HEIDRICK & STRUGGLES INTERNATIONAL INC
Form 10-K
February 28, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

OR

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

Commission File No. 0-25837

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**36-2681268**
(State or Other Jurisdiction of	**(I.R.S. Employer**

Incorporation or Organization)	**Identification Number)**

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

(Address of principal executive offices) (Zip Code)

(312) 496-1200

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

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

The aggregate market value of the registrant s Common Stock held by non-affiliates of the registrant on June 30, 2007 was approximately $922,072,818 based upon the closing market price of $51.24 on that date of a share of Common Stock as reported on the Nasdaq Global Stock Market. As of February 20, 2008, there were 17,277,025 shares of the Company s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for its Annual Meeting of Stockholders to be held on May 22, 2008, are incorporated by reference into Part III of this Form 10-K.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

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PART I

ITEM 1. BUSINESS

Overview

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

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

Heidrick & Struggles has been in the executive search business for more than 50 years. We provide our services to a broad range of clients through the expertise of more than 386 consultants located in major cities around the world. For many of our clients, our global access to and knowledge of regional and functional markets and candidate talent is an important differentiator of our business. We provide our executive search services on a retained basis, recruiting senior executives whose first year base salary and bonus average approximately $345,000 in 2007 on a worldwide basis. Our clients include the following:

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

The executive search industry is highly fragmented, consisting of several thousand executive search firms worldwide. The Association of Executive Search Consultants (AESC) estimated that the market for retained executive search was $9.8 billion in 2007, and based on trade publication reports, we estimate that five executive search firms/alliances each generated more than $400 million in worldwide revenue during 2007. Executive search firms are generally separated into two broad categories: retained and contingency. Retained executive search firms fulfill their clients senior leadership needs by identifying potentially qualified candidates and assisting clients in evaluating and assessing these candidates. Retained executive search firms generally are compensated for their services regardless of whether the client employs a candidate identified by the search firm and are generally retained on an exclusive basis. In contrast, contingency search firms are compensated only upon successfully placing a recommended candidate. Retained executive search firms normally charge a fee for their services equal to approximately one-third of the first year s total compensation for the position being filled.

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

Analyze the client s business needs in order to understand its organizational structure, relationships, and culture; determine the required set of skills for the position; define the required experience; and identify the other characteristics desired of the successful candidate

Select, contact, interview and evaluate candidates on the basis of experience and potential cultural fit with the client organization

Present confidential written reports on the candidates who potentially fit the position specification

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Schedule a mutually convenient meeting between the client and each candidate

Complete references on the final candidate selected by the client

Assist the client in structuring the compensation package and supporting the successful candidate s integration into the client team

Available Information

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

Organization

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

Geographic Structure. We provide senior-level executive search and leadership consulting services to our clients worldwide through a network of more than 60 offices in 33 countries. Major locations are staffed with consultants, research associates, administrative assistants and other support staff. Administrative functions are centralized where possible, although certain support and research functions are situated regionally because of variations in local requirements.

Our worldwide network also includes affiliate relationships in three countries. We have no financial investment in these affiliates but receive licensing fees from them for the use of our name and our databases. Licensing fees were $0.8 million and $1.0 million for the years ended December 31, 2007 and 2006, respectively.

Industry Practices. We report and operate our executive search business in seven broad industry groups: Financial Services, Consumer, Industrial, Technology, Health Care/Life Sciences, Professional Services and Higher Education/Nonprofit/Other. These industry categories and their relative sizes, as measured by net revenue for 2007 are as follows:

Industry Categories	Percentage of Net Revenue
Financial Services	33%
Industrial	21%
Consumer	18%

Technology	10%
Health Care/Life Sciences	9%
Professional Services	7%
Higher Education/Nonprofit/Other	2%
	100%

Within each broad industry group are a number of industry subsectors. Consultants often specialize in one or more subsectors to provide clients with market intelligence and candidate knowledge specific to their industry. For example, within the Financial Services sector our business is quite diversified among a number of industry

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subsectors including Asset & Wealth Management, Consumer Financial Services, Investment Banking and Capital Markets, Insurance, Private Equity/Venture Capital, and Real Estate.

