful lives are no longer amortized. Rather, these assets are subject to, at a minimum, an annual assessment for impairment by applying a fair-value based test. Intangible assets that have finite useful lives continue to be amortized over their useful lives. On January 1, 2002, we adopted SFAS No. 142. No impairment charge was recorded upon adoption of SFAS No. 142.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." This statement establishes a number of rules for the recognition, measurement and display of long-lived assets which are impaired and either held for sale or for continuing use within the business. In addition, the statement broadly expands the definition of a discontinued operation to individual reporting units or asset groupings for which identifiable cash flows exist. The recognition of discontinued operations will become more common as a result of these new guidelines. We adopted SFAS No. 144 on January 1, 2002. We do not anticipate that adoption of SFAS No. 144 will have a material impact on our financial condition or results of operations.

In November 2001, the Emerging Issues Task Force reached a consensus on Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for `Out-of-Pocket' Expenses Incurred" (EITF No. 01-14). EITF No. 01-14 establishes that reimbursements received for certain out-of-pocket expenses should be reported as revenue. Historically, we classified reimbursements of out-of-pocket expenses as a reduction of operating expenses. We adopted this guidance in 2002. The change in presentation has no impact on our operating income (loss).

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement requires companies to recognize costs associated with exit or disposal activities when they are incurred and can be measured at fair value rather than at the date of a commitment to an exit or disposal plan. This Statement also requires companies to disclose, for each reportable segment, the exit or disposal activity costs incurred in the period and the cumulative amount incurred, net of any changes in the liability, with an explanation of the reasons for the changes. Companies will also be required to disclose the total amount of costs expected to be incurred in connection with the exit or disposal activity. The new requirements are effective prospectively for exit and disposal activities initiated after December 31, 2002. We do not anticipate that adoption of SFAS No. 146 will have a material impact on our financial condition or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE 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. Upon adoption of SFAS No. 133 on January 1, 2001, subsequent changes in the fair value of the derivatives are recorded in earnings. Each quarter's earnings are affected by the fluctuations in the fair value of these derivative instruments. We had no other derivative instruments at June 30, 2002.

Currency Market Risk. With our operations primarily in North America, Latin America, 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. For financial information by geographic region, see Note 7 in the Notes to Consolidated Financial Statements. Historically, we have not experienced significant gains or losses on transactions involving U.S. dollars and other currencies. As the local currency of our subsidiaries has been designated as the functional currency, we are affected by the effect of translating the foreign currency financial statements into U.S. dollars.

Euro Conversion. On January 1, 1999, the currency exchange rates of twelve countries (Germany, France, the Netherlands, Austria, Italy, Spain, Finland, Ireland, Belgium, Portugal, Greece, and Luxembourg) were fixed among one another and each country adopted the euro as its currency. The euro bills and coinage were introduced on January 1, 2002. In conjunction with the conversion process to the euro, we took steps to convert our information technology systems to handle the new currency, and prepared for maintaining accounting, tax, and other business records in the new currency. Currently, the introduction and use of the euro has not had a material effect on our consolidated financial condition, cash flows, or results of operations.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Securities

At our Annual Meeting of Stockholders held on June 6, 2002 in Chicago, Illinois, our stockholders voted on the following matters:

1. The election of three directors, Messrs. Robert E. Knowling, Jr., Philip A. Laskawy and Gerard R. Roche, to serve for a term of three years or until their successors have been elected and qualified. The nominees to the Board of Directors were elected.

| Name of Nominee | Number of Votes For | Number of Votes Withheld |
|---|---|---|
| Robert E. Knowling, Jr. | 14,294,679 | 531,947 |
| Philip A. Laskawy | 14,482,982 | 343,644 |
| Gerard R. Roche | 14,453,956 | 372,670 |

2. Adoption of a proposal to amend and restate the 1998 Heidrick & Struggles GlobalShare Program I and the 1998 Heidrick & Struggles GlobalShare Program II. The amendment and restatement were approved.

| | |
|---|---|
| Number of Votes For | 11,248,271 |
| Number of Votes Against | 3,565,035 |
| Number of Votes Withheld | 0 |
| Number of Broker Non-Votes | 0 |
| Number of Abstentions | 13,320 |

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

| Exhibit No. | Description |
|---|---|
| 3.01 | Form of Amended and Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.02 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023)) |
| 3.02 | Form of Amended and Restated By-laws of the Registrant (Incorporated by reference to Exhibit 3.03 of this Registrant's Registration Statement on Form S-4 (File No. 333-61023)) |
| 10.16 | Employment Agreement dated January 1, 2002 between Heidrick & Struggles International, Inc. and Piers Marmion |
| 10.17 | Employment Agreement dated January 1, 2002 between Heidrick & Struggles, Inc. and Knox J. Millar |
| 99.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

(b) Reports on Form 8-K

On April 17, 2002, we filed a report under Item 4 on Form 8-K concerning a change in the Registrant's Certifying Accountant from Arthur Andersen LLP to KPMG LLP.

