HEIDRICK & STRUGGLES INTERNATIONAL INC
Form 10-K
March 15, 2012
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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, 2011

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 incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

(Address of principal executive offices) (Zip Code)

(312) 496-1200

(Registrant s telephone number, including area code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ¨ No 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 whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). 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, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨ Smaller Reporting Company ¨

(Do not check if a smaller reporting company)

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, 2011 was approximately $399,492,807 based upon the closing market price of $22.64 on that date of a share of Common Stock as reported on the Nasdaq Global Stock Market. As of March 7, 2012, there were 17,870,236 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 24, 2012, are incorporated by reference into Part III of this Form 10-K.

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

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PART I

ITEM 1. BUSINESS

Overview

Heidrick & Struggles International, Inc. (Heidrick & Struggles) is a leadership advisory firm providing executive search and leadership consulting services. We provide our services to a broad range of clients through the expertise of 347 consultants located in major cities around the world. Heidrick & Struggles and its predecessors have been a leadership advisor for nearly 60 years. Heidrick & Struggles was formed as a Delaware corporation in 1999 when two of our predecessors merged to form Heidrick & Struggles.

Our service offerings include the following:

Executive Search. We help our clients build leadership teams by facilitating the recruitment, management and deployment of senior executives. Focusing on top-level services offers us several advantages that include access to and influence with key decision makers, increased potential for recurring search and consulting engagements, higher fees per search, enhanced brand visibility, and a 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.

The executive search industry is highly fragmented, consisting of several thousand executive search firms worldwide. 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. 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. In contrast, contingency search firms are compensated only upon successfully placing a recommended candidate.

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

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

Leadership Consulting. Our leadership consulting services, which is currently less than 10% of our net revenue, includes succession planning, executive assessment, talent retention management, executive development, transition consulting for newly appointed executives, and mergers and acquisitions human capital integration consulting.

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Client base. 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 averaged approximately $338,700 in 2011 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

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 57 offices in 28 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. We face risks associated with political instability, legal requirements and currency fluctuations in our international operations. Examples of such risks include difficulties in managing global operations, social and political instability, regulations, and potential adverse tax consequences.

Our worldwide network includes affiliate relationships in Finland, South Africa, Turkey and Portugal. 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 are less than 1% of our net revenue.

Information by Geographic Segment. We operate our executive search and leadership consulting services in three geographic regions: the Americas; Europe, which includes the Middle East and Africa; and Asia Pacific.

Americas. As of December 31, 2011, we had 160 consultants in our Americas segment. The largest offices in this segment, as defined by net revenue, are located in New York, Chicago and Atlanta.

Europe. As of December 31, 2011, we had 104 consultants in our European segment. The largest offices in this segment, as defined by net revenue, are located in the United Kingdom, Germany and France.

Asia Pacific. As of December 31, 2011, we had 83 consultants in our Asia Pacific segment. The largest offices in this segment, as defined by net revenue, are located in China (including Hong Kong), Australia and Singapore.

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The relative percentages of net revenue attributable to each segment were as follows:

	Year Ended December 31,		
	2011	2010	2009
Americas	54%	52%	51%
Europe	25%	26%	30%
Asia Pacific	21%	22%	19%

For financial information relating to each geographic segment, see Note 21, *Segment Information*, in the Notes to Consolidated Financial Statements.

Global Industry Practices. Our executive search business operates in six broad industry groups: Financial Services, Industrial, Consumer Markets, Global Technology and Services, Life Sciences, and Education and Social Enterprise. These industry categories and their relative sizes, as measured by net revenue for 2011 and 2010 are as follows:

	Percentage of Net Revenue	
Global Industry Practices	**2011**	**2010**
Financial Services	26%	31%
Industrial	25	23
Consumer Markets	19	17
Global Technology & Services	17	18
Life Sciences	9	8
Education and Social Enterprise	4	3
	100%	100%

Within each broad industry group are a number of industry sub-sectors. Consultants often specialize in one or more sub sectors to provide clients with market intelligence and candidate knowledge specific to their industry. For example, within the Financial Services sector our business is diversified among a number of industry sub sectors including Asset & Wealth Management, Consumer & Commercial Finance, Financial Services Practices & Infrastructure, Investment Banking, Global Markets, Hedge Fund, Insurance, Private Equity Investment Professionals, and Real Estate.

We service our clients through unified global executive search teams who specialize in industry practices. This go-to-market strategy allows us to better leverage our global diversity and market intelligence to provide better client service. Each client is served by one global account team, which we believe is a key differentiator from our competition.

Global 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 Global Functional Practices include Chief Executive Officer and Board of Directors; Chief Human Resources Officers; Financial Officers; Information Officers; Interim Executives; Legal, Risk, Compliance & Government Affairs; Marketing, Sales & Strategy Officers; Multicultural & Digital Marketing; Sales Officers; Research & Development; and Supply Chain & Transportation.

Our team of executive search consultants may service clients 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

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executive search consultant in the United States with expertise in our Industrial practice and a third executive search consultant with expertise in recruiting chief financial officers. 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 one of our leadership advisory consultants trained in this service.

Seasonality

There is no discernible seasonality in our business, although as a percentage of total annual net revenue, the first quarter is typically the lowest. Revenue and operating income have historically varied by quarter and are hard to predict from quarter to quarter. In addition, the volatility in the global economy impacts our quarterly revenue and operating income.

Clients and Marketing

Our consultants market the firm s executive search and leadership consulting 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 the clients or to maintain strong client relationships, executive search firms generally refrain from recruiting employees of a client, and possibly other entities affiliated with that client, for a specified period of time 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 2% of our net revenue in 2011, 2010 or 2009. Our top ten clients in 2011, 2010 and 2009 in aggregate accounted for less than 8% 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 professionals are generally categorized either as consultants or associates. Associates assist consultants by providing research support, coordinating candidate contact and performing other engagement-related functions. As of December 31, 2011, we had 1,506 full-time equivalent employees, of whom 347 were executive search consultants, 429 were associates and 730 were other search, support and Global Operations Support staff.

We promote our associates to consultant during the annual consultant promotion process and we recruit our consultants from other executive search or human capital firms, or in the case of executive search, consultants new to search who have worked in industries or functions 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 whom we train in our techniques and methodologies. In each of the past five years, no single consultant accounted for a material portion of our net revenue. We are not a party to any collective bargaining agreement, and we consider relations with our employees to be good.

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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 Internet-based firms and smaller boutiques 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.

Overall, the search industry has relatively few barriers to entry. Higher barriers exist, however, for global retained executive search firms that can provide leadership consulting services at the senior level. 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 the leadership consulting services markets in which we operate is highly fragmented, with no universally recognized market leaders.

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EXECUTIVE OFFICERS

Our executive officers as of March 14, 2012 are as follows:

Name	Age	Position With Company
L. Kevin Kelly	46	Chief Executive Officer; Director
Richard W. Pehlke	58	Executive Vice President and Chief Financial Officer
Stephen W. Beard	40	Executive Vice President, General Counsel and Secretary
Timothy C. Hicks	50	Executive Vice President and Managing Partner, Operations

There are no family relationships between any executive officer or director. The following information sets forth the business experience for at least the past five years for each of our executive officers as of March 14, 2012:

L. Kevin Kelly was elected Chief Executive Officer and a Director in September 2006. He was elected President in May 2007. 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.

Richard W. Pehlke joined us in August 2011 after serving as interim Chief Financial Officer since May 2011. Previously, Mr. Pehlke was Executive Vice President and Chief Financial Officer at Grubb & Ellis Company, a commercial real estate advisory firm, from 2007 to 2010. From 2003 to 2005 he was an Executive Vice President and Chief Financial Officer and Director of Hudson Highland Group, a temporary and permanent staffing company.

Stephen W. Beard was elected Executive Vice President, General Counsel and Secretary in November 2010. Mr. Beard was Vice President, Deputy General Counsel and Chief Compliance Officer from 2008 through November 2010 and Assistant General Counsel from 2003 through 2008. He joined us in 2003. Previously, Mr. Beard worked with Schiff Hardin, LLP, in Chicago where he was a member of the firm s corporate and securities practice group, representing public and private companies in mergers and acquisitions, corporate finance, securities and corporate governance matters.

Timothy C. Hicks was elected Executive Vice President and Managing Partner, Operations in October 2011. Since joining us in 2002, Mr. Hicks has held several leadership roles including partner-in-charge of the Chicago Office and sector leader of the global Automotive Practice. Previously, Mr. Hicks was a partner with another international search firm for 11 years where he held several leadership positions including heading the firm's automotive practice.

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 material impact on our business, operating results, cash flows and financial condition. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.

We depend on attracting, integrating, managing, and retaining qualified consultants.

Our success depends upon our ability to attract, integrate, manage and retain consultants who possess the skills and experience necessary to fulfill our clients 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

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competitors or modifications to 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. Our future success also depends upon our ability to complete the integration of newly-hired consultants successfully into our operations and to manage the performance of our consultants. Failure to successfully integrate newly-hired consultants or to manage the performance of our consultants could affect our profitability by causing operating inefficiencies that could increase operating expenses and reduce operating income.

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. 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 professional 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.

Our net revenue may be affected by adverse economic conditions.

Demand for our services is affected by global economic conditions and the general level of economic activity in the geographic regions in which we operate. During periods of slowed economic activity many companies hire fewer permanent employees, and our financial condition and results of operations can be adversely affected. While the economic activity in certain regions has stabilized or shown modest improvement recently, economic conditions remain uncertain. If such uncertainty persists or unfavorable changes in economic conditions occur, our business, financial condition and results of operations could suffer.

Because our clients may restrict us from recruiting their employees, we may be unable to fill or obtain new 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.

Client restrictions on recruiting their employees could hinder us from fulfilling executive searches. Additionally, 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. 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 highly competitive and fragmented. We compete with other large global executive search firms, smaller specialty firms, and more recently with Internet-based 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, or be willing to reduce their fees in order to attract clients and increase market share. 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. Also, as internet-based firms continue to evolve, they may develop offerings similar to or more expansive than ours, thereby increasing competition for our services or more broadly causing market disruption in the executive search industry. 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 and present transitional problems. In 2012, we plan to launch a new proprietary search system. The launch of the new proprietary search system or other factors may result in interruptions or loss in our information processing capabilities which may cause our business, financial condition and results of operations to 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 advisory 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, regulatory, legal and economic risks.

We generate substantial revenue outside the United States. We offer our services through a network of offices in 28 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. Beginning in 2011, several countries within the European Union experienced sovereign debt and credit issues. This has caused more volatility in the economic environment throughout the European Union. In addition, 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

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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.

A significant currency fluctuation between the U.S. dollar and other currencies could adversely impact our operating income.

With our operations in the Americas, Europe and Asia Pacific, we conduct business using various currencies. In 2011, approximately 51% of our net revenue was generated outside the United States. As we typically transact business in the local currency of our subsidiaries, our profitability may be impacted by the translation of foreign currency financial statements into U.S. dollars. Significant long-term fluctuations in relative currency values, in particular an increase in the value of the U.S. dollar against foreign currencies, could have an adverse effect on our profitability and financial condition.

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.

The global financial crisis could adversely affect the financial position of our clients.

The ongoing financial crisis has tightened credit markets and lowered liquidity levels. Some of our clients may experience serious financial problems due to reduced access to credit and lower revenues resulting in their inability to meet their payment obligation to us.

Unfavorable tax law changes and tax authority rulings may adversely affect results.

We are subject to income taxes in the United States and in various foreign jurisdictions. Domestic and international tax liabilities are subject to the allocation of income among various tax jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings among countries with differing statutory tax rates, or changes in the valuation allowance of deferred tax assets or tax laws. The amount of income taxes and other taxes are subject to ongoing audits by U.S. federal, state and local tax authorities and by non-U.S. authorities. If these audits result in assessments different from amounts recorded, future financial results may include unfavorable tax adjustments.

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 our ability to realize deferred tax assets as facts and circumstances dictate. If after future assessments of our ability to realize the deferred tax assets, we determine that a lesser 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. The uncertainty surrounding the future realization of our net deferred tax assets could adversely impact our results of operations.

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

In accordance with generally accepted accounting principles, we perform assessments of the carrying value of our goodwill and other intangible assets at least annually or whenever events occur or circumstances indicate that a carrying amount of these assets may not be recoverable which include, a significant change in business climate, attrition of key personnel, changes in financial condition or results of operations, a prolonged decline in

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our stock price and market capitalization, competition, and other factors. In performing these assessments, we must make assumptions regarding the estimated fair value of our goodwill and other intangible assets. These assumptions include estimates of future market growth and trends, forecasted revenue and costs, capital investments, discount rates, and other variables. If the fair market value of one of our reporting units or other long term assets is less than the carrying amount of the related assets, we could be required to record an impairment charge. In the third quarter of 2011, we recorded a non-cash impairment charge in the amount of $26.4 million. (See Note 19: *Restructuring and Impairment Charges*) Due to continual changes in market and general business conditions, we cannot predict whether, and to what extent, our goodwill and long-lived intangible assets may be further impaired in future periods. Any resulting impairment loss could have an adverse impact on our business, financial condition and results of operations.

We have anti-takeover provisions that make an acquisition of us difficult and expensive.

Anti-takeover 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.

Our ability to access additional credit could be limited.

In the current economic environment, banks can be expected to strictly enforce the terms of our credit agreement. Although we are currently in compliance with the financial covenants of our revolving credit facility, a further deterioration of economic conditions may negatively impact our business resulting in our failure to comply with these covenants, which could limit our ability to borrow funds under our credit facility or from other borrowing facilities in the future. In such circumstances, we may not be able to secure alternative financing or may only be able to do so at significantly higher costs.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Chicago, Illinois. We have leased office space in 57 cities in 28 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 576,809 as of December 31, 2011. Our office leases call for future minimum lease payments of approximately $200.5 million and have terms that expire between 2012 and 2024, exclusive of renewal options that we can exercise.

As part of our restructuring plan executed in 2011, we closed 11 of our smaller office locations in the Americas and Europe. Seven of the eleven offices have remaining lease obligations, which expire at various dates through 2014. As a result of the 2011 and prior restructuring activities, approximately 40,000 square feet of office space has been sublet to third parties.

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Our office space and future minimum lease payments by geographic segment as of December 31, 2011 are as follows:

	Square Footage	Office Leases (in millions)
Americas	301,600	$118.4
Europe	144,894	65.9
Asia Pacific	130,315	16.2
Total	576,809	$200.5

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 may be substantial in amount. Some of these matters are covered by insurance. Although our ultimate liability in the matter discussed below 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.