In an effort to more effectively service our global accounts, we undertook an initiative in July 2007 to change our go-to-market strategy and provide our clients with a more unified executive search team. We shifted our client approach from teams working with a geographic orientation to worldwide industry practice-based teams. This change in focus allows us to better leverage our global diversity and market intelligence to improve client service. Each client is served by one global account team instead of a different account team in each region. We believe that this client service approach is a key differentiator from our competition.

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

Our Global Functional Practices include CEO & Board of Directors; Chief Information Officers; Chief Sales Officers; Chief Marketing Officer; Financial Officer; Chief Human Resources Officers; Legal, Risk & Compliance; Real Estate; Research & Development; and Supply Chain & Transportation.

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

Information by Geographic Segment

Americas. As of December 31, 2007, we had 204 executive search consultants operating in our Americas segment, which includes the United States, Canada, Mexico and Latin America, principally Argentina, Brazil and Chile. Our Americas segment generated approximately 53.8% of our worldwide net revenue in 2007. The largest offices in this segment in terms of net revenue are located in New York, Chicago and Los Angeles.

Europe. As of December 31, 2007, we had 121 executive search consultants operating in our European segment which includes the Middle East and Africa. Our European segment generated approximately 33.5% of our worldwide net revenue in 2007. The United Kingdom, Germany and France produced the highest levels of net revenue in this segment.

Asia Pacific. As of December 31, 2007, we had 61 executive search consultants operating in the Asia Pacific segment. This segment generated approximately 12.7% of our worldwide net revenue in 2007. China (including Hong Kong), Australia and Japan produced the highest levels of net revenue in this segment.

For financial information relating to each geographic segment, see Note 18, *Segment Information*, in the Notes to Consolidated Financial Statements.

Seasonality

There is no discernible seasonality in our business and revenue and operating income have historically varied by quarter and are hard to predict from quarter to quarter. Although as a percentage of total annual net revenue, the first quarter is typically the lowest. On average, the variance between the highest and lowest amount of quarterly net revenue, as expressed as a percentage of annual net revenue, is approximately two percentage points.

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Clients and Marketing

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

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

No single client accounted for more than 3% of our net revenue in 2007, 2006 or 2005. Our top ten clients in 2007 in aggregate accounted for less than 9% of total net revenue.

Information Management Systems

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

Professional Staff and Employees

Our executive search professionals are generally categorized either as consultants or associates. Associates assist consultants by conducting research, making initial contact with candidates in some instances and performing other search-related functions. As of December 31, 2007, we had 1,647 full-time equivalent employees, of whom 386 were executive search consultants, 465 were associates and 796 were other search, support and corporate staff.

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

Competition

The executive search industry is highly competitive. While we face competition to some degree from all firms in the industry, we believe our most direct competition comes from four established global retained executive search firms that conduct searches primarily for the most senior-level positions within an organization. In particular, our competitors include Egon Zehnder International, Korn/Ferry International, Russell Reynolds Associates, Inc. and Spencer Stuart & Associates. To a lesser extent, we also face competition from smaller boutique or specialty firms that specialize in certain regional markets or industry segments. Each firm with which we compete is also a competitor in the marketplace for effective consultants. The AESC estimated the market

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size for the executive recruiting industry was $9.8 billion worldwide in 2007. We believe that the combined revenues of our Company and our top four competitors represent approximately 29% of this market.

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

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

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EXECUTIVE OFFICERS

Our executive officers as of February 28, 2008 are as follows:

Name	Age	Position With Company
L. Kevin Kelly	42	Chief Executive Officer; Director
K. Steven Blake	43	Executive Vice President, General Counsel and Secretary
Charles G. Davis	50	Regional Managing Partner, Asia Pacific
Valerie E. Germain	44	Managing Partner, Strategic Partnerships
Sanjay Gupta	44	Senior Vice President and Chief Information Officer
Eileen A. Kamerick	49	Executive Vice President, Chief Financial Officer and Chief Administrative Officer
David C. Peters	55	Regional Managing Partner, Europe/Middle East/Africa

There are no family relationships between any executive officer or director. The following information sets forth the business experience for at least the past five years for each of our executive officers as of February 28, 2008:

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

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

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

Valerie E. Germain has been our Managing Partner, Strategic Partnerships since July 2007 and has been a Partner in our Financial Services Practice since joining us in September 2003. From 1991 to 2003, Ms. Germain was a Managing Director at Jay Gaines & Company.