SIGNATURE

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

Date: August 14, 2002.

Heidrick & Struggles International, Inc.
(Registrant)

By: /s/ Kevin J. Smith
---------------------------------
Kevin J. Smith
Chief Financial Officer

EXHIBIT 10.16

EMPLOYMENT AGREEMENT

AGREEMENT, dated this 1st day of January, 2002 (the "Agreement"), between Heidrick & Struggles International, Inc., a Delaware corporation, and any successor (the "Employer") and Piers Marmion (the "Employee"). The parties hereby agree, as follows:

1. Employment. The Employer shall employ the Employee as Chairman and Chief Executive Officer and the Employee hereby accepts such position and agrees to serve the Employer in such capacity during the employment period fixed by Section 3 hereof (the "Employment Period"). The Employee shall report to the Board of Directors of the Employer (the "Board"). The Employee's duties and responsibilities shall be such duties and responsibilities as are consistent with the position of Chairman and Chief Executive Officer of the Employer. The Employee shall devote substantially all of his business time and attention to the performance of his duties and responsibilities hereunder.

If the Employee determines that it is advisable in connection with the performance of his duties pursuant to Section 1 of this Agreement, he may elect to relocate to the United States together with his spouse and children with such financial assistance as may be deemed appropriate by the Compensation Committee of the Board for the Chief Executive Officer. The Employee shall not make this election after the second anniversary of the date of this Agreement without the consent of the Employer.

2. Compensation.

(a) Annual Base Salary. The Employer shall pay the Employee, pursuant to the Employer's normal and customary payroll procedures, a base salary of $650,000 per annum (the "Annual Base Salary").

(b) Annual Bonus. In addition to the Annual Base Salary, during the Employment Period, the Employee may receive an annual bonus (the "Annual Bonus"), based on the achievement of performance objectives, which shall be determined by the Compensation Committee of the Board.

(c) Incentive Compensation; Benefit Plans. Commencing in January 2002, the Employee shall participate in the Employer's Annual Bonus Plan, Performance Share Plan, Management Stock Option Plan, Change in Control Severance Plan, Deferred Compensation Plan and the Severance Plan. In addition, during the Employment Period, (i) the Employee shall be entitled to participate in all other savings and retirement plans, practices, policies and programs of the Employer which are made available generally to other employees of the

Employer; provided, however, that the Employee shall be entitled to participate in bonus, incentive compensation or stock-based plans and programs only to the extent determined by the Compensation Committee of the Board; and (ii) the Employee and/or the Employee's family, as the case may be, shall be eligible for participation in, and shall receive all benefits under, all welfare benefit plans, practices, policies and programs provided by the Employer (including, without limitation, vacation, medical, prescription, dental, disability, life insurance, group life insurance, accidental death and travel accident insurance plans and programs, together the "Benefit Plans") which are made available generally to other employees of the Employer.

The Employer shall contribute to the Employee's Inland Revenue approved personal pension plan up to the maximum cap allowable under Inland Revenue Rules. The Employee will be eligible to join the Employer's scheme which currently provides life insurance coverage of four times basic salary subject to the Plan's rules together with permanent health insurance including earnings related sick pay in case of long term sickness and disability and this may require the Employee to have a medical examination.

The Employee will be eligible to become a member of the Employer's scheme providing medical insurance coverage for the Employee and his family through BUPA. The premiums are currently paid by the Employer and this represents a taxable benefit to the Employee. The Employee and his family will also be eligible for medical insurance coverage in the United States through Heidrick & Struggles, Inc.'s employee plans.

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

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

(d) Sign-on Loan. The Employer shall forgive the outstanding aggregate principal amount ((pound)1,053,881) of the loans made to the Employee pursuant to the Employee's employment agreement, dated July 7, 2000, on December 31, 2004, subject to the next sentence.

The Employee shall pay the outstanding principal amounts of the loans on the date his employment terminates if (i) the Employee resigns from the Employer's employ prior to December 31, 2004, except for Good Reason (as defined below), or (ii) if the Employer terminates his employment for Cause.

3. Employment Period.

The Employment Period shall commence on January 1, 2002 (the "Effective Date"), and shall end on the day preceding the third anniversary of the Effective Date. Notwithstanding the foregoing, the Employee's employment hereunder may be terminated during the Employment Period upon the earliest to occur of the following events:

(a) Death. The Employee's employment hereunder shall terminate immediately upon his death.