UK Employee Benefits Trust

On January 27, 2010, HM Revenue & Customs (HMRC) in the United Kingdom notified us that it was challenging the tax treatment of certain of our contributions in the United Kingdom to an Employee Benefits Trust between 2002 and 2008. HMRC alleges that these contributions should have been subject to Pay As You Earn tax and Class 1 National Insurance Contributions in the United Kingdom; and HMRC is proposing an adjustment to our payroll tax liability for the affected years. The aggregate amount of HMRC s proposed adjustment is approximately £3.9 million (equivalent to $6.1 million at December 31, 2011). We have appealed the proposed adjustment. At this time, we believe that the likelihood of an unfavorable outcome with respect to the proposed adjustment is not probable and the potential amount of any loss cannot be reasonably estimated. We also believe that the amount of a final adjustment, if any, would not be material to our financial condition.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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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, 2011	High	Low
First Quarter	$ 30.06	$ 24.07
Second Quarter	28.32	18.71
Third Quarter	27.60	15.74
Fourth Quarter	22.68	15.57
Year Ended December 31, 2010		
First Quarter	$ 32.15	$ 24.59
Second Quarter	30.95	21.16
Third Quarter	23.30	16.29
Fourth Quarter	29.90	18.22

As of March 7, 2012, the last reported price on the Nasdaq Global Stock Market for our common stock was $20.45 per share, and there were 89 stockholders of record of the common stock.

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Performance Graph

We have presented below a graph which compares the cumulative total stockholder return on our common shares with the cumulative total stockholder return of the Standard & Poor s SmallCap 600 Index and the Standard & Poor s Composite 1500 Human Resource and Employment Services Index. The S&P Composite 1500 Human Resource & Employment Services Index includes 13 companies in related businesses, including Heidrick & Struggles. Cumulative total return for each of the periods shown in the performance graph is measured assuming an initial investment of $100 on December 31, 2006.

The stock price performance depicted in this graph is not necessarily indicative of future price performance. This graph will not be deemed to be filed as part of this Form 10-K and will not be deemed to be incorporated by reference by any general statement incorporating this Form 10-K into any filing by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate this information by reference.

* Assuming $100 invested on 12/31/06 in HSII or index, including reinvestment of dividends.

Prepared by: Zacks Investment Research, Inc.

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Dividends

Since September 2007, we have paid a quarterly cash dividend of $0.13 per share as approved by our Board of Directors. In 2011, the total cash dividend paid was $0.52 per share.

The following table outlines the record date, payment date and amount of quarterly cash dividends paid during 2010 and 2011:

Quarter	Record Date	Payment Date	Dividends (in 000,000s)
Q4 2009	February 5, 2010	February 19, 2010	$2.2
Q1 2010	May 7, 2010	May 21, 2010	2.3
Q2 2010	August 6, 2010	August 20, 2010	2.3
Q3 2010	November 5, 2010	November 19, 2010	2.3
Q4 2010	February 4, 2011	February 18, 2011	2.3
Q1 2011	May 6, 2011	May 20, 2011	2.3
Q2 2011	August 5, 2011	August 19, 2011	2.3
Q3 2011	November 4, 2011	November 18, 2011	2.3

In December 2011, our Board of Directors declared a quarterly dividend of $0.13 per share on our common stock which was paid on February 17, 2012 to shareholders of record as of February 2, 2012. Cash dividends payable of $2.3 million related to the fourth quarter 2011 cash dividend, which was paid in the first quarter of 2012, and cash dividends payable of $2.3 million related to the fourth quarter 2010 cash dividend, which was paid in the first quarter of 2011, are accrued in the Consolidated Balance Sheets as of December 31, 2011 and 2010, respectively.

In connection with the quarterly cash dividend, we also pay a dividend equivalent on outstanding restricted stock units. The amounts related to the dividend equivalent payments for restricted stock units are accrued over the vesting period and paid upon vesting. In 2011 and 2010, we paid $0.5 million and $0.7 million, respectively, in dividend equivalent payments.

Issuer Purchases of Equity Securities

On February 8, 2008, our Board of Directors authorized management to repurchase shares of our common stock with an aggregate purchase price up to $50 million. We intend from time to time and as business conditions warrant, to purchase shares of our common stock on the open market or in negotiated or block trades. We did not repurchase any shares of our common stock in the fourth quarter of 2011, and we have not repurchased any shares since 2008. As of December 31, 2011 and 2010, $22.8 million remains available under this authorization. Unless terminated or extended earlier by resolution of the board of directors, the program will expire when the number of authorized shares has been repurchased. For further information of our share repurchase activity, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

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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, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 are derived from the audited current and historical consolidated financial statements, which are included elsewhere in this Form 10-K. The data as of December 31, 2009, 2008 and 2007 and for the years ended December 31, 2008 and 2007 are derived from audited historical consolidated financial statements, which are not included in this report. The data set forth is qualified in its 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,				
	2011	2010	2009	2008	2007
	(in thousands, except per share and other operating data)				
Statements of Operations Data:					
Revenue:					
Revenue before reimbursements (net revenue)	$ 527,793	$ 493,091	$ 395,651	$ 615,904	$ 619,654
Reimbursements	26,187	20,145	19,067	28,956	28,612
Total revenue	553,980	513,236	414,718	644,860	648,266
Operating expenses (income):					
Salaries and employee benefits	372,406	340,178	281,545	435,306	418,952
General and administrative expenses	123,592	130,622	115,758	125,061	121,198
Other charges		4,218(4)			
Reimbursed expenses	26,187	20,145	19,067	28,956	28,612
Restructuring charges	16,344(1)	1,621(5)	22,640(7)		
Impairment charges	26,366(2)		4,080(8)		
Other operating income		(1,072)(6)	(1,661)(9)		
Total operating expenses	564,895	495,712	441,429	589,323	568,762
Operating income (loss)	(10,915)	17,524	(26,711)	55,537	79,504
Non-operating income (expense):					
Interest income, net	1,402	813	1,201	5,103	8,035
Other, net	(5,262)(3)	(1,389)	(4,189)(10)	1,613	(404)
Net non-operating income (expense)	(3,860)	(576)	(2,988)	6,716	7,631
Income (loss) before income taxes	(14,775)	16,948	(29,699)	62,253	87,135
Provision for (benefit from) income taxes	18,947	9,455	(8,791)	23,179	30,672
Net income (loss)	$ (33,722)	$ 7,493	$ (20,908)	$ 39,074	$ 56,463
Basic weighted average common shares outstanding	17,780	17,437	16,901	16,747	17,854
Diluted weighted average common shares outstanding	17,780	17,869	16,901	17,727	18,984
Basic earnings (loss) per common share	$ (1.90)	$ 0.43	$ (1.24)	$ 2.33	$ 3.16
Diluted earnings (loss) per common share	$ (1.90)	$ 0.42	$ (1.24)	$ 2.20	$ 2.97
Cash dividends paid per share	$ 0.52	$ 0.52	$ 0.52	$ 0.52	$ 0.26
Balance Sheet Data (at end of period):					
Working capital	$ 125,235	$ 140,010	$ 127,661	$ 140,139	$ 117,861

Total assets	515,565	545,027	474,847	590,303	616,884
Long-term debt, less current maturities					
Stockholders equity	251,295	294,542	290,852	306,304	309,800
Other Operating Data:					
Average number of consultants during the period	376	353	385	413	401

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Notes to Selected Financial Data:

(1) In 2011, we recorded restructuring charges of $16.3 million in connection with initiatives to reduce overall costs and improve operational efficiencies. These charges consist of employee-related costs, including severance associated with reductions in our workforce of 139 employees globally, and expenses associated with consolidating and closing 11 of our smaller office locations, predominately in Europe. By segment, the restructuring charges recorded in 2011 were $8.3 million in Europe, $5.1 million in the Americas, $0.7 million in Asia Pacific and $2.2 million in Global Operations Support. See Note 19, *Restructuring and Impairment Charges*, in the Notes to Consolidated Financial Statements.

(2) In 2011, as a result of our restructuring initiatives, primarily in Europe, and the volatility associated with the economic outlook for Europe, including political and economic uncertainty in the region, we performed a goodwill and intangible asset impairment evaluation. Based on the evaluation, we recorded a goodwill and intangible asset impairment charge in Europe of $26.0 million, resulting in a write-off of all the goodwill in Europe, and an intangible asset impairment of $0.4 million in the Americas. See Note 10, *Goodwill and Other Intangible Assets*, and Note 19, *Restructuring and Impairment Charges,* in the Notes to Consolidated Financial Statements.

(3) In 2011, we wrote-off our investment in JobKoo of $2.8 million. See Note 6. *Investments*, in the Notes to Consolidated Financial Statements.

(4) In 2010, we recorded other charges of $4.2 million, which consists of $3.2 million of accelerated occupancy costs and depreciation, dilapidation costs, and professional fees related to the settlement of our lease obligations for our former London office which we vacated and $1.0 million due to an unfavorable judgment in a lawsuit filed by a former European employee separated from us in 2006. See Note 18, *Other Charges,* in the Notes to Consolidated Financial Statements.

(5) In 2010, we recorded restructuring charges of $1.6 million. These charges consist of $0.6 million of severance associated with reductions in our workforce of 19 employees globally and $1.0 million related to the default of two of our subtenants in previously restructured offices. By segment, the restructuring charges recorded in 2010 were $1.0 million in the Americas, $0.3 million in Europe, and $0.3 million in Global Operations Support. See Note 19, *Restructuring and Impairment Charges*, in the Notes to Consolidated Financial Statements.

(6) In 2010, as a result of continued lower than expected 2010 revenue production from consultants acquired in the Ray and Berndston Sp. z o. o acquisition, we performed a fair value assessment of the potential future earnout payments under the purchase agreement. This assessment indicated that there would not be any future earnout payments and resulted in a $1.1 million adjustment. Under the acquisition method of accounting for business combinations, we recognized the fair value adjustment as other operating income in the Consolidated Statement of Operations.

(7) In 2009, we recorded net restructuring charges of $22.6 million. These charges relate to $22.9 million of employee-related costs, including severance associated with reductions in our workforce of 363 employees globally, and included 75 executive search consultants. By segment, the restructuring charges recorded in 2009 were $9.5 million in the Americas, $9.5 million in Europe, $2.4 million in Asia Pacific and $1.5 million in Global Operations Support. Additionally, during 2009 we recorded a reduction of $0.3 million in Europe related to a previously restructured office.

(8) In 2009, as a result of our workforce reductions in January and May 2009 and continued business and economic uncertainty, we performed an evaluation of the remaining client relationship intangible asset associated with our 2006 acquisition of Highland Partners. Based on this analysis, we recorded an impairment charge related to the Americas region of $3.8 million. Additionally, the deterioration in business performance from the consultants acquired in the Ray and Berndtson Sp. z o. o acquisition triggered a review of the client relationship intangible assets associated with this acquisition, resulting in an impairment charge in the European region of $0.2 million. See Note 10, *Goodwill and Other Intangible Assets*, in the Notes to Consolidated Financial Statements.

(9) In 2009, as a result of significantly lower than expected 2009 revenue production from consultants acquired in the Ray and Berndtson Sp. z o. o acquisition and uncertainty regarding their future performance, we performed a fair value assessment of the potential future earnout payments under the purchase agreement. This assessment resulted in a $1.7 million reduction to the original earnout accrual. Under the acquisition method of accounting for business combinations, we recognized the fair value adjustment as other operating income in the Consolidated Statement of Operations.

(10) In 2009, we wrote-off our investment in VisualCV, Inc. of $3.0 million.

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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, integrate, manage and retain qualified executive search consultants; our ability to develop and maintain strong, long-term relationships with our clients; further declines in the global economy and our ability to execute successfully through business cycles; the timing, speed or robustness of any future economic recovery; social or political instability in markets where we operate, the impact of foreign currency exchange rate fluctuations; unfavorable tax law changes and tax authority rulings; 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 losses; the timing of the establishment or reversal of valuation allowance on deferred tax assets; the mix of profit and loss by country; the effect of our goodwill and intangible asset impairment charges and our restructuring initiatives; delays in the development and/or implementation of new or improved technology and systems; and the ability to align our cost structure and headcount with net revenue. 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 leadership advisory firm providing executive search and leadership consulting services. We help our clients build leadership teams by facilitating the recruitment, management and deployment of senior executives. 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 a 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, executive assessment, talent retention management, executive development, transition consulting for newly appointed executives, and mergers and acquisitions human capital integration consulting.

We provide our services to a broad range of clients through the expertise of 347 consultants located in major cities around 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, confirmation trends, consultant productivity, and average revenue per search or project.

Revenue growth is driven by a combination of an increase in executive search wins and leadership consulting projects, higher average revenue per search or project and the hiring of additional consultants. With the exception of compensation expense, incremental increases in revenue do not necessarily result in proportional increases in costs, particularly operating and administrative expenses, thus potentially improving operating margins.

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

Our Compensation Model

At the consultant level, individuals are largely rewarded for their performance based on a system that directly ties a significant portion of their compensation to the amount of net revenue for which they are responsible. A portion of the reward is based upon individual performance against a series of non-financial measures. Credit towards the variable portion of a consultant s compensation is earned by generating net revenue for winning and executing work. Each quarter, we review and update the expected annual performance of all consultants and accrue variable compensation accordingly. The amount of variable compensation that is accrued for each consultant is based on a tiered payout model and adjusted for overall Company performance. The more net revenue that is generated by the consultant, the higher the percentage credited towards the consultant s variable compensation and thus accrued by our company as expense. The mix of individual consultants who generate the revenue can significantly affect the total amount of compensation expense recorded and thus, operating margins. As a result, the variable portion of the compensation expense may fluctuate significantly from quarter to quarter. The total variable compensation is discretionary and is based on company-wide financial targets approved by the Human Resources and Compensation Committee of the Board of Directors.

A portion of our consultants and management cash bonuses are deferred and paid over a three-year vesting period. The portion of the bonus that is deferred varies between 10% and 15% depending on the employee s level or position. The compensation expense related to the amounts being deferred is recognized on a graded vesting attribution method over the requisite service period. This service period begins on January 1 of the respective fiscal year and continues through the deferral date, which coincides with our bonus payments in the first quarter of the following year, and for an additional three year vesting period. The deferrals are recorded in accrued salaries and employee benefits and other non-current liabilities in the Consolidated Balance Sheets.

2011 Overview

Consolidated net revenue of $527.8 million increased 7.0% or $34.7 million in 2011, compared to 2010. Net revenue increased 12.1% in the Americas and 4.3% in Europe, but declined 1.4% in Asia Pacific. Consultant productivity measured by net revenue per consultant was $1.4 million for the year ended December 31, 2011, the same as for the year ended December 31, 2010. Average revenue per executive search was $112,900 for the year ended December 31, 2011 compared to $108,500 for the year ended December 31, 2010.