Sanjay Gupta has been our Senior Vice President and Chief Information Officer since joining us in April 2007. From 1999 to 2007, Mr. Gupta was Managing Partner and Vice President at Gartner Inc.

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

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

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ITEM 1A. RISK FACTORS

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

We depend on attracting and retaining qualified consultants.

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

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

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

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

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

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

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

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

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We face aggressive competition.

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

We rely heavily on information management systems.

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

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

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

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

We generate substantial revenue outside the United States. We offer our services through offices in 30 countries around the world. We are exposed to the risk of changes in social, political, legal and economic conditions inherent in international operations which could have a significant impact on our business, financial condition and results of operations. In particular, we conduct business in countries where the legal systems, local laws and trade practices are unsettled and evolving. Commercial laws in these countries are sometimes vague, arbitrary and inconsistently applied. Under these circumstances, it is difficult for us to determine at all times the exact requirements of such local laws. If we fail to comply with local laws, our business, financial condition and results of operations could suffer. In addition, the global nature of our operations poses challenges to our management, and financial and accounting systems. Failure to meet these challenges could seriously harm our business, financial condition and results of operations.

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

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

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Our net revenue may be affected by adverse economic conditions.

Although our net revenue increased in 2007, there can be no assurances that economic conditions will continue to improve or even remain stable. If economic conditions weaken, our business, financial condition and results of operations could suffer.

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

We establish valuation allowances against deferred tax assets when there is insufficient evidence that we will be able to realize the benefit of these deferred tax assets. We reassess the realizability of the deferred tax assets as facts and circumstances dictate. If after future assessments of the realizability of the deferred tax assets, we determine that a lessor or greater allowance is required, we record a reduction or increase to the income tax expense and the valuation allowance in the period of such determination.

Our inability to successfully integrate consultants hired through acquisitions may have an adverse effect on our business.

We acquired Highland Partners in the fourth quarter of 2006 and RentonJames in the first quarter of 2007. We intend to continue to grow through selective acquisitions, however, we may not be able to identify appropriate acquisition candidates, consummate acquisitions on satisfactory terms or integrate the acquired businesses effectively and profitably into our existing operations. Our future success will depend in part on our ability to complete the integration of acquisitions successfully into our operations. Failure to successfully integrate new employees and complementary businesses may adversely affect our profitability by creating operating inefficiencies that could increase operating expenses as a percentage of net revenues and reduce operating income. Further, after any acquisition, the acquired businesses clients may choose not to move their business to us causing an adverse affect on our business, financial condition and results of operations.

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

Periodically, we perform assessments of the carrying value of our goodwill and other intangible assets. If future events, including our financial performance and economic conditions, cause us to conclude that the value of these assets has become impaired, we would need to record impairment charges. Any resulting impairment loss could have an adverse impact on our business, financial condition and results of operations.

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

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

- a classified board of directors

limitations on the removal of directors

limitations on stockholder actions

the ability to issue one or more series of preferred stock by action of our Board of Directors

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our corporate headquarters is located in Chicago, Illinois. We have offices in major metropolitan areas in 30 countries around the world. All of our offices are leased. We do not own any real estate. The aggregate square footage of office space under lease was approximately 822 thousand as of December 31, 2007. These office leases call for future minimum lease payments of approximately $204 million and have terms that expire between 2008 and 2024, exclusive of renewal options that we can exercise. Approximately 150 thousand square feet of office space has been sublet to third parties.

ITEM 3. LEGAL PROCEEDINGS

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

In September 2007, Whitney Group and Whitney Group Asia (collectively Whitney Group) filed suit against us in the New York Supreme Court, New York County, seeking injunctive relief and damages relating to the resignation, and subsequent hiring by us, of certain Whitney Group employees based in Hong Kong. On December 19, 2007, the parties to the suit agreed to a settlement in principle and release of all claims, both asserted and unasserted.