(b) Disability. The Employer may terminate the Employee's employment hereunder for "Disability," which shall mean (i) a physical or mental incapacity of the Employee which entitles the Employee to benefits under the long-term disability plan applicable to the Employee and maintained by the Employer; or (ii) in the event that no such long-term disability plan is maintained by the Employer, the Employee has been unable to perform his duties hereunder for a period of 180 days within any twelve-month period as a result of the Employee's incapacity due to physical or mental illness.

(c) Cause. The Employer may terminate the Employee's employment hereunder for Cause. For purposes of this Agreement, the term "Cause" shall mean (i) fraud, or the embezzlement or misappropriation of funds or property of the Employer or any of its affiliates by the Employee, the conviction of, or the entrance of a plea of guilty or nolo contendere by the Employee, to a felony, or a crime involving moral turpitude; (ii) neglect, misconduct or willful malfeasance by the Employee which is materially injurious to the Employer or any of its affiliates; or (iii) willful failure or refusal to perform the Employee's duties, or a willful, material breach of contract. If, subsequent to the Employee's termination of services hereunder for other than Cause, it is discovered that the Employee's services could have been terminated for Cause, the Employee's services shall, at the election of the Employer, be deemed to have been terminated for Cause retroactively to the date the events giving rise to Cause occurred.

(d) Good Reason. The Employee may terminate his employment hereunder for Good Reason (and such termination shall be treated as if it were a termination by the Employer without Cause, and not a voluntary termination by the Employee). "Good Reason" shall mean the occurrence of any of the following events during the Employment Period:

(i) The assignment to the Employee of any duties materially inconsistent with, or the reduction of powers, responsibilities or functions associated with, the Employee's positions and status with the Employer, or any removal of the Employee from, or any failure to reelect the Employee to, membership on the Board and Chief Executive Officer with the Employer, except in connection with the termination of the Employee's employment by the Employer for Cause or on account of Disability pursuant to the terms of this Agreement;

(ii) A reduction by the Employer of the Annual Base Salary except in connection with the termination of the Employee's employment by the Employer for Cause or on account of Disability pursuant to the terms of this Agreement;

(iii) The failure by the Employer to pay the Employee any portion of his current compensation, or any portion of his compensation deferred under any plan, agreement or arrangement of or with the Employer within seven (7) days of the date such compensation is due.

Notwithstanding the foregoing, an isolated and inadvertent action taken in good faith and which is remedied by the Employer within 30 days after receipt of written notice thereof given by the Employee shall not constitute Good Reason.

(e) Without Cause. The Employer may terminate the Employee's employment hereunder without Cause.

(f) Without Good Reason. The Employee may terminate his employment hereunder without Good Reason, provided that the Employee provides the Employer with notice of his intent to terminate his employment without Good Reason at least six (6) months in advance of the Date of Termination; provided, however, that the Employer may treat such notice as a resignation and accept it prior to the expiration of six (6) months at the Employer's sole discretion.

4. Expense Reimbursement. During the Employment Period, the Employer shall reimburse the Employee for all reasonable business expenses including, without limitation, the reasonable use of a car and driver for business purposes, upon the presentation of statements of such expenses in accordance with the Employer's policies and procedures now in force or as such policies and procedures may be modified with respect to all employees of the Employer. The Employer shall pay or reimburse the Employee for business class travel and accommodation expenses for his spouse and children at times the Employee is required to be away from home for up to six round trips for his spouse and three round trips for his children per year.

5. Termination Payments.

A. In the event of termination of the Employee's employment during the Employment Period:

(i) by the Employer without Cause (pursuant to Section 3(e));

(ii) by the Employee for Good Reason (pursuant to Section 3(d)); or

(iii) on the day prior to the third anniversary of the Effective Date (and not prior thereto) and no renewal of the Employment Period has taken place as of such date by amendment of this Agreement or pursuant to a new agreement between the Employer and the Employee

then, the Employee shall be entitled to the following payments:

(a) Annual Base Salary through the Date of Termination (to the extent not paid) within 10 days following the Date of Termination;

(b) Earned but unpaid Annual Bonus in respect of the year ended prior to the Date of Termination;

(c) A pro rata portion of his target Annual Bonus based upon the number of months worked in the year in which the Date of Termination occurs;

(d) Severance pay pursuant to the Severance Plan;

(e) Amounts under the terms of Benefits Plans in which he is a participant under the terms thereof; and

(f) Unreimbursed expenses under Section 4 of this Agreement

B. The Employee shall not be entitled to any further payments or benefits under this Agreement in respect of any termination of the Employee's employment during the Employment Period by the Employer without Cause (pursuant to Section 3(e)) or by the Employee for Good Reason (pursuant to Section 3(d)) or for expiration without renewal (pursuant to this Section 5A(iii)). The payments and benefits provided in this Section 5A(a), (b), (c) and (d) are subject to and conditioned upon the Employee's compliance with the restrictive covenants provided in Section 7 and shall be subject to and conditioned upon the Employee executing a valid general release and waiver, waiving all claims the Employee may have against the Employer, its successors, assigns, affiliates, employees, officers and directors.