Operating loss as a percentage of net revenue was 2.1% in 2011 compared to operating income as a percentage of net revenue of 3.6% in 2010. The operating loss was driven by impairment charges of $26.4 million, an increase in restructuring charges of $14.7 million and an increase in salaries and employee benefits expense of $32.2 million. The operating loss was offset by an increase in net revenue of $34.7 million and a decrease in general and administrative expenses of $7.0 million. Salaries and employee benefits expense as a percentage of net revenue increased from 69.0% in 2010 to 70.6% in 2011. General and administrative expenses as a percentage of net revenue decreased from 26.5% in 2010 to 23.4% in 2011.

We ended the year with combined cash and cash equivalents balance of $185.4 million, an increase of $4.3 million compared to a combined cash and cash equivalents balance of $181.1 million at December 31, 2010. We pay the majority of bonuses in the first quarter following the year in which they were earned. Employee bonuses are accrued throughout the year and are based on the Company s performance and the performance of the individual employee. We expect to pay approximately $109 million in bonuses related to 2011 performance in March and April 2012 and approximately $8 million in restructuring payments within the next twelve months. In February 2012, we paid approximately $10 million in deferred cash bonuses related to 2010 and prior year performance.

2012 Outlook

We are currently forecasting 2012 first quarter net revenue of between $105 million and $115 million and full-year 2012 net revenue of between $510 million and $540 million. The Company is targeting operating margin (defined as operating income divided by net revenue) of between 7 and 9 percent for the year ending December 31, 2012. The Company does not expect robust growth in 2012 unless the global economic climate improves. Our 2012 first quarter and full-year guidance is based upon management s assumptions regarding the anticipated volume of new executive search and leadership consulting projects, the Company s current backlog, consultant productivity, the seasonality of our business, the uncertainty in the global economic climate, and no change in future currency rates.

Our 2012 first quarter and full-year guidance is subject to a number of risks and uncertainties, including those disclosed under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-K (See Item 1A. *Risk Factors*). As such, actual results could vary from these projections.

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Results of Operations

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

	Year Ended December 31, 2011	2010	2009
Revenue:			
Revenue before reimbursements (net revenue)	$ 527,793	$ 493,091	$ 395,651
Reimbursements	26,187	20,145	19,067
Total revenue	553,980	513,236	414,718
Operating expenses (income):			
Salaries and employee benefits	372,406	340,178	281,545
General and administrative expenses	123,592	130,622	115,758
Other charges		4,218	
Reimbursed expenses	26,187	20,145	19,067
Restructuring charges	16,344	1,621	22,640
Impairment charges	26,366		4,080
Other operating income		(1,072)	(1,661)
Total operating expenses	564,895	495,712	441,429
Operating income (loss)	(10,915)	17,524	(26,711)
Non-operating income (expense):			
Interest income, net	1,402	813	1,201
Other, net	(5,262)	(1,389)	(4,189)
Net non-operating income (expense)	(3,860)	(576)	(2,988)
Income (loss) before income taxes	(14,775)	16,948	(29,699)
Provision for (benefit from) income taxes	18,947	9,455	(8,791)
Net income (loss)	$ (33,722)	$ 7,493	$ (20,908)
Basic weighted average common shares outstanding	17,780	17,437	16,901
Diluted weighted average common shares outstanding	17,780	17,869	16,901
Basic earnings (loss) per common share	$ (1.90)	$ 0.43	$ (1.24)
Diluted earnings (loss) per common share	$ (1.90)	$ 0.42	$ (1.24)
Cash dividends paid per share	$ 0.52	$ 0.52	$ 0.52

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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, 2011	2010	2009
Revenue:			
Revenue before reimbursements (net revenue)	100.0%	100.0%	100.0%
Reimbursements	5.0	4.1	4.8
Total revenue	105.0	104.1	104.8
Operating expenses:			
Salaries and employee benefits	70.6	69.0	71.2
General and administrative expenses	23.4	26.5	29.3
Other charges		0.9	
Reimbursements	5.0	4.1	4.8
Restructuring charges	3.1	0.3	5.8
Impairment charges	5.0		1.0
Other operating income		(0.2)	(0.4)
Total operating expenses	107.0	100.5	111.6
Operating income (loss)	(2.1)	3.6	(6.8)
Non-operating income (expense)			
Interest income, net	0.3	0.2	0.3
Other, net	(1.0)	(0.3)	(1.1)
Net non-operating income (expense)	(0.7)	(0.1)	(0.8)
Income (loss) before income taxes	(2.8)	3.4	(7.5)
Provision for (benefit from) income taxes	3.6	1.9	(2.2)
Net income (loss)	(6.4)%	1.5%	(5.3)%

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

We operate our executive search and leadership consulting services in three geographic regions: the Americas; Europe, which includes the Middle East and Africa; and Asia Pacific.

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

By segment, the restructuring charges recorded in 2011 were $8.3 million in Europe, $5.1 million in the Americas, and $0.7 million in Asia Pacific and $2.2 in Global Operations Support; and the impairment charges recorded in 2011 were $26.0 million in Europe and $0.4 million in the Americas. By segment, the restructuring charges recorded in 2010 were $1.0 million in the Americas, $0.3 million in Europe region, and $0.3 million in Global Operations Support. The other operating income of $1.1 million in 2010 was recorded in Europe. By segment, the restructuring charges recorded in 2009 were $9.5 million in the Americas, $9.5 million in Europe, $2.4 million in Asia Pacific and $1.5 million in Global Operations Support and the impairment charges recorded in 2009 were $3.8 million in the Americas and $0.2 million in Europe. Additionally, we recorded an adjustment of $0.3 million in Europe related to a previously restructured office. The other operating income of $1.7 million in 2009 was recorded in Europe region.

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The following table sets forth, for the periods indicated, our revenue and operating income (loss) by segment (in thousands):

	Year Ended December 31,		
	2011	**2010**	**2009**
Revenue:			
Americas	$ 286,503	$ 255,690	$ 201,530
Europe	132,722	127,267	119,441
Asia Pacific	108,568	110,134	74,680
Revenue before reimbursements (net revenue)	527,793	493,091	395,651
Reimbursements	26,187	20,145	19,067
Total	$ 553,980	$ 513,236	$ 414,718
Operating income (loss):			
Americas	$ 60,612	$ 40,307	$ 18,509
Europe	1,250	(604)	2,741
Asia Pacific	12,983	24,517	9,457
Total regions	74,845	64,220	30,707
Global Operations Support	(43,050)	(46,147)	(32,359)
Operating income (loss) before restructuring charges, impairment charges, and other operating income	31,795	18,073	(1,652)
Restructuring charges	(16,344)	(1,621)	(22,640)
Impairment charges	(26,366)		(4,080)
Other operating income		1,072	1,661
Total	$ (10,915)	$ 17,524	$ (26,711)

2011 Compared to 2010

Total revenue. Consolidated total revenue increased $40.7 million, or 7.9%, to $554.0 million in 2011 from $513.2 million in 2010. The increase in total revenue was primarily due to the increase in revenue before reimbursements (net revenue).

Revenue before reimbursements (net revenue). Consolidated net revenue increased $34.7 million, or 7.0%, to $527.8 million in 2011 from $493.1 million in 2010. The positive impact of exchange rate fluctuations resulted in approximately 3 percentage points of the increase in 2011. Net revenue increased in the Americas and Europe, but declined in Asia Pacific. Revenue grew in all industry groups, except Financial Services. In 2011, the number of confirmed executive searches increased 2.2% to 4,274 from 4,181 in 2010. The average number of consultants was 376 in 2011 compared to 353 in 2010 and there were 347 consultants as of December 31, 2011 and 2010. Productivity, as measured by annualized net revenue per consultant, was $1.4 million for the year ended December 31, 2011 and 2010, and average revenue per executive search was $112,900 for the year ended December 31, 2011 compared to $108,500 for the year ended December 31, 2010.

Net revenue in the Americas was $286.5 million in 2011, an increase of $30.8 million, or 12.1% from $255.7 million in 2010. The positive impact of exchange rate fluctuations in Canada and Latin America resulted in approximately 1 percentage point of the increase in 2011. Net revenue in Europe was $132.7 million in 2011, an increase of $5.5 million, or 4.3% from $127.3 million in 2010. The positive impact of exchange rate fluctuations resulted in approximately 6 percentage points of the increase in 2011. Net revenue in Asia Pacific was $108.6 million in 2011, a decrease of $1.6 million, or 1.4% from $110.1 million in 2010. The positive impact of exchange rate fluctuations offset the decrease in net revenue by approximately 7 percentage points in 2011.

Salaries and employee benefits. Consolidated salaries and employee benefits expense increased $32.2 million or 9.5% to $372.4 million in 2011 from $340.2 million in 2010. The increase in salaries and employee benefits expense is primarily a result of an increase in fixed compensation of $20.3 million related to a $15.2 million increase in base compensation and payroll taxes associated with merit salary increases, $1.4 million increase in retirement, severance, insurance, and other salaries and employee benefits expense, and $2.2 million of expense associated with special recognition awards issued in the second quarter of 2011. For the year ended December 31, 2011, amortization of deferred cash compensation increased $3.8 million as a result of the cash bonuses earned in 2010 that have been deferred, partially offset by a decrease in stock-based compensation expense of $2.3 million as a result of an overall decrease in the amount of outstanding equity awards.

Performance related compensation expense increased $11.9 million due to an increase in accruals for variable compensation due to an increase in net revenue.

Excluding a negative impact of $11.7 million due to exchange rate fluctuations, which we believe provides a better comparison of operational performance, consolidated salaries and employee benefits expense increased by 6.0% versus 9.5% as reported in 2011.

As a percentage of net revenue, salaries and employee benefits expense increased to 70.6% in 2011 from 69.0% in 2010.

General and administrative expenses. Consolidated general and administrative expenses decreased $7.0 million, or 5.4%, to $123.6 million in 2011 from $130.6 million in 2010. The decrease is primarily due to decreases in travel and entertainment of $2.2 million, premise expense of $2.0 million, bad debt expense of $1.7 million, and non-recurring legal costs of $1.3 million. There were also decreases in depreciation and amortization of $1.3 million, other operating infrastructure expense of $0.5 million, and hiring and temporary staffing fees of $0.2 million. These decreases were offset by increases in advertising, communication, sponsorship and other of $2.2 million.

Excluding a negative impact of $3.2 million due to exchange rate fluctuations, which we believe provides a better comparison of operational performance, consolidated general and administrative expenses decreased by 7.9% versus 5.4% as reported in 2011.

As a percentage of net revenue, general and administrative expenses decreased to 23.4% in 2011 from 26.5% in 2010.

Other charges. The other charges of $4.2 million for the year ended December 31, 2010 consist of $3.2 million of accelerated occupancy costs and depreciation, dilapidation costs, and professional fees related to the settlement of our lease obligations with our former London office which we vacated during 2010 and $1.0 million due to an unfavorable judgment in a lawsuit filed by a former European employee separated from us in 2006.

Restructuring charges. In 2011, we recorded restructuring charges of $16.3 million in connection with initiatives to reduce overall costs and improve operational efficiencies. These charges consist of employee-related costs, including severance associated with reductions in our workforce of 139 employees globally, and expenses associated with consolidating and closing 11 of our smaller office locations, predominately in Europe. By segment, the restructuring charges recorded in 2011 were $8.3 million in Europe, $5.1 million in the Americas, $0.7 million in Asia Pacific and $2.2 million in Global Operations Support.

In 2010, we recorded restructuring charges of $1.6 million. These charges consist of $0.6 million of severance associated with reductions in our workforce of 19 employees globally and $1.0 million related to the default of two of our subtenants in previously restructured offices. By segment the restructuring charges recorded in the year ended December 31, 2010 were $1.0 million in the Americas, $0.3 million in Europe, and $0.3 million in Global Operations Support.

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Impairment charges. In 2011, we recorded impairment charges of $26.4 million. As a result of the restructuring initiatives announced on October 5, 2011, which were primarily related to Europe, and the volatility associated with the economic outlook for Europe, including political and economic uncertainty in the region during 2011, we performed a goodwill and intangible asset impairment evaluation as of September 30, 2011. Based on this evaluation, we recorded a goodwill and intangible asset impairment charge in Europe of $26.0 million, resulting in a write-off of all the goodwill within Europe, and an intangible asset impairment of $0.4 million in the Americas.

Other operating income. As a result of continued lower than expected 2010 revenue production from consultants acquired in the Ray and Berndtson Sp. z o. o acquisition, we performed a fair value assessment of the potential future earnout payments under the purchase agreement. This assessment indicated that there would not be any future earnout payments and resulted in a $1.1 million adjustment. Under the acquisition method of accounting for business combinations, we recognized the 2010 fair value adjustments as other operating income in the Consolidated Statements of Operations.

Operating income (loss). Our consolidated operating loss was $10.9 million in 2011 compared to operating income of $17.5 million in 2010. The decrease in operating income is primarily due to increases in impairment charges of $26.4 million, restructuring charges of $14.7 million, salaries and employee benefits expense of $32.2 million, and a decrease in other operating income of $1.1 million, offset by an increase in net revenue of $34.7 million, and a decreases in general and administrative expenses of $7.0 million and other charges of $4.2 million.

For segment purposes, restructuring charges, impairment charges and other operating income are not included in operating income (loss) by geographic region. We believe that analyzing trends in operating income (loss) excluding restructuring charges, impairment charges, and other operating income more appropriately reflects our core operations.

The Americas reported operating income of $60.6 million in 2011, compared to $40.3 million in 2010. The increase in operating income of $20.3 million is due to an increase in net revenue of $30.8 million and lower general and administrative expenses of $1.7 million offset by a $12.3 million increase in salaries and employee benefits expense. The increase in salaries and benefits is primarily related to increases in performance related compensation of $7.6 million due to higher net revenues and fixed compensation of $4.7 million due primarily to merit salary increases.

Europe reported operating income of $1.2 million in 2011, compared to an operating loss of $0.6 million in 2010. The increase in operating income is due to a $5.5 million increase in net revenue and decreases in general and administrative expenses of $2.6 million and other charges of $4.2 million partially offset by an increase in salary and employee benefits of $10.5 million. The increase in salaries and benefits is primarily related to higher fixed compensation of $9.5 million related to $2.8 million increase in base compensation and payroll taxes associated with merit salary increases, $2.0 million of sign on bonuses and minimum guarantees, $1.9 million of retirement and insurance benefits, $0.6 million of expense associated with special recognition awards issued in the second quarter, $0.5 million related to the cash bonuses earned between 2008 and 2010 that have been deferred, and $1.7 million of other fixed compensation.