Contingencies

During the fourth quarter of 2005, a European country commenced a tax audit for the years 2001 to 2004, including an examination of our arrangement with professional services companies that provide consulting services to us. On November 24, 2006, the examining tax authority issued a final assessment in the amount of 4.3 million (equivalent to $6.2 million at December 31, 2007). No penalty has been included in this assessment. This final assessment has been appealed by us and the enforcement of the assessment has been suspended until a final determination of the appeal. We have provided a bank guarantee to the tax authority in the amount of the final assessment as required by local law. See Note 4, *Restricted Cash* and Note 19, *Guarantees*, in the Notes to Consolidated Financial Statements. At this time, we believe that the likelihood of an unfavorable outcome is not probable and that the potential amount of any loss cannot be reasonably estimated. We also believe that the amount of a final assessment, if any, would not be material to our financial condition.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

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PART II

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

Market for Registrant s Common Equity

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

Year Ended December 31, 2007	High	Low
First Quarter	$ 49.62	$ 41.20
Second Quarter	51.59	45.86
Third Quarter	55.22	34.92
Fourth Quarter	45.57	30.96
Year Ended December 31, 2006		
First Quarter	$ 37.12	$ 30.88
Second Quarter	37.50	29.87
Third Quarter	37.86	30.10
Fourth Quarter	43.49	35.48

As of February 20, 2008, the last reported price on the Nasdaq Global Stock Market for our common stock was $30.16 per share and there were approximately 129 stockholders of record of the common stock.

Dividends

In September of 2007, our Board of Directors approved the initiation of a quarterly cash dividend payment in the amount of $0.13 per share. On an annual basis, the cash dividend is expected to be $0.52 per share. The first quarterly dividend payment was made on November 16, 2007, to shareholders of record as of November 2, 2007, for a total of $2.3 million. In connection with the initiation of a dividend, the Board of Directors also approved the payment of a dividend equivalent on outstanding restricted stock units. The amounts related to the quarterly dividend equivalent for restricted stock units will be accrued over the vesting period and paid upon vesting.

Our second quarterly cash dividend payment in the amount of $0.13 per share was paid on February 15, 2008 to shareholders of record as of February 1, 2008. The dividend payable and related dividend equivalents on outstanding restricted stock units are accrued in the Consolidated Balance Sheet as of December 31, 2007.

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Issuer Purchases of Equity Securities

The following table provides information related to the Company s purchase of common shares for the quarter ended December 31, 2007. For further information of the Company s share repurchase activity, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs
Oct. 1, 2007 Oct. 31, 2007		$		$ 32,884,323
Nov. 1, 2007 Nov. 30, 2007	115,461	35.62	115,461	28,772,071
Dec. 1, 2007 Dec. 31, 2007	270,300	35.21	270,300	19,254,908
Total	385,761		385,761	

On May 24, 2006, the Company s Board of Directors authorized management to repurchase shares of the Company s common stock under an open market share repurchase authorization with an aggregate purchase price up to $50 million. The Company purchased 1,132,073 shares of our common stock for $50 million under the May 2006 authorization, which was completed during the third quarter of 2007.

On May 24, 2007, the Company s Board of Directors authorized management to repurchase shares of the Company s common stock with an aggregate purchase price up to $50 million. The Company intends from time to time as business conditions warrant, to purchase shares of its common stock on the open market or in negotiated or block trades. No time limit has been set for completion of this program. A portion of the repurchased shares is intended to offset dilution associated with the Company s employee equity programs. Through December 31, 2007, the Company has purchased 808,931 shares of its common stock for $30.7 million under the May 2007 authorization. As of December 31, 2007, $19.3 million of the $50 million stock repurchase authorization remained.