C. If the Employee's employment is terminated during the Employment Period by the Employer for Cause, by the Employee without Good Reason, or as a result of the Employee's death or Disability pursuant to Sections 3(c), 3(f), 3(a) and 3(b), respectively, the Employer shall pay the amounts referred to in Section 5A(a) , (b), (c) and (d) to the Employee (or the Employee's estate or legal representative in the event of the Employee's death) within thirty (30) days following the Date of Termination and the Employee shall not be entitled to any further payments or benefits under this Agreement.

6. Non-Exclusivity of Rights. Any vested benefits and other amounts that the Employee is otherwise entitled to receive under any Benefit Plan or other employee benefit plan, policy, practice or program of the Employer shall be payable in accordance with such Benefit Plan or other employee benefit plan, policy, practice or program as the case may be, except as explicitly modified by this Agreement.

7. Confidentiality of Information; Duty of Non-Disclosure; Non-Competition; Non-Solicitation.

(a) Confidential Information; Duty of Non-Disclosure. The Employee's employment under this Agreement necessarily involves his access to and understanding of certain trade secrets and confidential information pertaining to the business of the Employer and its affiliates. During the Employment Period and thereafter, he will not, directly or indirectly, without the prior written consent of the Employer, disclose or use for the benefit of any person, corporation or other entity, or for himself any and all files, trade secrets or other confidential information concerning the internal affairs of the Employer or 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 the Employee's breach of this Section 7(a)). Notwithstanding the foregoing, the Employee may disclose such information as is required by law during any legal proceeding or to the Employee's personal representatives and professional advisers and, with respect to such personal representatives and professional advisers, the Employee shall inform them of his obligations hereunder and take all reasonable steps to ensure that such professional advisers do not disclose the existence or substance thereof. Further, the Employee shall not, directly or indirectly, remove or retain, without the express prior written consent of the Employer, and upon termination of employment for any reason shall return to the Employer, 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 Employer and its affiliates or obtained as a result of his employment.

(b) Non-Competition. During the Employment Period and for a period of six (6) months after the termination of the Employee's employment with the Employer, the Employee shall not work for or provide services to a principal competitor of the Employer and its affiliates in a substantially similar function as the Employee held with the Employer during the two-year period prior to the Employee's termination of employment with the Employer.

(c) Non-Solicitation. During the Employment Period and for a period of one (1) year after the termination of the Employee's employment with the Employer, the Employee shall not: (i) work on the account of any client of the Employer and its affiliates with whom such Employee had a direct relationship or as to which the Employee had a significant supervisory responsibility or otherwise was significantly involved at any time during the two (2) years prior to such termination; (ii) hire, solicit for hire, or assist any other person in soliciting or hiring any employment candidate with whom the Employee has had contact while at the Employer during the two (2) years prior to such termination; or (iii) directly or indirectly solicit or hire, or assist any other person in soliciting or hiring, any employee of the Employer and its affiliates (as of the Employee's termination of employment) or any person who, as of such date, was in the process of being recruited by the Employer and its affiliates, or induce any such employee to terminate his or her employment with the Employer and its affiliates.

(d) Remedies. The parties hereto hereby agree that it is impossible to measure in money the damages which will accrue to the Employer by reason of a failure by the Employee to perform any of his obligations under this Section 7 and the Employee acknowledges that such obligations are a material condition to the Employer's decision to enter into this Agreement. Accordingly, if the Employer institutes any action or proceeding to enforce the provisions hereof, to the extent permitted by applicable law, the Employee hereby waives the claim or defense that the Employer has an adequate remedy at law, and the Employee shall not urge in any such action or proceeding the defense that any such remedy exists at law. The restrictive covenants in this Section 7 are in addition to any rights the Employer may have in law or at equity or under any other agreement. In the event that a court of competent jurisdiction finds the Employee to be in violation of the provisions of Sections 7(b) or 7(c), the non-competition and/or non-solicitation period shall be extended by the period of time during which such court found the Employee to have been in such violation. The foregoing shall not prejudice the Employer's right to require the Employee to account for and pay over to the Employer any profit obtained by the Employee as a result of any transaction constituting a breach of this Section 7.

(e) Survival of Covenants. This Section 7 shall survive the termination of the Employment Period.

8. Arbitration. Any controversy or claim arising out of or relating to this Agreement or for the breach thereof, or Employee's 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 officers, directors, employees or agents of the Employer) 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.

Employee and the Employer 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. Employee and the Employer 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.

9. Miscellaneous.

(a) Notices. Any notice to be given hereunder shall be given in writing. Notice shall be deemed to be given when delivered by hand, or three (3) days after being mailed, postage prepaid, registered with return receipt requested, addressed as follows.