Asia Pacific reported operating income of $13.0 million in 2011, compared to $24.5 million in 2010. The decrease in operating income of $11.5 million is due to a decrease in net revenue of $1.6 million, and increases in salaries and employee benefits expense of $8.0 million and general and administrative expenses of $1.9 million. The increase in salaries and employee benefits is primarily related to higher fixed compensation of $7.7 million related to $5.6 million increase in base compensation and payroll taxes associated with merit increases, $0.8 million of expense associated with special recognition awards issued in the second quarter, $0.8 million related to the cash bonuses earned between 2008 and 2010 that have been deferred, and $0.5 million of other fixed compensation.

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Global Operations Support expenses in 2011 were $43.0 million, a decrease of $3.1 million, compared to $46.1 million in 2010. General and administrative expenses decreased $4.6 million and salaries and employee benefits expense increased $1.5 million. The decrease in general and administrative expenses is due to decreases of $2.6 million in professional services and $2.0 million in travel and entertainment expenses primarily related to non-recurring expenses, including the worldwide consultants meeting held in the second quarter of 2010. The increase in compensation expense is due to increased performance related compensation of $3.0 million offset by a decrease in fixed compensation of $1.5 million.

Net non-operating income (expense). Net non-operating expense was $3.9 million in 2011 compared to $0.6 million in 2010.

Net interest income in 2011 was $1.4 million, compared to $0.8 million in 2010. Interest income increased $0.6 million primarily due to higher average cash balances during 2011 compared to 2010.

Net other non-operating expense was $5.3 million in 2011 compared to $1.4 million in 2010. Net other non-operating expense primarily consists of exchange gains and losses on cash and intercompany balances, which are denominated in currencies other than the functional currency and are not considered permanent in nature. Also included in net other non-operating expense is $2.8 million related to the write-off of our investment in Jobkoo that was recorded in the first quarter of 2011 (See Note 6, *Investments*). Additionally, during the second quarter of 2010, we identified that we were not properly accounting for our non-controlling interest associated with our operations in China. As a result, we recorded a cumulative adjustment of $1.1 million in net other non-operating expense.

Income taxes. In 2011, we reported a loss before taxes of $14.8 million and recorded an income tax provision of $18.9 million. Our effective income tax rate for 2011 was 128.2%. This tax rate is higher than the statutory tax rate due to the establishment of valuation allowances on several European entities, non-recognition of tax benefits related to the corresponding current year losses in entities with valuation allowances, and non-recognition of tax benefits related to goodwill impairment.

In 2010, we reported income before taxes of $16.9 million and recorded an income tax provision of $9.5 million. Our effective income tax rate for 2010 was 55.8%.

2010 Compared to 2009

Total revenue. Consolidated total revenue increased $98.5 million, or 23.8%, to $513.2 million in 2010 from $414.7 million in 2009. The increase in total revenue was primarily due to the increase in revenue before reimbursements (net revenue).

Revenue before reimbursements (net revenue). Consolidated net revenue increased $97.4 million, or 24.6%, to $493.1 million in 2010 from $395.7 million in 2009. The positive impact of exchange rate fluctuations resulted in approximately one percentage point of the increase in 2010. Net revenue increased in all regions and industry groups with significant growth in the Global Technology & Services and Financial Services industry groups. In 2010, the number of confirmed executive searches increased 14.5% to 4,181 from 3,651 in 2009. The number of consultants decreased to 347 as of December 31, 2010 compared to 359 as of December 31, 2009. Productivity, as measured by annualized net revenue per consultant, increased to $1.4 million for the year ended December 31, 2010 from $1.0 million for the year ended December 31, 2009, and average revenue per executive search was $108,500 for the year ended December 31, 2010 compared to $101,000 for the year ended December 31, 2009.

Net revenue in the Americas was $255.7 million in 2010, an increase of $54.2 million, or 26.9% from $201.5 million in 2009. The positive impact of exchange rate fluctuations in Canada and Latin America resulted in approximately one percentage point of the increase in 2010. Net revenue in Europe was $127.3 million in

2010, an increase of $7.8 million, or 6.6% from $119.4 million in 2009. The negative impact of exchange rate fluctuations offset the increase in net revenue by approximately 3 percentage points in 2010. Net revenue in Asia Pacific was $110.1 million in 2010, an increase of $35.5 million, or 47.5% from $74.7 million in 2009. The positive impact of exchange rate fluctuations resulted in approximately 9 percentage points of the increase in 2010.

Salaries and employee benefits. Consolidated salaries and employee benefits expense increased $58.6 million or 20.8% to $340.2 million in 2010 from $281.5 million in 2009. The increase in salaries and employee benefits expense is primarily a result of a $62.7 million increase in performance-related compensation expense reflecting higher variable compensation accruals associated with higher net revenue. Included in this increase is approximately $7.1 million of discretionary consultant compensation related to individual performance factors. The increase in performance-related compensation expense was offset by a $4.1 million decrease in fixed compensation primarily related to a year-over-year decline in stock-based compensation of $11.3 million as a result of a decrease in the amount of equity awards granted in 2009 and 2010 and significant forfeitures in 2010, and a $3.9 million decrease in amortization of deferred cash compensation associated with lower 2009 bonus accruals due to lower 2009 net revenue levels and consultant headcount. These decreases were partially offset by a $0.8 million increase in base compensation, payroll taxes, and other employee-related expenses associated with increased headcount and the restoration of salaries following a 5% salary reduction in 2009, additional severance expense of $2.7 million, and $1.5 million primarily due to the reinstatement of the Company s 401(k) match in 2010. In 2010, we issued awards to certain of our consultants in order to incentivize future service to the Company which resulted in additional fixed compensation expense of $6.1 million. At December 31, 2010 we had 1,516 total employees, up 8.3% compared to 1,400 total employees at December 31, 2009.

Excluding a negative impact of $3.7 million due to exchange rate fluctuations, which we believe provides a better comparison of operational performance, consolidated salaries and employee benefits expense increased by 19.6% versus 20.8% as reported in 2010 compared to 2009.

As a percentage of net revenue, salaries and employee benefits expense decreased to 69.0% in 2010 from 71.2% in 2009.

General and administrative expenses. Consolidated general and administrative expenses increased $14.9 million, or 12.8%, to $130.6 million in 2010 from $115.8 million in 2009. The increase reflects $8.0 million in fees for professional services primarily related to investments in various initiatives intended to yield cost savings and improve productivity. These initiatives include additional hiring, increased training and development programs, the outsourcing of a portion of our information technology function, and ongoing system improvements. The increase also included non-recurring legal costs incurred in 2010, offset by a decrease in expenses related to a process improvement project aimed at increasing operational effectiveness and efficiency, which we substantially completed during 2010.

Additionally, we incurred $5.0 million in travel expenses related to training and business development initiatives reinstated in 2010, $2.5 million of expense related to the worldwide consultants meeting held in the second quarter of 2010, $1.9 million of temporary employee and hiring expenses, $1.6 million of increased bad debt expenses and $0.4 million of other operating and infrastructure expenses. During 2010, we recorded impairment charges of $0.7 million associated with intangible assets related to our Schwab Enterprise, LLC, 75 Search Partners, LLC and Ray and Berndtson Sp. z o. o acquisitions. These increases were partially offset by decreases in premise-related costs and depreciation expense of $3.6 million and $1.6 million, respectively, as a result of favorable lease terminations in the Americas and European regions.

Excluding a negative impact of $1.1 million due to exchange rate fluctuations, which we believe provides a better comparison of operational performance, consolidated general and administrative expenses increased by 11.9% versus 12.8% as reported in 2010 compared to 2009.

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As a percentage of net revenue, general and administrative expenses decreased to 26.5% in 2010 from 29.3% in 2009.

Other charges. The other charges of $4.2 million for the year ended December 31, 2010 consist of $3.2 million of accelerated occupancy costs and depreciation, dilapidation costs, and professional fees related to the settlement of our lease obligations with our former London office which we vacated during 2010 and $1.0 million due to an unfavorable judgment in a lawsuit filed by a former European employee separated from us in 2006.

Restructuring charges. In 2010, we recorded restructuring charges of $1.6 million. These charges consist of $0.6 million of severance associated with reductions in our workforce of 19 employees globally and $1.0 million related to the default of two of our subtenants in previously restructured offices. By segment the restructuring charges recorded in the year ended December 31, 2010 were $1.0 million in the Americas, $0.3 million in Europe, and $0.3 million in Global Operations Support.

In 2009, we recorded net restructuring charges of $22.6 million. These charges related to $22.9 million of employee-related costs, including severance associated with reductions in our workforce of 363 employees globally, and included 75 executive search consultants. By segment, the restructuring charges recorded in 2009 were $9.5 million in the Americas, $9.5 million in Europe, $2.4 million in Asia Pacific and $1.5 million in Global Operations Support. Additionally, during 2009 we recorded a reduction of $0.3 million in Europe related to a previously restructured office.

Impairment charges. In 2009, we recorded impairment charges of $4.0 million. As a result of our workforce reductions in January and May 2009 and continued business and economic uncertainty, we performed an evaluation of the remaining client relationship intangible asset associated with our 2006 acquisition of Highland Partners. Based on this analysis, we recorded an impairment charge related to the Americas region of $3.8 million in 2009. Additionally, we recorded an impairment charge of $0.2 million on our client relationship asset associated with our acquisition of Ray and Berndtson Sp. z o. o.

Other operating income. As a result of continued lower than expected 2010 revenue production from consultants acquired in the Ray and Berndtson Sp. z o. o acquisition, we performed a fair value assessment of the potential future earnout payments under the purchase agreement. This assessment indicated that there would not be any future earnout payments and resulted in a $1.1 million adjustment.

As a result of significantly lower than expected 2009 revenue production from consultants acquired in the Ray and Berndtson Sp. z. o. o acquisition, and uncertainty regarding their future performance, we performed a fair value assessment of the potential future earnout payments under the purchase agreement. This assessment resulted in a $1.7 million reduction to the original earnout accrual.

Under the acquisition method of accounting for business combinations, we recognized the 2010 and 2009 fair value adjustments as other operating income in the Consolidated Statements of Operations.

Operating income (loss). Our consolidated operating income was $17.5 million in 2010 compared to an operating loss of $26.7 million in 2009. The increase in operating income is primarily due to an increase in net revenue of $97.4 million and a decrease in restructuring and impairment charges of $25.1 million, offset by increases in salaries and employee benefits expense of $58.6 million, general and administrative expenses of $14.9 million, other charges of $4.2 million, and a decrease in other operating income of $0.6 million.

For segment purposes, restructuring and impairment charges and other operating income are not included in operating income (loss) by geographic region. We believe that analyzing trends in operating income (loss) excluding restructuring and impairment charges and other operating income more appropriately reflects our core operations.

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The Americas reported operating income of $40.3 million in 2010, compared to $18.5 million in 2009. The increase in operating income of $21.8 million is due to an increase in net revenue of $54.2 million and lower general and administrative expenses of $0.3 million offset by a $32.7 million increase in salaries and employee benefits expense.

Europe reported an operating loss of $0.6 million in 2010, compared to operating income of $2.7 million in 2009. The decrease in operating income is due to a $5.0 million increase in salaries and employee benefits expense, other charges of $4.2 million and a $1.9 million increase in general and administrative expenses. These increases were partially offset by a $7.8 million increase in net revenue. The increase in salaries and employee benefits expense primarily reflects higher variable compensation accruals associated with higher net revenue levels in 2010. Other charges of $4.2 million include $3.2 million related to exit and settlement expenses for a lease obligation at our former London office, and $1.0 million due to an unfavorable judgment in a lawsuit filed by a former European employee separated from us in 2006.

Asia Pacific reported operating income of $24.5 million in 2010, compared to $9.5 million in 2009. The increase in operating income of $15.0 million is due to higher net revenue of $35.5 million offset by a $16.1 million increase in salaries and employee benefits expense and a $4.4 million increase in general and administrative expenses.

Global Operations Support expenses in 2010 were $46.1 million, an increase of $13.8 million, compared to $32.4 million in 2009. General and administrative expenses increased $8.9 million and salaries and employee benefits expense increased $4.9 million. The increase in general and administrative expenses is due to $5.2 million in fees for professional services associated with investments in various initiatives intended to yield cost savings and increase productivity, including outsourcing certain Global Operations Support functions, hiring, and training and development programs. The increase also included non-recurring legal fees, $2.5 million related to the worldwide consultants meeting held in the second quarter of 2010, and $2.8 million reflecting several initiatives reinstated in 2010 including travel, hiring and temporary employee expenses, offset by a decrease of $1.6 million in expenses related to a process improvement project aimed at increasing operational effectiveness and efficiency which we substantially completed during 2010. The increase in compensation expense is primarily due to increased base compensation expense related to the restoration of salaries following a 5% salary reduction in place for 2009, $2.4 million of search and Global Operations Support expenses previously provided through the geographic segments that has been provided through our Global Business Services group since May 2010, and $2.1 million of severance expense, offset by a $0.2 million reduction in stock-based compensation expense as a result of significant forfeitures in 2010 and an overall decrease in the amount of equity awards granted in 2009 and 2010.

Net non-operating income (expense). Net non-operating expense was $0.6 million in 2010 compared to net non-operating expense of $3.0 million in 2009.

Net interest income in 2010 was $0.8 million, compared to $1.2 million in 2009. Interest income decreased primarily due to lower average interest rates in 2010 compared to 2009.

Net other non-operating expense was $1.4 million in 2010, compared to net other non-operating expense of $4.2 million in 2009. Net other non-operating expense consists of exchange gains and losses on cash and intercompany balances, which are denominated in currencies other than the functional currency and are not considered permanent in nature. Additionally, during 2010, we identified that we were not properly accounting for our non-controlling interest associated with our operations in China. As a result, we recorded a cumulative adjustment of $1.1 million in net other non-operating expense. During 2009, we wrote-off our investment in VisualCV, Inc. of $3.0 million.

Income taxes. In 2010, we reported income before taxes of $16.9 million and recorded an income tax provision of $9.5 million. Our effective income tax rate for 2010 was 55.8%. This tax rate is higher than the

statutory tax rate due to losses not benefited in several foreign jurisdictions, the non-deductibility of certain costs like vacating our former London office, and tax costs associated with the domestic inclusion of foreign earnings.

In 2009, we reported a loss before taxes of $29.7 million and recorded an income tax benefit of $8.8 million. The effective tax rate for 2009 was 29.6%.

Liquidity and Capital Resources

General. We continually evaluate our liquidity requirements, capital needs and availability of capital resources based on our operating needs. We believe that our available cash balances, committed unsecured revolving credit facility and cash flows expected to be generated from operations will be sufficient to satisfy our current and planned working capital and investment needs. We pay the majority of the non-deferred portion of annual bonuses in the first quarter following the year in which they are earned. Employee bonuses are accrued throughout the year and are based on our performance and the performance of the individual employee.