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ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below have been derived from our audited consolidated financial statements. The data as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 are derived from the audited historical consolidated financial statements which are included elsewhere in this Form 10-K. The data as of December 31, 2005, 2004 and 2003 and for the years ended December 31, 2004 and 2003 are derived from audited historical consolidated financial statements that are not included in this report. The data set forth are qualified in their entirety by, and should be read in conjunction with, Management s Discussion and Analysis of Financial Condition and Results of Operations, the audited consolidated financial statements, the notes thereto, and the other financial data and statistical information included in this Form 10-K.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(in thousands, except per share and other operating data)				
Statement of Operations Data:					
Revenue:					
Revenue before reimbursements (net revenue)	$ 619,654	$ 478,523	$ 412,297	$ 375,432	$ 317,934
Reimbursements	28,612	23,471	20,553	22,744	22,683
Total revenue	648,266	501,994	432,850	398,176	340,617
Operating expenses:					
Salaries and employee benefits	418,952	328,714	273,949	251,186	223,537
General and administrative expenses	121,198	99,352	94,369	96,533	87,250
Reimbursed expenses	28,612	23,471	20,553	21,247	22,683
Restructuring charges (1)		408	22,493	550	29,443
Total operating expenses	568,762	451,945	411,364	369,516	362,913
Operating income (loss)	79,504	50,049	21,486	28,660	(22,296)
Non-operating income (expense):					
Interest income	8,099	6,318	5,951	2,588	1,687
Interest expense	(64)	(61)	(379)	(197)	(166)
Net realized and unrealized gains (losses) on equity and warrant portfolio	(116)	510	(19)	57,072(2)	673
Other, net	(288)	(1,550)	1,443	(1,024)	(1,722)
Net non-operating income	7,631	5,217	6,996	58,439	472
Income (loss) before income taxes	87,135	55,266	28,482	87,099	(21,824)
Provision for (benefit from) income taxes	30,672	21,023	(10,736)(3)	4,791(3)	58,844(3)
Net income (loss)	$ 56,463	$ 34,243	$ 39,218	$ 82,308	$ (80,668)
Basic earnings (loss) per common share	$ 3.16	$ 1.91	$ 2.08	$ 4.35	$ (4.43)
Basic weighted average common shares outstanding	17,854	17,925	18,898	18,941	18,217
Diluted earnings (loss) per common share	$ 2.97	$ 1.81	$ 1.98	$ 4.11	$ (4.43)
Diluted weighted average common shares outstanding	18,984	18,916	19,761	20,012	18,217
Dividends per common share	$ 0.26	$	$	$	$
Balance Sheet Data (at end of period):					
Working capital	$ 148,999	$ 135,880	$ 159,964	$ 150,198	$ 65,211
Total assets (4)	616,884	513,309	406,409	415,656	301,876
Long-term debt, less current maturities					26
Stockholders equity	309,800	263,705	237,485	216,126	126,209

Other Operating Data:					
Average number of consultants during the period	401	348	307	299	328

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Notes to Selected Financial Data:

(1) See Note 16, *Restructuring Charges*, in the Notes to Consolidated Financial Statements.

(2) In 2004, we recognized a realized gain of $57.0 million related to the equity and warrant portfolio, net of the consultants share of the gain and other costs, including $56.8 million related to the monetization of our shares of common stock of Google Inc.

(3) The 2003 income tax provision includes a non-cash income tax expense of $57.9 million, recorded in the fourth quarter of 2003, to provide a full valuation allowance against the net deferred tax assets for the U.S. income tax paying entity. In 2004 and again in 2005, we determined that a lesser valuation allowance was required relating to certain deferred tax assets in the U.S. and recorded reductions to the valuation allowance of $28.5 million and $24.6 million, respectively. See Note 17, *Income Taxes*, in the Notes to Consolidated Financial Statements.

(4) In 2007, the Company determined that the UK Employee Benefit Trust should not be consolidated and as a result has reduced total assets and liabilities by $6.5 million, $4.5 million, $5.6 million, and $2.6 million in 2006, 2005, 2004 and 2003, respectively. See Note 1, *Basis of Presentation,* in the Notes to Consolidated Financial Statements.

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

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

Executive Overview

Our Business

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

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

We provide our services to a broad range of clients through the expertise of more than 386 consultants located in 30 countries throughout the world. Our executive search services are provided on a retained basis. Revenue before reimbursements of out-of-pocket expenses (net revenue) consists of retainers and indirect expenses billed to clients. Typically, we are paid a retainer for our executive search services equal to approximately one-third of the estimated first year compensation for the position to be filled. In addition, if the actual compensation of a placed candidate exceeds the estimated compensation, we often are authorized to bill the client for one-third of the excess. Indirect expenses are calculated as a percentage of the retainer with certain dollar limits per search.