If to the Employer:

Heidrick & Struggles, Inc.
233 South Wacker Drive
Suite 4200
Chicago, Illinois 60606-6303
Attention: Chief Legal Officer

If to the Employee:

Piers Marmion
Copse Stile House
Spring Lane, Aston Tirrold
Didcot, Oxon OX11 9EJ
United Kingdom

or to such other address as any party hereto may designate by notice to the others, and shall be deemed to have been given upon receipt.

(b) Entire Agreement. This Agreement constitutes the entire agreement among the parties hereto with respect to the Employee's employment. The Employee expressly acknowledges that no promises or commitments have been made to him that are not set forth in this Agreement. This Agreement expressly supersedes the Agreement, dated July 7, 2000, between the Employer and the Employee and shall be of no further force and effect.

(c) Modification or Amendment; Waiver. This Agreement may be amended only by an instrument in writing signed by the parties hereto, and any provision hereof may be waived only by an instrument in writing signed by the party or parties against whom or which enforcement of such waiver is sought. The failure of any party hereto at any time to require the performance by any other party hereto of any provision hereof shall in no way affect the full right to require such performance at any time thereafter, nor shall the waiver by any party hereto of a breach of any provision hereof be taken or held to be a waiver of any succeeding breach of such provision or a waiver of the provision itself or a waiver of any other provision of this Agreement.

(d) Successors. This Agreement is binding on and is for the benefit of the parties hereto and their respective successors, heirs, executors, administrators and other legal representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by the Employer or by the Employee.

(e) Severability. Each provision hereof is severable from this Agreement, and if one or more provisions hereof are declared invalid, the remaining provisions shall nevertheless remain in full force and effect. If any provision of this Agreement or portion thereof is so broad, in scope or duration or otherwise, as to be unenforceable, such provision or portion thereof shall be interpreted to be only so broad as is enforceable.

(f) Tax Withholding. The Employer may withhold from any amounts payable to the Employee hereunder all federal, state, city or other taxes that the Employer may reasonably determine are required to be withheld pursuant to any applicable law or regulation.

(g) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without reference to its principles of conflicts of law.

(h) Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

(i) Headings. The headings in this Agreement are inserted for convenience of reference only and shall not be a part of or control or affect the meaning of any provision hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

Heidrick & Struggles International, Inc.

By: /s/ Stephanie W. Abramson
---------------------------
Name: Stephanie W. Abramson
Title: Chief Legal Officer

/s/ Piers Marmion
---------------------------
Piers Marmion

EXHIBIT 10.17

# EMPLOYMENT AGREEMENT

AGREEMENT, dated this lst day of January, 2002 (the "Agreement"), between Heidrick & Struggles, Inc., a Delaware corporation, and any successor (the "Employer") and Knox J. Millar (the "Employee"). The parties hereby agree, as follows:

1. Employment. The Employer shall employ the Employee as Chief Human Resources Officer and the Employee hereby accepts such position and agrees to serve the Employer in such capacity during the employment period fixed by Section 3 hereof (the "Employment Period"). The Employee shall report to the Chief Executive Officer of the Employer. The Employee's duties and responsibilities shall be such duties and responsibilities as are consistent with the position of Chief Human Resources Officer of the Employer. The Employee shall devote substantially all of his business time and attention to the performance of his duties and responsibilities hereunder.

2. Compensation.

(a) Annual Base Salary. The Employer shall pay the Employee, pursuant to the Employer's normal and customary payroll procedures, a base salary of $500,000 per annum (the "Annual Base Salary").

(b) Annual Bonus. In addition to the Annual Base Salary, during the Employment Period, the Employee may receive an annual bonus (the "Annual Bonus"), based on the achievement of performance objectives, which shall be determined by the Compensation Committee of the Board of Directors of the Employer (the "Board").

(c) Incentive Compensation; Benefit Plans. Commencing in January 2002, the Employee shall participate in the Employer's Annual Bonus Plan, Change in Control Severance Plan and Severance Plan. In addition, during the Employment Period (i) the Employee shall be entitled to participate in all other savings and retirement plans, practices, policies and programs of the Employer which are made available generally to other employees of the Employer and (ii) the Employee and/or the Employee's family, as the case may be, shall be eligible for participation in, and shall receive all benefits under, all welfare benefit plans, practices, policies and programs provided by the Employer (including, without limitation, vacation, medical, prescription, dental, disability, life insurance, group life insurance, accidental death and travel accident insurance plans and programs, together the "Benefit Plans") which are made available generally to other employees of the Employer. The Employer's Physical Examinations Policy and the Financial Planning Program for Senior Partners will apply to the Employee.