A portion of our consultants and management cash bonuses are deferred and paid over a three-year vesting period. The portion of the bonus that is deferred varies between 10% and 15% depending on the employee s level or position. The compensation expense related to the amounts being deferred is recognized on a graded vesting attribution method over the requisite service period. This service period begins on January 1 of the respective fiscal year and continues through the deferral date, which coincides with our bonus payments in the first quarter of the following year, and for an additional three year vesting period. The deferrals are recorded in accrued salaries and employee benefits and other non-current liabilities in the Consolidated Balance Sheets.

Lines of credit. On June 22, 2011, the Company and certain foreign subsidiary borrowers of the Company entered into a Credit Agreement (the Agreement) with its lenders. The Agreement provides the terms under which the lenders will make available to the Company a committed unsecured revolving credit facility in an aggregate amount of up to $75 million (the Facility). The Agreement includes an expansion feature that allows the Company to seek to increase the aggregate commitment under the Facility by up to $25 million provided that the Company is in compliance with certain conditions set forth in the Agreement. The Agreement also provides for the issuance of letters of credit. The Facility matures on June 22, 2016. Under the Agreement, the Borrowers may borrow U.S. dollars, euros, British pound sterling, Australian dollars or other major traded currencies as agreed by the lenders. Borrowings under the Agreement bear interest, at the Company s election, at the existing Alternate Base Rate (as defined in the Agreement) or Adjusted LIBOR Rate (as defined in the Agreement) plus a spread as determined by the Company s leverage ratio.

There were no borrowings made or outstanding during the years ended December 31, 2011 or 2010. During 2011 and 2010, we were in compliance with the financial covenants under the existing lines of credit and no event of default existed.

Cash and cash equivalents. Cash and cash equivalents at December 31, 2011 were $185.4 million, an increase of $4.3 million compared to $181.1 million at December 31, 2010. We expect to pay approximately $109 million in variable compensation related to 2011 performance in March and April 2012 and approximately $8 million in restructuring payments within the next twelve months. In February 2012, we paid approximately $10 million in variable compensation that was deferred in prior years.

Cash flows from operating activities. In 2011, cash provided by operating activities was $44.8 million, principally reflecting income net of non-cash charges, decreases in trade and other receivables of $10.8 million and an increase in variable compensation accruals, partially offset by bonus payments of approximately $95 million in 2011 related to 2010 performance and a decrease in income taxes payable of $6.9 million.

In 2010, cash provided by operating activities was $84.3 million, principally reflecting an increase in variable compensation accruals, other non-cash charges and net income of $7.5 million, partially offset by bonus payments of approximately $47 million in March 2010 related to 2009 performance and a $17.2 million increase in trade and other receivables.

In 2009, cash used in operating activities was $73.2 million, principally reflecting our net loss of $20.9 million, cash bonus payments and the associated payroll taxes of approximately $127 million and restructuring payments of $25.0 million.

Cash flows from investing activities. Cash used in investing activities was $23.7 million in 2011 primarily due to capital expenditures of $18.0 million, a $3.9 million earnout payment related to the IronHill acquisition, a $1.0 million loan to JobKoo, an equity method investment, and purchases of available for sale investments of $1.0 million.

Cash used in investing activities was $16.3 million in 2010 primarily due to capital expenditures of $17.6 million and $0.6 million related to the Bell McCaw Bampfylde Limited acquisition, offset by the release of $2.6 million of restricted cash.

Cash used in investing activities was $23.4 million in 2009, primarily due to acquisition earn-out payments of $12.8 million, the Ray & Berndtson Sp. z o. o acquisition of $2.6 million, capital expenditures of $12.3 million and $1.3 million related to the second payment associated with our 2008 purchase of an equity method investment, offset by the release of $5.1 million restricted cash.

Capital expenditures were $18.0 million, $17.6 million, and $12.3 million in 2011, 2010 and 2009, respectively. Capital expenditures in 2011 were primarily related to the build outs of the Chicago and Zurich offices, the development of our internal search system and new laptop purchases. We anticipate that our capital expenditures for 2012 will be approximately $8 million to $11 million, which primarily reflects investments in a new internal search system, as well as office build outs in Boston, India and China and ongoing capital expenditures.

Cash flows from financing activities. Cash used in financing activities in 2011 was $12.6 million primarily due to $9.7 million of quarterly cash dividends to shareholders and $2.9 million of payments for employee tax withholdings on equity transactions.

Cash used in financing activities in 2010 was $14.3 million primarily due to $9.7 million of quarterly cash dividends to shareholders and $4.6 million of payments for employee tax withholdings on equity transactions.

Cash used in financing activities in 2009 was $11.5 million primarily due to $9.3 million of quarterly cash dividends to shareholders and $3.4 million of payments for employee tax withholdings on equity transactions offset by $1.2 million of proceeds from stock options exercised during the year.

On February 8, 2008, our Board of Directors authorized management to repurchase shares of our common stock with an aggregate total amount up to $50 million. We did not repurchase any stock during 2011. We intend from time to time and as business conditions warrant, to purchase shares of our common stock on the open market or in negotiated or block trades. As of December 31, 2008, we purchased 951,160 shares of our common stock under the February 2008 authorization for a total of $27.2 million. As of December 31, 2011 and 2010, $22.8 million remains available under this authorization. Unless terminated or extended earlier by resolution of the board of directors, the program will expire when the number of authorized shares has been repurchased.

Off-Balance Sheet Arrangements. We do not have material off-balance sheet arrangements, special purpose entities, trading activities of non-exchange traded contracts or transactions with related parties.

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Contractual obligations. The following table presents our known contractual obligations as of December 31, 2011 and the expected timing of cash payments related to these contractual obligations (in millions):

	Payments due for the years ended December 31,						
Contractual obligations:	**2012**	**2013**	**2014**	**2015**	**2016**	**Thereafter**	**Total**
Office space and equipment lease obligations	$ 32.2	$ 27.3	$ 22.0	$ 18.9	$ 16.5	$ 85.6	$ 202.5
Accrued restructuring charges-severance	6.8	0.5					7.3
Asset retirement obligations (1)	0.3	0.7			0.9	0.4	2.3
Total	$ 39.3	$ 28.5	$ 22.0	$ 18.9	$ 17.4	$ 86.0	$ 212.1

(1) Represents the fair value of the obligation associated with the retirement of tangible long-lived assets, primarily related to our obligation at the end of the lease term to return office space to the landlord in its original condition.

In addition to the contractual obligations included in the above table, we have liabilities related to certain employee benefit plans. These liabilities are recorded in our Consolidated Balance Sheet at December 31, 2011. The obligations related to these employee benefit plans are described in Note 13, *Employee Benefit Plans*, and Note 14, *Pension Plan and Life Insurance Contract,* in the Notes to Consolidated Financial Statements. As the timing of cash disbursements related to these employee benefit plans is uncertain, we have not included these obligations in the above table. The table excludes our liability for uncertain tax positions including accrued interest and penalties, which totaled $1.3 million as of January 1, 2011 and $0.9 million as of December 31, 2011, since we cannot predict with reasonable reliability the timing of cash settlements to the respective taxing authorities.

Application of Critical Accounting Policies and Estimates

General. Management s Discussion and Analysis of Financial Condition and Results of Operations is based upon our Consolidated Financial Statements, which have been prepared using accounting principles generally accepted in the United States of America. Our significant accounting policies are discussed in Note 2, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. If actual amounts are ultimately different from previous estimates, the revisions are included in our results of operations for the period in which the actual amounts become known.

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

Revenue recognition. Revenue before reimbursements for out-of-pocket expenses (net revenue) is recognized when earned and realizable when the following criteria have been met: (a) persuasive evidence of an arrangement exists; (b) services have been rendered; (c) the fee to our client is fixed or determinable; and (d) collectability is reasonably assured. Taxes collected from clients and remitted to governmental authorities are

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presented on a net basis. Net revenue consists of retainers and indirect expenses billed to clients. Typically, we are paid a retainer for our executive search services equal to approximately one-third of the estimated first year compensation of the position to be filled. If actual compensation of the placed candidate exceeds the estimated compensation, we are generally authorized to bill the client for one-third of the excess.

Typically, net revenue from standard executive search engagements is recognized over the expected average period of performance, in proportion to the estimated personnel time incurred to fulfill our obligations under the arrangements. Net revenue in excess of the retainer, resulting from actual compensation of the placed candidate exceeding estimated compensation, is recognized upon completion of the executive search when the amount of the additional fee is known. Our assumptions about the duration of the time and extent of efforts for search teams to complete our services in an executive search engagement require significant judgment as these variables have fluctuated in the past and are expected to continue to do so. These assumptions are updated annually or whenever conditions exist to indicate that more frequent updates are necessary.

Net revenue from certain leadership consulting and non-standard executive search engagements is recognized in accordance with the completion of the engagement deliverables. Taxes collected from clients and remitted to governmental authorities are presented on a net basis.

Restructuring charges. We account for restructuring charges by recognizing a liability at fair value when the costs are incurred. Restructuring charges include employee-related costs, including severance associated with reductions in the Company s workforce, and expenses associated with consolidating and closing office locations.

Inherent in these accruals are estimates related to employee settlements, expected sublease income, and costs to terminate the leases. We believe that the accounting estimate related to accruals for the consolidation and closing of offices is a critical accounting estimate because it is highly susceptible to changes in the commercial real estate markets and the local regional economic factors where this leased office space is located. These accruals are periodically updated to reflect information concerning the commercial real estate markets in which the offices are located.

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

We apply an estimated annual effective tax rate to our cumulative quarterly operating results to determine the provision for income tax expense. In the event there are significant unusual or infrequent items recognized in our quarterly operating results, the tax attributable to that item is recorded in the interim period in which it occurs.

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

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

Goodwill and other intangible assets. We review goodwill for impairment annually. We also review goodwill and long-lived assets; including identifiable intangible assets for impairment whenever events or changes in circumstances indicate that it is more likely than not that the fair value has fallen below the carrying amount of an asset. We review factors such as a significant change in business climate, attrition of key personnel, changes in financial condition or results of operations, a prolonged decline in our stock price and market capitalization, competition, and other factors. The goodwill impairment test is performed using a two-step, fair value based test. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. The second step measures the impairment charge and is performed only if the carrying amount of a reporting unit exceeds its fair value as determined in step one. To measure the amount of the impairment loss, the implied fair value of a reporting unit s goodwill is compared to the carrying amount of that goodwill. If the carrying amount of a reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination.

The impairment test is considered for each of our reporting units as defined in the accounting standard for goodwill and intangible assets. We operate our executive search and leadership consulting services in three geographic regions: the Americas; Europe, which includes the Middle East and Africa; and Asia Pacific. The Americas is comprised of the North America and the Latin America operations. These geographic regions are also considered to be our reporting units as follows: North America, Latin America, Europe, and Asia Pacific.

During the first step, the fair value of each of our reporting units is determined using a combination of valuation techniques, including a discounted cash flow methodology and comparable public company methodology, with the assistance of an independent valuation firm.

The discounted cash flow approach is dependent on a number of factors including estimates of future market growth and trends, forecasted revenue and costs, capital investments, appropriate discount rates, certain assumptions to allocate shared assets and liabilities, historical and projected performance of the our reporting units, the outlook for the executive search industry, and the macroeconomic conditions affecting each of our reporting units. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. The fair value of our reporting units is also impacted by our overall market capitalization and may be impacted by volatility in our stock price and assumed control premium, among other factors. As a result, actual future results may differ from those estimates. These assumptions are updated annually, at a minimum, to reflect information concerning our reportable segments.

Additionally, we review long-lived assets, such as property, equipment, and purchased intangibles subject to amortization for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge, equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset, is recognized.

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

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

The allowance for doubtful accounts is recorded as a reduction in revenue to the extent the provision relates to fee adjustments and other discretionary pricing adjustments. To the extent the provision relates to a customer s inability to make required payments on accounts receivables, the provision is recorded as bad debt expense within general and administrative expenses.

Stock-based compensation. We measure our stock-based compensation costs based on the grant date fair value of the awards and recognize these costs in the financial statements over the requisite service period. We apply a forfeiture rate to our share-based awards that represents our best estimate of the amount of awards that will be forfeited. Our estimate is based on our historical experience and specific analysis. We review our forfeiture rate quarterly or whenever events or changes in circumstances indicate our estimate may need to be revised. Actual forfeitures could differ from our estimates due to changes in retention rates of our employee population.

Recently Adopted Financial Accounting Standards

On January 1, 2011, we adopted guidance which expands the required disclosures about fair value measurements. This guidance requires disclosures about transfers of investments between levels in the fair value hierarchy and disclosures relating to the reconciliation of fair value measurements using significant unobservable inputs (level 3 investments). The adoption of this guidance did not have a material impact on our financial condition or results of operations.

Recently Issued Financial Accounting Standards

In June 2011, the Financial Accounting Standards Board issued guidance to increase the prominence of other comprehensive income within the financial statements. The guidance requires entities to present the components of net income and other comprehensive income either in a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present other comprehensive income within the statement of stockholders equity will be eliminated. This guidance is effective for us as of January 1, 2012 and will be applied retrospectively beginning with the March 31, 2012 interim reporting period. We do not believe adoption of this guidance will have any impact on our financial condition or results of operations.

In September 2011, the Financial Accounting Standards Board issued guidance that permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. We do not believe adoption of this guidance will have any impact on our financial condition or results of operations.

In December 2011, the Financial Accounting Standards Board issued guidance that requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The amendment enhances disclosures

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required by U.S. GAAP by requiring additional disclosures about financial instruments and derivative instruments that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendment is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. We do not believe adoption of the guidance will have any impact on our financial condition or results of operations.

Quarterly Financial Information

The following table sets forth certain financial information for each quarter of 2011 and 2010. The information is derived from our quarterly consolidated financial statements which are unaudited but which, in the opinion of management, have been prepared on the same basis as the audited annual consolidated financial statements included in this document. The consolidated financial data shown below should be read in conjunction with the consolidated financial statements and notes thereto. The operating results for any quarter are not necessarily indicative of results for any future period.