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Key Performance Indicators

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

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

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

Our Compensation Model

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

In the second quarter of 2005, we adopted a new compensation policy for consultants and management. Under this policy, a portion of consultant and management bonuses are paid in the form of restricted stock units that vest ratably over a three-year period from the date of grant. The amount paid in the form of restricted stock units varies between 10% and 20% (plus a premium of 10% on the shares received) depending on the employee s level or position. The restricted stock units are issued in the quarter following the year in which the performance portion of the awards is earned. Compensation expense related to awards requiring satisfaction of both service and performance conditions is recognized using a graded vesting attribution method over the requisite service period which for 2007, began January 1, 2007 and continues through the final vesting date, which is generally three years from the date of grant. This change in policy was made to better align consultants and management s interests with those of the shareholders. In addition, the change will result in increased share ownership for consultants and management.

2007 Overview

Consolidated net revenue increased 29.5%, or $141.1 million in 2007, compared to 2006. The first nine months of 2007 includes net revenue of approximately $46 million associated with former Highland Partners consultants, which were acquired on October 2, 2006. Double-digit percentage revenue increases were reported in 2007 in the Americas, Europe and Asia Pacific. The Financial Services, Industrial, and Health Care/Life Sciences industry groups were the largest contributors to year-over-year revenue growth. Consultant productivity measured by average revenue per executive search consultant increased to $1.5 million for the year ended December 31, 2007 from $1.3 million for the year ended December 31, 2006. The average fee per executive search was $114,900 for the year ended December 31, 2007 compared to $101,100 for the year ended December 31, 2006.

Operating income as a percentage of net revenue increased to 12.8% in 2007 from 10.5% in 2006 primarily as a result of an increase in net revenue in 2007 of 29.5%. Salaries and employee benefits expense as a percentage of net revenue decreased from 68.7% in 2006 to 67.6% in 2007, and general and administrative expenses as a percentage of net revenue decreased from 20.8% in 2006 to 19.6% in 2007.

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We ended the year with a strong cash and short-term investment balance of $282.9 million, an increase of $62.1 million, compared to $220.8 million at December 31, 2006. The increase in year-over-year ending cash and short-term investment balances primarily reflects the decision in early 2006 to consolidate the two bonus payments made to consultants into one payment to be paid in the first quarter following the year in which the bonus is earned, along with increased cash flows from operations. In early 2008, we expect to pay approximately $150 million related to the 2007 bonus accruals.

In September of 2007, our Board of Directors approved the initiation of a quarterly cash dividend payment in the amount of $0.13 per share. On an annual basis, the cash dividend is expected to be $0.52 per share. The first quarterly dividend payment was made on November 16, 2007 to shareholders of record as of November 2, 2007 for a total of $2.3 million. The second quarterly dividend was paid on February 15, 2008 to shareholders of record at the close of business on February 1, 2008.

2008 Outlook

In 2008, we expect net revenue of between $650 and $670 million, representing growth of between 5% and 8% over 2007 net revenue. We are targeting a 2008 full-year operating margin of approximately 13%. Net income and earnings per share in 2008 are expected to reflect a full-year effective tax rate of between 38 percent and 42 percent. Quarterly and full-year tax rate estimates can be impacted by country-level results and can also vary significantly by reporting period as a result of discrete items that require immediate recognition in a particular quarter. In 2008, we intend to incorporate additional branches which will have a discrete impact in the quarter in which they are incorporated, but will lower the effective tax rate in the future.

Results of Operations

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

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

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

	Year Ended December 31,		
	2007	**2006**	**2005**
Revenue:			
Revenue before reimbursements (net revenue)	$ 619,654	$ 478,523	$ 412,297
Reimbursements	28,612	23,471	20,553
Total revenue	648,266	501,994	432,850
Operating expenses:			
Salaries and employee benefits	418,952	328,714	273,949
General and administrative expenses	121,198	99,352	94,369

Reimbursed expenses	28,612	23,471	20,553
Restructuring charges		408	22,493
Total operating expenses	568,762	451,945	411,364
Operating income	79,504	50,049	21,486
Net non-operating income	7,631	5,217	6,996
Income before income taxes	87,135	55,266	28,482
Provision for (benefit from) income taxes	30,672	21,023	(10,736)
Net income	$ 56,463	$ 34,243	$ 39,218