3. Employment Period.

The Employment Period shall commence on January 1, 2002 (the "Effective Date") and shall end July 1, 2003. Notwithstanding the foregoing, the Employee's employment hereunder may be terminated during the Employment Period upon the earliest to occur of the following events:

(a) Death. The Employee's employment hereunder shall terminate immediately upon his death.

(b) Disability. The Employer may terminate the Employee's employment hereunder for "Disability," which shall mean (i) a physical or mental incapacity of the Employee which entitles the Employee to benefits under the long-term disability plan applicable to the Employee and maintained by the Employer; or (ii) in the event that no such long-term disability plan is maintained by the Employer, the Employee has been unable to perform his duties hereunder for a period of 180 days within any twelve-month period as a result of the Employee's incapacity due to physical or mental illness.

(c) Cause. The Employer may terminate the Employee's employment hereunder for Cause. For purposes of this Agreement, the term "Cause" shall mean (i) fraud, or the embezzlement or misappropriation of funds or property of the Employer or any of its affiliates by you, the conviction of, or the entrance of a plea of guilty or nolo contendere by Employee, to a felony, or a crime involving moral turpitude; (ii) neglect, misconduct or willful malfeasance which is materially injurious to the Employer or any of its affiliates; or (iii) willful failure or refusal to perform your duties, or a willful, material breach of contract. If, subsequent to the Employee's termination of services hereunder for other than Cause, it is discovered that the Employee's services could have been terminated for Cause, the Employee's services shall, at the election of the Employer, be deemed to have been terminated for Cause retroactively to the date the events giving rise to Cause occurred.

(d) Good Reason. The Employee may terminate his employment hereunder for Good Reason (and such termination shall be treated as if it were a termination by the Employer without Cause, and not a voluntary termination by the Employee). "Good Reason" shall mean (i) a diminution of the amount of the Employee's base salary or target bonus or benefits; (ii) termination of the Employee's participation in Tier One of the Employer's Change in Control Severance Plan or the Employee's participation in the Top Management level of the Employer's Severance Plan; (iii) the elimination of the Employee's position or a diminution of responsibilities associated with the Employee's position; or (iv) a change in the location of the Employee's principal place of employment more than 50 miles from its initial location without the Employee's approval.

Notwithstanding the foregoing, an isolated and inadvertent action taken in good faith and which is remedied by the Employer within 30 days after receipt of written notice thereof given by the Employee shall not constitute Good Reason.

(e) Without Cause. The Employer may terminate the Employee's employment hereunder without Cause.

(f) Without Good Reason. The Employee may terminate his employment hereunder without Good Reason, provided that the Employee provides the Employer with notice of his intent to terminate his employment without Good Reason at least six months in advance of the Date of Termination; provided, however, that the Employer may treat such notice as a resignation and accept it prior to the expiration of six months at the Employer's sole discretion.

4. Expense Reimbursement. During the Employment Period, the Employer shall reimburse the Employee for all reasonable business expenses upon the presentation of statements of such expenses in accordance with the Employer's policies and procedures now in force or as such policies and procedures may be modified with respect to all employees of the Employer. The Employer shall pay or reimburse the Employee on a grossed-up basis for two business class round trip tickets per year between New York and Europe and accommodations in accordance with the Employer's travel policy in effect at the time. The Employer shall also pay or reimburse the Employee for the cost of a health club.

5. Termination Payments.

A. In the event of termination of the Employee's employment during the Employment Period:

(i) by the Employer without Cause (pursuant to Section 3(f)); or

(ii) by the Employee for Good Reason (pursuant to Section 3(d))

then, the Employee shall be entitled to the following payments:

(a) Annual Base Salary through the Date of Termination (to the extent not paid) within 10 days following the Date of Termination;

(b) Earned but unpaid Annual Bonus in respect of the year ended prior to the Date of Termination;

(c) A pro rata portion of his target Annual Bonus (which target shall not be less than $500,000) based upon the number of months worked in the year in which the Date of Termination occurs;

(d) Severance pay pursuant to the Top Management level of the Employer's Severance Plan;

(e) Amounts vested under the terms of benefits plans in which he is a participant under the terms thereof; and

(f) Unreimbursed expenses under Section 4 of this Agreement.

B. The Employee shall not be entitled to any further payments or benefits under this Agreement in respect of any termination of the Employee's employment during the Employment Period by the Employer without Cause (pursuant to Section 3(f)) or by the Employee for Good Reason (pursuant to Section 3(d)). The payments and benefits provided in this Section 5A(a) and 5A(b) are subject to and conditioned upon the Employee's compliance with the restrictive covenants provided in Section 7 and shall be subject to and conditioned upon the Employee executing a valid general release and waiver, waiving all claims the Employee may have against the Employer, its successors, assigns, affiliates, employees, officers and directors.