	Quarter Ended							
	2011				2010			
	Mar. 31	Jun. 30	Sept. 30	Dec. 31	Mar. 31	Jun. 30	Sept. 30	Dec. 31
	(in thousands, except per share)							
Revenue before reimbursements (net revenue)	$ 115,622	$ 142,799	$ 142,213	$ 127,159	$ 113,668	$ 126,071	$ 126,129	$ 127,223
Operating income (loss)	(4,088)	10,310	(12,635)	(4,502)	(3,776)	7,593	4,380	9,327
Income (loss) before income taxes	(5,908)	11,009	(14,138)	(5,738)	(3,494)	5,333	5,270	9,839
Provision for (benefit from) income taxes	(1,247)	3,580	18,263	(1,649)	(1,948)	2,661	4,086	4,656
Net income (loss)	(4,661)	7,429	(32,401)	(4,089)	(1,546)	2,672	1,184	5,183
Basic earnings (loss) per common share	(0.26)	0.42	(1.82)	(0.23)	(0.09)	0.15	0.07	0.30
Diluted earnings (loss) per Common share	(0.26)	0.41	(1.82)	(0.23)	(0.09)	0.15	0.07	0.29
Cash dividends paid per share	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Currency market risk. With our operations in the Americas, Europe and Asia Pacific, we conduct business using various currencies. Revenue earned in each country is generally matched with the associated expenses incurred, thereby reducing currency risk to earnings. However, because certain assets and liabilities are denominated in currencies other than the U.S. dollar, changes in currency rates may cause fluctuations in the valuation of such assets and liabilities. As the local currency of our subsidiaries has generally been designated as the functional currency, we are affected by the translation of foreign currency financial statements into U.S. dollars. A 1% change in the average exchange rate for currencies of all foreign countries in which we operate would have increased or decreased our 2011 net income by approximately $0.3 million. For financial information by geographic segment, see Note 21, *Segment Information*, in the Notes to Consolidated Financial Statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Heidrick & Struggles International, Inc.:

We have audited the accompanying consolidated balance sheets of Heidrick & Struggles International, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2011. We also have audited the Company s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heidrick & Struggles International, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway

Commission.

KPMG LLP

Chicago, Illinois

March 14, 2012

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	December 31, 2011	December 31, 2010
Current assets:		
Cash and cash equivalents	$ 185,390	$ 181,124
Restricted cash	440	393
Accounts receivable, net	69,081	83,360
Other receivables	9,404	7,724
Prepaid expenses	16,551	15,323
Other current assets	1,382	1,871
Income taxes recoverable	19,866	11,912
Deferred income taxes	8,211	10,759
Total current assets	310,325	312,466
Non-current assets:		
Property and equipment, net	44,781	34,406
Restricted cash	1,470	1,609
Assets designated for retirement and pension plans	22,883	23,647
Investments	9,868	11,021
Other non-current assets	6,480	8,593
Goodwill	90,696	109,888
Other intangible assets, net	2,556	6,480
Deferred income taxes	26,506	36,917
Total non-current assets	205,240	232,561
Total assets	$ 515,565	$ 545,027
Current liabilities:		
Accounts payable	$ 9,157	$ 8,408
Accrued salaries and employee benefits	131,697	124,969
Other current liabilities	39,362	34,064
Income taxes payable	4,868	3,208
Deferred income taxes	6	1,807
Total current liabilities	185,090	172,456
Non-current liabilities:		
Retirement and pension plans	31,747	30,907
Other non-current liabilities	47,396	47,015
Deferred income taxes	37	107
Total non-current liabilities	79,180	78,029
Total liabilities	264,270	250,485

Commitments and contingencies (Note 23)		
Stockholders equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, no shares issued at December 31, 2011 and 2010		
Common stock, $.01 par value, 100,000,000 shares authorized, 19,585,777 shares issued, 17,870,236 and 17,558,098 shares outstanding at December 31, 2011 and 2010, respectively	196	196
Treasury stock at cost, 1,715,541 and 2,027,679 shares at December 31, 2011 and 2010, respectively	(58,690)	(69,549)
Additional paid in capital	238,523	246,601
Retained earnings	55,029	99,056
Accumulated other comprehensive income	16,237	18,238
Total stockholders equity	251,295	294,542
Total liabilities and stockholders equity	$ 515,565	$ 545,027

The accompanying notes to Consolidated Financial Statements are an integral part of these statements.

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended December 31,		
	2011	**2010**	**2009**
Revenue:			
Revenue before reimbursements (net revenue)	$ 527,793	$ 493,091	$ 395,651
Reimbursements	26,187	20,145	19,067
Total revenue	553,980	513,236	414,718
Operating expenses (income):			
Salaries and employee benefits	372,406	340,178	281,545
General and administrative expenses	123,592	130,622	115,758
Other charges		4,218	
Reimbursed expenses	26,187	20,145	19,067
Restructuring charges	16,344	1,621	22,640
Impairment charges	26,366		4,080
Other operating income		(1,072)	(1,661)
Total operating expenses	564,895	495,712	441,429
Operating income (loss)	(10,915)	17,524	(26,711)
Non-operating income (expense):			
Interest income, net	1,402	813	1,201
Other, net	(5,262)	(1,389)	(4,189)
Net non-operating income (expense)	(3,860)	(576)	(2,988)
Income (loss) before income taxes	(14,775)	16,948	(29,699)
Provision for (benefit from) income taxes	18,947	9,455	(8,791)
Net income (loss)	$ (33,722)	$ 7,493	$ (20,908)
Basic weighted average common shares outstanding	17,780	17,437	16,901
Diluted weighted average common shares outstanding	17,780	17,869	16,901
Basic earnings (loss) per common share	$ (1.90)	$ 0.43	$ (1.24)
Diluted earnings (loss) per common share	$ (1.90)	$ 0.42	$ (1.24)
Cash dividends paid per share	$ 0.52	$ 0.52	$ 0.52

The accompanying notes to Consolidated Financial Statements are an integral part of these statements.

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND

COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Common Stock		Treasury Stock		Additional Paid in	Retained	Accumulated Other Compre- hensive	
	Shares	Amount	Shares	Amount	Capital	Earnings	Income	Total
Balance at December 31, 2008	**19,586**	**$196**	**3,216**	**$ (110,838)**	**$273,731**	**$ 131,061**	**$12,154**	**$ 306,304**
Net loss						(20,908)		(20,908)
Other comprehensive loss:								
Unrealized gain on available for sale investments							1,336	1,336
Pension adjustment, net of tax							(937)	(937)
Foreign currency translation adjustment							3,175	3,175
Other comprehensive loss						(20,908)	3,574	(17,334)
Treasury and common stock transactions:								
Stock-based compensation					18,677			18,677
Exercise of stock options			(88)	3,072	(1,834)			1,238
Vesting of restricted stock units, net of tax withholdings			(595)	20,645	(24,034)			(3,389)
Re-issuance of treasury stock			(20)	702	(327)			375
Cash dividends declared ($0.52 per share)						(8,860)		(8,860)
Dividend equivalents on restricted stock units						(202)		(202)
Tax deficit related to stock-based compensation					(5,957)			(5,957)
Balance at December 31, 2009	**19,586**	**$196**	**2,513**	**$(86,419)**	**$260,256**	**$ 101,091**	**$15,728**	**$ 290,852**
Net income						7,493		7,493
Other comprehensive income:								
Unrealized gain on available for sale investments							706	706
Pension adjustment, net of tax							(1,055)	(1,055)
Foreign currency translation adjustment							2,859	2,859
Other comprehensive income						7,493	2,510	10,003
Treasury and common stock transactions:								
Stock-based compensation					8,552			8,552
Vesting of restricted stock units, net of tax withholdings			(473)	16,431	(21,060)			(4,629)
Re-issuance of treasury stock			(13)	439	(139)			300
Cash dividends declared ($0.52 per share)						(9,114)		(9,114)
Dividend equivalents on restricted stock units						(414)		(414)
Tax deficit related to stock-based compensation					(1,008)			(1,008)
Balance at December 31, 2010	**19,586**	**$196**	**2,027**	**$ (69,549)**	**$246,601**	**$ 99,056**	**$18,238**	**$ 294,542**
Net loss						(33,722)		(33,722)
Other comprehensive loss:								
Unrealized loss on available-for-sale investments							(104)	(104)
Pension adjustment, net of tax							(615)	(615)
Foreign currency translation adjustment							(1,282)	(1,282)

Other comprehensive loss						(33,722)	(2,001)	(35,723)
Treasury and common stock transactions:								
Stock-based compensation					5,664			5,664
Vesting of restricted stock units, net of tax withholdings			(293)	10,204	(12,979)			(2,775)
Re-issuance of treasury stock			(19)	655	(280)			375
Cash dividends declared ($0.52 per share)						(9,277)		(9,277)
Dividend equivalents on restricted stock units						(1,028)		(1,028)
Tax deficit related to stock-based compensation					(483)			(483)
Balance at December 31, 2011	**19,586**	**$196**	**1,715**	**$ (58,690)**	**$238,523**	**$ 55,029**	**$16,237**	**$ 251,295**

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

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2011	**2010**	**2009**
Cash flows from operating activities:			
Net income (loss)	$ (33,722)	$ 7,493	$ (20,908)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,263	11,584	11,265
Write-off of investment	2,810		2,977
Write-off of software development project			1,329
Deferred income taxes	10,571	7,093	(10,107)
Net realized and unrealized losses on investments	211	1,509	2,054
Stock-based compensation expense	5,503	7,765	19,016
Other operating income		(1,072)	(1,661)
Impairment charges	26,366		4,080
Restructuring charges	16,344	1,621	22,640
Cash paid for restructuring charges	(7,491)	(3,439)	(25,020)
Changes in assets and liabilities, net of effects of acquisitions:			
Trade and other receivables	10,819	(17,211)	7,786
Accounts payable	(732)	2,203	(566)
Accrued expenses	5,960	65,162	(86,708)
Income taxes recoverable (payable), net	(6,886)	3,726	(4,848)
Retirement and pension assets and liabilities	667	(483)	1,649
Prepayments	(1,186)	672	4,397
Other assets and liabilities, net	5,277	(2,329)	(552)
Net cash provided by (used in) operating activities	44,774	84,294	(73,177)
Cash flows from investing activities:			
Restricted cash	83	2,620	5,058
Acquisition of business and earnout payments, net of cash acquired	(3,930)	(554)	(15,453)
Capital expenditures	(18,016)	(17,564)	(12,274)
Purchase of equity method investment			(1,300)
Purchases of available for sale investments	(986)	(1,046)	(305)
Proceeds from sales of available for sale investments	83	292	753
Loan to equity method investment	(1,008)		
Other, net	74		90
Net cash used in investing activities	(23,700)	(16,252)	(23,431)
Cash flows from financing activities:			
Proceeds from stock options exercised			1,238
Cash dividends paid	(9,723)	(9,696)	(9,332)
Payment of employee tax withholdings on equity transactions	(2,853)	(4,585)	(3,386)
Net cash used in financing activities	(12,576)	(14,281)	(11,480)
Effect of exchange rates fluctuations on cash and cash equivalents	(4,232)	4,333	(3,413)
Net increase (decrease) in cash and cash equivalents	4,266	58,094	(111,501)
Cash and cash equivalents at beginning of period	181,124	123,030	234,531

Cash and cash equivalents at end of period	$ 185,390	$ 181,124	$ 123,030
Supplemental disclosures of cash flow information			
Cash paid for			
Interest	$ 4	$ 10	$ 12
Income taxes, net	13,916	954	4,777

The accompanying notes to Consolidated Financial Statements are an integral part of these statements.

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All tables in thousands, except share and per share figures)

1. Basis of Presentation

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

The consolidated financial statements include Heidrick & Struggles International, Inc. and its wholly-owned subsidiaries and have been prepared using accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and certain financial statement disclosures. Significant items subject to estimates and assumptions include revenue recognition, allowance for doubtful accounts, allowances for deferred tax assets, assessment of goodwill and other intangible assets for impairment, compensation accruals, stock-based compensation and contingent liabilities. Given that global economies are undergoing a period of substantial uncertainty, such estimates are subject to a greater degree of uncertainty, and actual results could differ from these estimates.

The Company revised its prior year Consolidated Statements of Cash Flows to conform to the current year presentation, which had no effect on the Consolidated Balance Sheets or Consolidated Statements of Operations for the prior periods presented.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Concentration of Risk

The Company is potentially exposed to concentrations of risk associated with its accounts receivable. However, this risk is limited due to the Company s large number of clients and their dispersion across many different industries and geographies. At December 31, 2011, the Company had no significant concentrations of risk.

Accounts Receivable

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

Fair Value of Financial Instruments

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

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Property and Equipment

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

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

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

Long-lived Assets

The Company reviews its long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge, equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset, is recognized.

Investments

The Company s investments consist primarily of available-for-sale investments within the U.S. non-qualified deferred compensation plan (the Plan), an equity method investment associated with the Company s joint venture investment in JobKoo, and warrants for equity securities in client companies classified as derivative instruments, cost method investments or available-for-sale investments.

Available-for-sale investments are reported at fair value with changes in unrealized gains (losses) recorded as a separate component of accumulated other comprehensive income in the Consolidated Balance Sheets until realized. Realized gains (losses) resulting from an employee s termination from the Plan are recorded as a non-operating gain (loss) in the Consolidated Statements of Operations.

The equity method of accounting is used to account for investments in which the Company has the ability to exercise significant influence, but not control, over an investee. Significant influence is generally deemed to exist if the Company has ownership interest in the voting stock of an investee of between 20% and 50%. The Company accounts for its ownership percentage as a non-operating gain (loss) in the Consolidated Statement of Operations.

The Company receives warrants for equity securities in client companies, in addition to the cash fee, for services rendered on some searches. Some warrants meet the definition of a derivative instrument while others are classified as cost method investments. Both investment classifications are initially recorded in the Consolidated Balance Sheets at their fair value, using a Black-Scholes model, with a corresponding amount recorded as net revenue in the Consolidated Statements of Operations. Variable compensation expense related to this net revenue is also recorded. Subsequent changes in the fair value of the warrants are accounted for depending on the classification of the warrants. Changes in warrants classified as derivative instruments are recorded in the Consolidated Statements of Operations as unrealized gains (losses), net of the consultants share of the gains (losses), whereas warrants classified as cost method investments are regularly reviewed for other-than-temporary declines in fair value. Any permanent declines in the fair value of these warrants are recorded in the Consolidated Statements of Operations as realized losses, net of the consultants share of the losses.

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

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Any equity securities arising from the exercise of a warrant are accounted for as available-for-sale investments. Upon the sale of these investments, the Company records a realized gain (loss), net of the consultants share of the gain (loss) and other costs.

Goodwill and Other Intangible Assets

Goodwill represents the difference between the purchase price of acquired companies and the related fair value of the net assets acquired, which is accounted for by the acquisition method of accounting. Other intangible assets include client relationships, candidate databases, and employee non-compete agreements. The Company performs assessments of the carrying value of its goodwill and other intangible assets at least annually or whenever events occur or circumstances indicate that a carrying amount of these assets may not be recoverable. These circumstances include a significant change in business climate, attrition of key personnel, changes in financial condition or results of operations, a prolonged decline in the Company s stock price and market capitalization, competition, and other factors.