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

	Year Ended December 31,		
	2007	**2006**	**2005**
Revenue:			
Revenue before reimbursements (net revenue)	100.0%	100.0%	100.0%
Reimbursements	4.6	4.9	5.0
Total revenue	104.6	104.9	105.0
Operating expenses:			
Salaries and employee benefits	67.6	68.7	66.4
General and administrative expenses	19.6	20.8	22.9
Reimbursed expenses	4.6	4.9	5.0
Restructuring charges	0.0	0.1	5.5
Total operating expenses	91.8	94.4	99.8
Operating income	12.8	10.5	5.2
Net non-operating income	1.2	1.1	1.7
Income before income taxes	14.1	11.5	6.9
Provision for (benefit from) income taxes	4.9	4.4	(2.6)
Net income	9.1%	7.2%	9.5%

Note: Totals and subtotals 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 by segment (in thousands):

	Year Ended December 31,		
	2007	**2006**	**2005**
Revenue:			
Americas	$ 333,561	$ 265,421	$ 238,582
Europe	207,504	163,605	134,259
Asia Pacific	78,589	49,497	39,456
Revenue before reimbursements (net revenue)	619,654	478,523	412,297
Reimbursements	28,612	23,471	20,553
Total	$ 648,266	$ 501,994	$ 432,850
Operating income:			
Americas	$ 67,480	$ 53,929	$ 50,356
Europe	31,865	14,883	7,651
Asia Pacific	15,946	13,278	10,401
Total regions	115,291	82,090	68,408

Corporate	(35,787)	(31,633)	(24,429)
Operating income before restructuring charges	79,504	50,457	43,979
Restructuring charges		(408)	(22,493)
Total	$ 79,504	$ 50,049	$ 21,486

2007 Compared to 2006

Total revenue. Consolidated total revenue increased $146.3 million, or 29.1%, to $648.3 million in 2007 from $502.0 million in 2006. The increase in total revenue was due primarily to the increase in revenue before reimbursements (net revenue).

Revenue before reimbursements (net revenue). Consolidated net revenue increased $141.1 million, or 29.5%, to $619.7 million in 2007 from $478.5 million in 2006. Net revenue increased across all regions in 2007. Strong results from the Financial Services, Industrial and Health Care/Life Sciences industry groups contributed to the year over year revenue growth in 2007 as compared to 2006. In 2007, the number of confirmed executive searches increased 15% to 5,102 from 4,447 in 2006. We believe this increase reflects our success in winning business and the successful integration of former Highland Partners consultants. The positive impact of exchange rate fluctuations resulted in an increase in revenue in 2007 of approximately 5 percentage points year over year.

Net revenue in the Americas was $333.6 million in 2007, an increase of $68.1 million, or 25.7%, from $265.4 million in 2006. The Health Care/Life Sciences, Professional Services and Industrial industry groups realized the largest year-over-year revenue growth in 2007. The positive impact of exchange rate fluctuations in Canada and Latin America contributed to less than one percentage point of revenue growth in 2007. Net revenue in Europe was $207.5 million in 2007, an increase of $43.9 million, or 26.8%, from $163.6 million in 2006. The year-over-year revenue growth in 2007 was driven by especially strong results in the Industrial, Financial Services and Consumer industry groups. The positive impact of exchange rate fluctuations resulted in an increase in net revenue of approximately 10 percentage points in 2007. In Asia Pacific, net revenue was $78.6 million in 2007, an increase of $29.1 million, or 58.8%, from $49.5 million in 2006. The positive impact of exchange rate fluctuations resulted in an increase in revenue of approximately 8 percentage points year over year. Business was strong across the region with significant revenue contribution from the Financial Services, Industrial and Consumer industry groups.

Salaries and employee benefits. Consolidated salaries and employee benefits expense increased $90.2 million, or 27.5%, to $419.0 million in 2007 from $328.7 million in 2006. Fixed salaries and employee benefits expense increased $44.5 million and performance-related compensation expense increased $45.7 million. Fixed salaries and employee benefits expense includes stock-based compensation expense earned under prior year equity awards requiring satisfaction of both service and performance conditions.