C. In the event that the Employee's employment terminates at the expiration of the Employment Period without renewal, then the Employee shall be entitled to a pro rata portion of his target Annual Bonus (which target shall not be less than $500,000) based upon the number of months worked in the year in which the Date of Termination occurs and the Employee shall be entitled to continue his participation in the Employer's benefit plans (to the extent he is a participant on the date of expiration) for six months after expiration of the Employment Period.

D. If the Employee's employment is terminated during the Employment Period by the Employer for Cause, by the Employee without Good Reason, or as a result of the Employee's death or Disability pursuant to Sections 3(c), 3(g), 3(a) and 3(b), respectively, the Employer shall pay the amounts referred to in Section 5A(a) and 5A(b) to the Employee (or the Employee's estate or legal representative in the event of the Employee's death) within thirty days following the Date of Termination and the Employee shall not be entitled to any further payments or benefits under this Agreement.

E. The Employer shall forgive the $700,000 principal amount of the loan made to the Employee in June 2001 in accordance with the terms of the Promissory Note attached hereto.

6. Non-Exclusivity of Rights. Any vested benefits and other amounts that the Employee is otherwise entitled to receive under any Benefit Plan or other employee benefit plan, policy, practice or program of the Employer shall be payable in accordance with such Benefit Plan or other employee benefit plan, policy, practice or program as the case may be, except as explicitly modified by this Agreement.

7. Confidentiality of Information; Duty of Non-Disclosure; Non-Competition; Non-Solicitation.

(a) Confidential Information; Duty of Non-Disclosure. The Employee's employment under this Agreement necessarily involves his access to and understanding of certain trade secrets and confidential information pertaining to the business of the Employer and its affiliates. During the Employment Period and thereafter, he will not, directly or indirectly, without the prior written consent of the Employer, disclose or use for the benefit of any person, corporation or other entity, or for himself any and all files, trade secrets or other confidential information concerning the internal affairs of the Employer or 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 the Employee's breach of this Section 7(a)). Notwithstanding the foregoing, the Employee may disclose such information as is required by law during any legal proceeding or to the Employee's personal representatives and professional advisers and, with respect to such personal representatives and professional advisers, the Employee shall inform them of his obligations hereunder and take all reasonable steps to ensure that such professional advisers do not disclose the existence or substance thereof. Further, the Employee shall not, directly or indirectly, remove or retain, without the express prior written consent of the Employer, and upon termination of employment for any reason shall return to the Employer, 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 Employer and its affiliates or obtained as a result of his employment.

(b) Non-Competition. During the Employment Period and for a period of six months after the termination of the Employee's employment with the Employer, the Employee shall not work for or provide services to a principal competitor of the Employer and its affiliates in a substantially similar function as the Employee held with the Employer during the two-year period prior to the Employee's termination of employment with the Employer.

(c) Non-Solicitation. During the Employment Period and for a period of one year after the termination of the Employee's employment with the Employer, the Employee shall not (i) hire, solicit for hire, or assist any other person in soliciting or hiring any employment candidate with whom the Employee has had contact while employed by the Employer during the two years prior to such termination or (ii) directly or indirectly solicit or hire, or assist any other person in soliciting or hiring, any employee of the Employer and its affiliates (as of the date of the Employee's termination of employment) or any person who, as of such date, was in the process of being recruited by the Employer and its affiliates, or induce any such employee to terminate his or her employment with the Employer and its affiliates

(d) Remedies. The parties hereto hereby agree that it is impossible to measure in money the damages which will accrue to the Employer by reason of a failure by the Employee to perform any of his obligations under this Section 7 and the Employee acknowledges that such obligations are a material condition to the Employer's decision to enter into this Agreement. Accordingly, if the Employer institutes any action or proceeding to enforce the provisions hereof, to the extent permitted by applicable law, the Employee hereby waives the claim or defense that the Employer has an adequate remedy at law, and the Employee shall not urge in any such action or proceeding the defense that any such remedy exists at law. The restrictive covenants in this Section 7 are in addition to any rights the Employer may have in law or at equity or under any other agreement. In the event that a court of competent jurisdiction finds the Employee to be in violation of the provisions of Sections 7(b) or 7(c), the non-competition and/or non-solicitation period shall be extended by the period of time during which such court found the Employee to have been in such violation. The foregoing shall not prejudice the Employer's right to require the Employee to account for and pay over to the Employer any profit obtained by the Employee as a result of any transaction constituting a breach of this Section 7.

(e) Survival of Covenants. This Section 7 shall survive the termination of the Employment Period.

8. Arbitration. This Agreement contains our entire understanding and can be amended only in writing and signed by the Employee and Chief Executive Officer of the Employer. The Employee specifically acknowledges that no promises or commitments have been made to him that are not set forth in this Agreement.