The goodwill impairment test compares the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, goodwill of the reporting unit would be considered impaired. To measure the amount of the impairment loss, the implied fair value of a reporting unit s goodwill is compared to the carrying amount of that goodwill. If the carrying amount of a reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined. The fair value of each of the Company s reporting units is determined using a combination of valuation techniques, including a discounted cash flow methodology and comparable public company methodology, with the assistance of an independent valuation firm.

The other intangible asset impairment review compares the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge, equal to the amount by which the carrying amount of the asset exceeds the fair value, is recognized.

Other intangible assets acquired are amortized either using the straight-line method over their estimated useful lives or based on the projected cash flow associated with the respective intangible assets.

Restructuring Charges

The Company accounts for restructuring charges by recognizing a liability at fair value when the costs are incurred.

Revenue Recognition

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

Net revenue is recognized when earned and realizable and therefore when the following criteria have been met: (a) persuasive evidence of an arrangement exists, (b) services have been rendered, (c) the fee to our client is

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fixed or determinable, and (d) collectability is reasonably assured. Taxes collected from clients and remitted to governmental authorities are presented on a net basis. Typically, net revenue from standard executive search engagements is recognized over the expected average period of performance, in proportion to the estimated personnel time incurred to fulfill our obligations under the arrangements. Net revenue in excess of the retainer, resulting from actual compensation of the placed candidate exceeding the estimated compensation, is recognized upon completion of the executive search when the amount of the additional fee is known.

Net revenue from certain leadership consulting and non-standard executive search engagements is recognized in accordance with the completion of the engagement deliverables.

Reimbursements

The Company incurs certain out-of-pocket expenses that are reimbursed by its clients, which are accounted for as revenue in its Consolidated Statements of Operations.

Salaries and Employee Benefits

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

Salaries and employee benefits are recognized on an accrual basis. Certain signing bonuses, retention awards, and minimum guaranteed compensation are capitalized and amortized in accordance with the terms of the respective agreements.

A portion of the Company s consultants and management cash bonuses are deferred and paid over a three-year vesting period. The portion of the bonus that is deferred varies between 10% and 15% depending on the employee s level or position. The compensation expense related to the amounts being deferred is recognized on a graded vesting attribution method over the requisite service period. This service period begins on January 1 of the respective fiscal year and continues through the deferral date, which coincides with the Company s bonus payments in the first quarter of the following year, and for an additional three year vesting period. The deferrals are recorded in accrued salaries and employee benefits and other non-current liabilities in the Consolidated Balance Sheets.

Stock-Based Compensation

The Company accounts for stock-based compensation based on the fair value of the award at grant date, which is typically the closing stock-price, and recognizes compensation expense over the requisite service period.

Consultants Share of Gains Related to Warrant Monetizations

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

Income Taxes

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

Earnings per Common Share

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

Translation of Foreign Currencies

The Company generally designates the local currency for all its subsidiaries as the functional currency. The Company translates the assets and liabilities of its subsidiaries into U.S. dollars at the current rate of exchange prevailing at the balance sheet date. Revenue and expenses are translated at a monthly average exchange rate for the period. Translation adjustments are reported as a component of accumulated other comprehensive income.

Recently Adopted Financial Accounting Standards

On January 1, 2011, we adopted guidance which expands the required disclosures about fair value measurements. This guidance requires disclosures about transfers of investments between levels in the fair value hierarchy and disclosures relating to the reconciliation of fair value measurements using significant unobservable inputs (level 3 investments). The adoption of this guidance did not have a material impact on the company s financial condition or results of operations.

Recently Issued Financial Accounting Standards

In June 2011, the Financial Accounting Standards Board issued guidance to increase the prominence of other comprehensive income within the financial statements. The guidance requires entities to present the components of net income and other comprehensive income either in a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present other comprehensive income within the statement of stockholders' equity will be eliminated. This guidance is effective for us as of January 1, 2012 and will be applied retrospectively beginning with the March 31, 2012 interim reporting period. The Company does not believe adoption of this guidance will have any impact on its financial condition or results of operations.

In September 2011, the Financial Accounting Standards Board issued guidance that permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company does not believe adoption of this guidance will have any impact on its financial condition or results of operations.

In December 2011, the Financial Accounting Standards Board issued guidance that requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The amendment enhances disclosures required by U.S. GAAP by requiring additional disclosures about financial instruments and derivative instruments that are either offset or subject to an enforceable master netting arrangement or similar

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agreement. The amendment is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company does not believe adoption of the guidance will have any impact on its financial condition or results of operations.

3. Allowance for Doubtful Accounts

The following table summarizes the activity of the allowance for doubtful accounts for the years ended:

	December 31, 2011	2010	2009
Balance at January 1,	$ 6,589	$ 4,854	$ 5,808
Provision (benefit) charged to income	(558)	3,305	1,006
Write-offs	(2,288)	(1,447)	(1,729)
Currency	62	(123)	(231)
Balance at December 31,	$ 3,805	$ 6,589	$ 4,854

4. Property and Equipment

The components of the Company s property and equipment are as follows:

	December 31, 2011	2010
Leasehold improvements	$ 42,789	$ 41,556
Office furniture, fixtures and equipment	24,602	23,588
Computer equipment and software	45,270	35,279
Property and equipment, gross	112,661	100,423
Accumulated depreciation	(67,880)	(66,017)
Property and equipment, net	$ 44,781	$ 34,406

Depreciation expense for the years ended December 31, 2011, 2010 and 2009 was $9.1 million, $9.6 million and $9.5 million, respectively.

5. Restricted Cash

The Company had $1.9 million and $2.0 million of restricted cash at December 31, 2011 and 2010, respectively, in support of lease guarantees. In accordance with the terms of the lease agreements, the cash balances are restricted through the termination dates of the leases, which extend through 2019.

6. Investments

The components of the Company s investments are as follows:

	December 31, 2011	December 31, 2010
U.S. non-qualified deferred compensation plan	$ 9,313	$ 8,487
JobKoo		1,803
Warrants and equity securities	555	731
Total	$ 9,868	$ 11,021

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The Company s U.S. non-qualified deferred compensation plan consists primarily of U.S. marketable securities and mutual funds, all of which are valued using Level 1 inputs. The aggregate cost basis for these investments was $8.3 million and $7.4 million as of December 31, 2011 and 2010, respectively. The warrants and equity securities primarily consist of cost method investments, none of which were evaluated for impairment since there were no triggering events in the respective periods.

During 2011, the Company provided a loan to its equity method investee, JobKoo, in the principal amount of $1.0 million. As a result of JobKoo s inability to demonstrate sufficient cash flow to support repayment of the loan or recoverability of the investment, the Company wrote-off its $1.8 million investment and $1.0 million loan during 2011. The Company continues to hold its 50% interest in JobKoo. The write-off is included in non-operating expense-other, net on the Consolidated Statement of Operations for the year ended December 31, 2011.

7. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Substantially all of the Company s assets that are measured at fair value on a recurring basis are measured using Level 1 inputs. The Company considers the recorded value of its financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, and accounts payable, to approximate the fair value of the respective assets and liabilities at December 31, 2011 and 2010 based upon the short-term nature of the assets and liabilities.

8. Other Non-Current Assets

The components of the Company s other non-current assets are as follows:

	December 31,	
	2011	**2010**
Deferred compensation	$ 4,345	$ 6,380
Prepaid rent	2,075	2,084

Other	60	129
Total other non-current assets	$ 6,480	$ 8,593

9. Acquisitions

IronHill Partners, LLC

In May 2008, the Company acquired IronHill Partners, LLC (IronHill), an executive search boutique firm in the United States, specializing in the venture capital sector with a particular focus on technology companies.

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IronHill was eligible to receive earnout payments up to $4.4 million based on the achievement of certain revenue metrics in 2009, 2010, and 2011. As a result of the achievement of these revenue metrics, the Company paid an earnout payment of $3.9 million in 2011. The earnout period for the IronHill acquisition has expired and there will be no future payments associated with the acquisition.

Ray & Berndtson Sp. z o. o

In February 2009, the Company acquired Ray & Berndtson Sp. z o. o, a retained executive search firm in Warsaw, Poland, for $2.7 million of initial consideration, pursuant to a stock purchase, which was funded from existing cash. Ray & Berndtson Sp. z o. o was eligible to receive earnout payments based on the achievement of certain revenue metrics in 2009, 2010, and 2011. As a result, as of the acquisition date, the Company accrued 1.8 million (equivalent to $2.3 million at December 31, 2011) representing the estimated fair value of the future earnout payments. Additionally, the Company recorded $4.2 million of goodwill, $0.7 million of identifiable intangible assets, $0.3 million of assets and assumed $0.1 million of liabilities.

As a result of significantly lower than expected 2009 revenue production from the consultants acquired and uncertainty regarding future performance, the Company performed a fair value assessment of the future earnout payments under the purchase agreement. This assessment resulted in a $1.7 million reduction to the original earnout accrual in 2009. Additionally, the deterioration in business performance in 2009 triggered a review of the client relationship intangible assets associated with this acquisition, resulting in an impairment charge in the European region of $0.2 million during 2009. As a result of continued lower than expected 2010 revenue production from consultants acquired and uncertainty regarding future performance, the Company performed a second fair value assessment which resulted in a $1.1 million adjustment in 2010. Under the acquisition method of accounting for business combinations, the Company recognized the 2010 and 2009 fair value adjustments as other operating income in the Consolidated Statement of Operations. As of December 31, 2011 there was no goodwill, intangible assets, or earnout accruals recorded related to the Ray & Berndtson Sp. z o. o acquisition.

Bell McCaw Bampflyde Limited

In March 2010, the Company acquired Bell McCaw Bampflyde Limited, a retained executive search firm based in New Zealand for 0.8 million New Zealand dollars (equivalent to $0.6 million at December 31, 2011) of initial consideration, pursuant to an asset purchase, which was funded from existing cash. Bell McCaw Bampflyde Limited is eligible to receive earnout payments of up to 1.4 million New Zealand dollars based on the achievement of certain revenue metrics in 2011, 2012 and 2013. As a result, the Company accrued 1.4 million New Zealand dollars (equivalent to $1.1 million at December 31, 2011), representing the estimated fair value of future earnout payments as of the acquisition date. As part of the purchase price allocation, the Company recorded 0.2 million New Zealand dollars (equivalent to $0.1 million at December 31, 2011) of property and equipment, and 2.0 million New Zealand dollars (equivalent to $1.6 million at December 31, 2011) of goodwill. There were no intangibles recorded as part of this acquisition.

The IronHill acquisition was accounted for using the purchase method of accounting and the Ray & Berndtson Sp. z o. o and Bell McCaw Bampflyde Limited acquisitions were accounted for using the acquisition method of accounting for business combinations. The results of operations of these entities have been included in the consolidated financial statements since their respective acquisition dates. Additionally, none of these acquisitions is considered material to the Company, and, therefore, pro-forma information has not been presented.

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10. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of goodwill by segment for the years ended December 31, 2011, 2010, and 2009 were as follows:

	Americas	Europe	Asia Pacific	Total
Balance at December 31, 2008	$ 78,056	$ 18,499	$ 4,679	$ 101,234
Ray & Berndtson Sp.z o. o acquisition		4,156		4,156
RentonJames earnout adjustment			394	394
IronHill acquisition adjustment	108			108
Exchange rate fluctuations	591	1,615	912	3,118
Balance at December 31, 2009	78,755	24,270	5,985	109,010
Bell McCaw Bampflyde Limited acquisition			1,386	1,386
Exchange rate fluctuations	234	(1,288)	546	(508)
Balance at December 31, 2010	78,989	22,982	7,917	109,888
Goodwill impairment		(23,507)		(23,507)
Iron Hill earnout adjustment	3,930			3,930
Exchange rate fluctuations	(105)	525	(35)	385
Balance at December 31, 2011	$ 82,814	$	$ 7,882	$ 90,696

As a result of the Company s restructuring initiatives announced on October 5, 2011, which primarily related to Europe and the volatility associated with the economic outlook for Europe, including the political and economic uncertainty in the region, the Company, with the assistance of an independent valuation firm, conducted a goodwill impairment evaluation as of September 30, 2011. The goodwill impairment evaluation is performed using a two-step, fair value based test. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. The second step measures the impairment charge and is performed only if the carrying amount of a reporting unit exceeds its fair value as determined in step one. To measure the amount of the impairment loss, the implied fair value of a reporting unit's goodwill is compared to the carrying amount of that goodwill. If the carrying amount of a reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination.

The impairment test is considered for each of the Company's reporting units as defined in the accounting standard for goodwill and intangible assets. The Company operates its executive search and leadership consulting services in three geographic regions: the Americas; Europe, which includes the Middle East and Africa; and Asia Pacific. The Americas is comprised of the Company s North America and Latin America operations. These geographic regions are also considered to be the Company's reporting units as follows: North America, Latin America, Europe and Asia Pacific.

During the impairment evaluation process, the Company used discounted cash flow and comparable company methodologies to estimate the fair value of its reporting units. The discounted cash flow approach is dependent on a number of factors, including estimates of future market growth and trends, forecasted revenue and costs, capital investments, appropriate discount rates, certain assumptions to allocate shared assets and liabilities, historical and projected performance of the Company's reporting units, the outlook for the executive search industry, and the macroeconomic conditions affecting each of the Company's reporting units.

The completion of the first step of the goodwill impairment test indicated that the fair value of the Europe reporting unit did not exceed its carrying amount. The key assumptions used in the determination of fair value

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were (1) the volatility in current economic conditions, (2) a forecast of moderate growth in the near term driven by enhanced consultant productivity after the Company s restructuring activities followed by stabilization in the longer term, (3) improved profit margin expectations and (4) other factors. As a result of the fair value of the Europe reporting unit not exceeding its carrying amount, the second step of the impairment evaluation was performed. Based on the results of the second step of the impairment evaluation, the Company determined that the goodwill within the Europe reporting unit was impaired, which resulted in a non-cash impairment charge of $23.5 million in 2011, to write-off all of the goodwill in the Europe reporting unit.

In connection with the Company s 2008 IronHill acquisition, IronHill was eligible to receive earnout payments up to a total of $4.4 million based on achievement of certain revenue metrics in 2009, 2010 and 2011. As a result of the achievement of these revenue metrics, the Company paid an earnout payment of $3.9 million during 2011. The earnout period for the IronHill acquisition has expired and there will be no future payments associated with the acquisition.