Any controversy or claim arising out of or relating to this Agreement or for the breach thereof, or Employee's 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 officers, directors, employees or agents of the Employer) 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.

Employee and the Employer 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. Employee and the Employer 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.

9. Miscellaneous.

(a) Notices. Any notice to be given hereunder shall be given in writing. Notice shall be deemed to be given when delivered by hand, or three days after being mailed, postage prepaid, registered with return receipt requested, addressed as follows.

If to the Employer:

Heidrick & Struggles, Inc.

233 South Wacker Drive
Suite 4200
Chicago, Illinois 60606
Attention: Chief Legal Officer

If to the Employee:

Mr. Knox J. Millar
575 Park Avenue
Apartment 909
New York, New York 10021

or to such other address as any party hereto may designate by notice to the others, and shall be deemed to have been given upon receipt.

(b) Entire Agreement. This Agreement constitutes the entire agreement among the parties hereto with respect to the Employee's employment. This Agreement expressly supersedes the Agreement, dated July 7, 2000, between the Employer and the Employee and such Agreement shall be of no further force and effect.

(c) Modification or Amendment; Waiver. This Agreement may be amended only by an instrument in writing signed by the parties hereto, and any provision hereof may be waived only by an instrument in writing signed by the party or parties against whom or which enforcement of such waiver is sought. The failure of any party hereto at any time to require the performance by any other party hereto of any provision hereof shall in no way affect the full right to require such performance at any time thereafter, nor shall the waiver by any party hereto of a breach of any provision hereof be taken or held to be a waiver of any succeeding breach of such provision or a waiver of the provision itself or a waiver of any other provision of this Agreement.

(d) Successors. This Agreement is binding on and is for the benefit of the parties hereto and their respective successors, heirs, executors, administrators and other legal representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by the Employer or by the Employee.

(e) Severability. Each provision hereof is severable from this Agreement, and if one or more provisions hereof are declared invalid, the remaining provisions shall nevertheless remain in full force and effect. If any provision of this Agreement or portion thereof is so broad, in scope or duration or otherwise, as to be unenforceable, such provision or portion thereof shall be interpreted to be only so broad as is enforceable.

(f) Tax Withholding. The Employer may withhold from any amounts payable to the Employee hereunder all federal, state, city or other taxes that the Employer may reasonably determine are required to be withheld pursuant to any applicable law or regulation.

(g) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without reference to its principles of conflicts of law.

(h) Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

(i) Headings. The headings in this Agreement are inserted for convenience of reference only and shall not be a part of or control or affect the meaning of any provision hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

Heidrick & Struggles, Inc.

By: /s/ Piers Marmion
------------------------------
Name: Piers Marmion
Title: CEO

/s/ Knox J. Millar
---------------------------------
Knox J. Millar

PROMISSORY NOTE

$700,000.00 Dated May 1, 2002

FOR VALUE RECEIVED, the undersigned promises to pay to the order of HEIDRICK & STRUGGLES, INC., a Delaware corporation, the principal sum of Seven Hundred Thousand Dollars and no Cents ($700,000.00) without interest thereon. Payment of the entire principal sum shall be made in full on June 30, 2004, except that the entire principal sum shall, without demand or notice of any kind, be and become due and payable within thirty (30) days following the date that you cease to be in the Company's employ if 1) the Company terminates your employment with "Cause" as defined in your January 1, 2002 employment agreement with the Company ("the Agreement") or 2) you terminate your employment with the Company other than for "Good Reason" (as defined in the Agreement) after June 30, 2002.

The principal sum shall be forgiven in the following amounts on the following forgiveness dates: $350,000.00 on June 30, 2002, provided your employment has not been terminated for Cause and $350,000.00 on June 30, 2003, provided you are in the Company's employ on that date; provided however, that if the Company terminates your employment without Cause, or you have resigned from the Company for Good Reason, then the principal sum shall be forgiven in full and at once upon the effective date of such termination or resignation. Applicable withholding taxes attributable to the forgiveness of this Note will be withheld by the Company or reimbursed to the Company by you, as provided in your Agreement.

All payments under this Note shall be mailed via Federal Express or certified mail, return receipt requested, to Heidrick & Struggles, Inc., 233 South Wacker Drive, Suite 4200, Chicago, Illinois 60606-6303, Attention: Corporate Controller, or to such other address or person as the holder of this Note may, in writing, direct.

/s/ Knox Millar
-------------------------
Knox Millar
575 Park Avenue
Apartment 909
New York, New York 10021

Exhibit 99.1

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18,
United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Heidrick & Struggles International, Inc., a Delaware corporation (the "Company"), does hereby certify that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 14, 2002 /s/ Piers Marmion

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Chief Executive Officer

Dated: August 14, 2002 /s/ Kevin J. Smith

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Kevin J. Smith
Chief Financial Officer