Other Intangible Assets

The carrying amount of amortizable intangible assets and the related accumulated amortization were as follows:

		December 31,					
		2011			2010		
	Weighted Average Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	12.6	$ 10,208	$ (7,877)	$ 2,331	$ 18,430	$ (12,503)	$ 5,927
Candidate database	6.0	1,800	(1,575)	225	1,800	(1,275)	525
Other					204	(176)	28
Total intangible assets	12.0	$ 12,008	$ (9,452)	$ 2,556	$ 20,434	$ (13,954)	$ 6,480

As a result of the departure of certain consultants during the second quarter of 2010 and post acquisition performance associated with the Company s 2008 acquisitions of Schwab Enterprise, LLC and 75 Search Partners, LLC, and 2009 acquisition of Ray and Berndtson Sp. z o. o, the Company performed analyses of the remaining client relationship intangible assets related to these acquisitions. Based on these analyses, the Company recorded impairment charges of $0.5 million in the Americas region and $0.2 million in the European region during the second quarter of 2010 which are included in general and administrative expenses in the Consolidated Statement of Operations for the year ended December 31, 2010.

In connection with the goodwill impairment evaluation during the third quarter of 2011, the Company also performed an evaluation of its intangible assets. The analysis was conducted in accordance with accounting guidance on fair value measurements taking into consideration Level 3 inputs, primarily consisting of discounted cash flow methodologies and assumptions regarding the highest and best use of the asset by market participants in the context of the executive search business. Based on this evaluation, the Company recorded an impairment charge related to its client relationship intangible assets in Europe of $2.5 million and the Americas of $0.4 million during the third quarter of 2011.

Intangible asset amortization expense, excluding the impairment charge noted above, for the years ended December 31, 2011, 2010, and 2009 was $1.1 million, $1.3 million and $1.8 million, respectively. The estimated intangible amortization expense is $0.6 million for fiscal year 2012, $0.4 million for fiscal year 2013 and 2014, and $0.3 for fiscal years 2015 and 2016. These amounts are based on intangible assets recorded as of December 31, 2011, and actual amortization expense could differ from these estimates as a result of future acquisitions and other factors.

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11. Other Current and Non-Current Liabilities

The components of other current liabilities are as follows:

	December 31, 2011	December 31, 2010
Deferred revenue	$ 16,824	$ 16,639
Restructuring charges	8,881	850
Other	13,657	16,575
Total other current liabilities	$ 39,362	$ 34,064

The components of other non-current liabilities are as follows:

	December 31, 2011	December 31, 2010
Accrued salaries and employee benefits	$ 26,503	$ 26,084
Premise related costs	16,763	16,266
Other	4,130	4,665
Total other non-current liabilities	$ 47,396	$ 47,015

12. Line of Credit

On June 22, 2011, the Company and certain foreign subsidiary borrowers of the Company entered into a Credit Agreement (the Agreement) with its lenders. The Agreement provides the terms under which the lenders will make available to the Company a committed unsecured revolving credit facility in an aggregate amount of up to $75 million (the Facility). The Agreement includes an expansion feature that allows the Company to seek to increase the aggregate commitment under the Facility by up to $25 million provided that the Company is in compliance with certain conditions set forth in the Agreement. The Agreement also provides for the issuance of letters of credit. The Facility matures on June 22, 2016. Under the Agreement, the Borrowers may borrow U.S. dollars, euros, British pound sterling, Australian dollars or other major traded currencies as agreed by the lenders. Borrowings under the Agreement bear interest, at the Company s election, at the existing Alternate Base Rate (as defined in the Agreement) or Adjusted LIBOR Rate (as defined in the Agreement) plus a spread as determined by the Company s leverage ratio.

There were no borrowings made or outstanding under the existing lines of credit during the years ended December 31, 2011 or 2010. During 2011 and 2010, the Company was in compliance with the financial covenants under the existing lines of credit and no event of default existed.

13. Employee Benefit Plans

Qualified Retirement Plan

The Company has a defined contribution retirement plan (the Plan) for all eligible employees in the United States. Eligible employees may begin participating in the Plan upon their hire date. The Plan contains a 401(k) provision, which provides for employee pre-tax and/or after-tax contributions, from 1% to 50% of their eligible compensation up to a combined maximum permitted by law. The Company matched employee contributions on a dollar for dollar basis per participant up to the greater of $4,500, or 3.5%, of eligible compensation for the year ended December 31, 2011. The Company matched employee contributions up to the greater of $4,000, or 3%, of eligible compensation for the year ended December 31, 2010. The Company suspended its employer matching contribution for the year ended December 31, 2009. Employees are eligible for the Company match after satisfying a one year service requirement provided that they are working on the last day of the Plan year in which the match is made. The Plan also provides for employees who retire, die or become disabled during the Plan year to receive the Company match for that Plan year. The Plan provides that forfeitures will be used to reduce the Company s contributions. Forfeitures are created when participants terminate employment before becoming entitled to the Company s matching contribution under the Plan. The Company also has the option of making discretionary contributions. There were no discretionary contributions made for the years ended December 31, 2011, 2010 and 2009. The expense that the Company incurred for matching employee contributions for the years ended December 31, 2011, 2010 and 2009 was $2.2 million, $1.8 million and zero, respectively.

Through September 30, 2004, the Plan allowed participants the option of having their account balances or portions thereof invested in the Company s common stock. As of October 1, 2004, participants were no longer allowed the option of purchasing the Company s common stock under the Plan. However, those participants who held the Company s common stock were allowed to maintain their shares. Effective November 30, 2011, the Company s stock fund in the Plan was closed, and the remaining balances were transferred to other available funds. At December 31, 2011 and 2010, the Plan held zero and 4,772 shares, respectively, of the Company s common stock.

The Company maintains additional retirement plans in the Americas, Europe and Asia Pacific regions which the Company does not consider as material, and, therefore additional disclosure has not been presented. The balances associated with these plans have been reported in the Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009 and in the Consolidated Balance Sheets as of December 31, 2011 and 2010.

Deferred Compensation Plans

The Company has a deferred compensation plan for certain U.S. employees (the U.S. Plan) that became effective on January 1, 2006. The U.S. Plan allows participants to defer up to 25% of their base compensation and up to the lesser of $500,000 or 25% of their eligible bonus compensation into several different investment vehicles, including a Company stock fund (through November 30, 2011, at which time the Company stock fund was closed). These deferrals are immediately vested and are not subject to a risk of forfeiture. In 2011 and 2010, all deferrals in the U.S. Plan were funded. The compensation deferred in the U.S. Plan was $7.6 million and $7.2 million, at December 31, 2011 and 2010, respectively. The assets and liabilities of this plan are included in the Consolidated Balance Sheets at December 31, 2011 and 2010.

The Company has a Non-Employee Directors Voluntary Deferred Compensation Plan whereby non-employee members of the Company s Board of Directors may elect to defer up to 100% of the cash component of their directors fees into several different investment vehicles, including a Company stock fund (through November 30, 2011, at which time the Company stock fund was closed). As of December 31, 2011 and 2010, the total amounts deferred under the plan were $1.7 million and $1.3 million, respectively, all of which was funded.

The U.S. and Non-Employee Directors Voluntary Deferred Compensation Plans consist primarily of marketable securities and mutual funds, all of which are valued using Level 1 inputs (See Note 7, *Fair Value Measurements*).

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14. Pension Plan and Life Insurance Contract

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

The following tables reconcile the benefit obligation for the pension plan:

	2011	2010
Benefit obligation at January 1,	$ 23,406	$ 24,330
Service cost	150	129
Interest cost	1,212	1,148
Actuarial gain (loss)	529	681
Benefits paid	(1,354)	(1,281)
Cumulative translation adjustment	(756)	(1,601)
Benefit obligation at December 31,	$ 23,187	$ 23,406

The benefit obligation amounts recognized in the Consolidated Balance Sheets are as follows:

	December 31,	
	2011	2010
Current liabilities	$ 1,357	$ 1,401
Noncurrent liabilities	21,830	22,005
Total	$ 23,187	$ 23,406

The accumulated benefit obligation amounts at December 31, 2011 and 2010 are $23.1 million and $23.3 million, respectively.

The components of and assumptions used to determine the net periodic benefit cost are as follows:

		December 31,	
	2011	2010	2009
Net period benefit cost:			
Service cost	$ 150	$ 129	$ 126
Interest cost	1,212	1,148	1,280
Amortization of net gain	(368)	(624)	(880)
Net periodic benefit cost	$ 994	$ 653	$ 525

Weighted average assumptions			
Discount rate (1)	5.10%	5.25%	5.75%
Rate of compensation increase	1.75%	1.75%	1.75%

Assumptions to determine the Company s benefit obligation are as follows:

	December 31,		
	2011	2010	2009
Discount rate (1)	4.65%	5.10%	5.25%
Rate of compensation increase	1.75%	1.75%	1.75%
Measurement Date	12/31/2011	12/31/2010	12/31/2009

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

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The amounts in accumulated other comprehensive income as of December 31, 2011 and 2010 that had not yet been recognized as components of net periodic benefit cost were $2.4 million and $3.3 million, respectively. Accumulated other comprehensive income as of December 31, 2011 includes $0.1 million that is expected to be recognized as a component of net periodic benefit cost in 2012.

The Company s investment strategy is to support its pension obligations through reinsurance contracts. The BaFin German Federal Financial Supervisory Authority supervises the insurance companies and the reinsurance contracts. The BaFin requires each reinsurance contract to guarantee a fixed minimum return. The Company s pension benefits are fully reinsured by group insurance contracts with ERGO Lebensversicherung AG, and the group insurance contracts are measured in accordance with BaFin guidelines (including mortality tables and discount rates) which are considered Level 2 inputs (See Note 7, *Fair Value Measurements*). The fair value at December 31, 2011 and 2010 was $24.2 million and $25.0 million, respectively. The expected contribution to be paid into the plan in 2012 is $1.4 million.

Since the pension assets are not segregated in trust from the Company s other assets, the pension assets are not shown as an offset against the pension liabilities in the Consolidated Balance Sheets. These assets are included in the Consolidated Balance Sheets at December 31, 2011 and 2010, as a component of other current assets and assets designated for retirement and pension plans.

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

Year ending December 31,	
2012	$ 1,357
2013	1,366
2014	1,756
2015	1,657
2016	1,656
2017 through 2021	8,171

15. Stock-Based Compensation

GlobalShare Program

On May 24, 2007, the stockholders of the Company approved the 2007 Heidrick & Struggles GlobalShare Program (the Plan) at the Company s Annual Meeting of Stockholders. A one-year extension to the Plan was approved by the Company s stockholders on May 26, 2011.

The Plan reflects the merger of the Company s prior stock-based plans, GlobalShare Program I and GlobalShare Program II. The Plan provides for grants of stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance stock units and other stock-based awards that are valued based upon the fair market value of shares. These awards may be granted to directors, selected employees and independent contractors. Awards are paid in shares, but may be paid in cash. No incentive option can have a term greater than ten years and the option price per share of common stock cannot be less than 100% of the fair market value of the Company s common stock on the date of grant.

The Plan provides 2,000,000 shares available for awards to be granted on or after May 24, 2007 (the effective date of the Plan). This number includes the shares that were not subject to awards and still available for issuance under the GlobalShare Programs I and II as of May 24, 2007. As of December 31, 2011, there are 735,494 shares available for future awards.

The Plan limits the number of shares that may be granted to any participant who is or may be a covered employee under Code Section 162(m) to 200,000 stock options and stock appreciation rights and 200,000 performance-based awards.

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The total number of restricted stock units and performance stock units and the underlying shares of the Company s common stock that may be issued or delivered under the Plan is recommended by management and approved by the Human Resources and Compensation Committee of the Board of Directors on an annual basis.

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

The Plan provides that no awards can be granted after May 24, 2012.

A summary of information with respect to stock-based compensation is as follows:

	December 31,		
	2011	2010	2009
Total employee stock-based compensation expense included in operating income (loss)	$ 5,503	$ 7,765	$ 19,016
Income tax benefit related to stock-based compensation included in net income (loss)	2,247	3,106	7,606

As of December 31, 2011, there was $7.6 million of pre-tax unrecognized compensation expense related to unvested restricted and performance stock units, which is expected to be recognized over a weighted average of 1.9 years.

Restricted Stock Units

Restricted stock units are generally subject to ratable vesting over a three year period. Compensation expense related to service-based restricted stock units is recognized on a straight-line basis over the vesting period. For awards requiring satisfaction of service and performance conditions, compensation expense is recognized using a graded vesting attribution method.

Restricted stock unit activity for the years ended December 31, 2011, 2010 and 2009:

	Number of Restricted Stock Units	Weighted-Average Grant-date Fair Value
Outstanding on December 31, 2008	1,880,719	$36.48
Granted	314,738	14.56
Vested and converted to common stock	(818,768)	37.09
Forfeited	(162,169)	33.92
Outstanding on December 31, 2009	1,214,520	30.73
Granted	297,183	26.62
Vested and converted to common stock	(637,693)	34.44

Forfeited	(160,616)	27.03
Outstanding on December 31, 2010	713,394	26.52
Granted	224,583	24.42
Vested and converted to common stock	(403,562)	28.47
Forfeited	(44,695)	26.16
Outstanding on December 31, 2011	489,720	23.99

As of December 31, 2011, there was $6.4 million of pre-tax unrecognized compensation expense related to unvested restricted stock units, which is expected to be recognized over a weighted average of 1.9 years.

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Performance Stock Units

The Company began granting performance stock units to certain of its senior executives in 2009. The performance stock units are generally subject to a cliff vesting at the end of a three year period. For the 2009 PSU grants, the vesting will vary between 0% 175% based on the Company s total shareholder return relative to a prescribed peer group over the 3 year service period. For the 2010 and 2011 PSU grants, the vesting will vary between 0% 200% based on the attainment of operating income goals over the 3 year vesting period. The performance stock units are expensed on a straight-line basis over the 3 year vesting period.

Performance share unit activity for the years ended December 31, 2011, 2010 and 2009:

	Number of Performance Share Units	Weighted-Average Grant-date Fair Value
Outstanding on December 31, 2008		
Granted	104,023	$ 17.85
Vested and converted to common stock		
Forfeited		
Outstanding on December 31, 2009	104,023	17.85
Granted	62,760	28.28
Vested and converted to common stock		
Forfeited	(54,260)	21.23
Outstanding on December 31, 2010	112,523	22.03
Granted	51,049	27.18
Vested and converted to common stock		
Forfeited	(23,342)	23.45
Outstanding on December 31, 2011	140,230	23.67

As of December 31, 2011, there was $1.2 million of pre-tax unrecognized compensation expense related to unvested performance stock units, which is expected to be recognized over a weighted average of 1.7 years.

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Non-qualified Stock Options

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

Non-qualified stock option activity for the years ended December 31, 2011, 2010 and 2009:

	Number of Non-qualified Stock Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding on December 31, 2008	737,953	$31.72	3.0	$ 10,947
Granted				
Exercised	(88,412)	14.00		
Expired	(125,814)	24.23		
Forfeited	(13,727)	39.45		
Outstanding on December 31, 2009	510,000	36.44	3.0	8,505
Granted				
Exercised				
Expired	(159,360)	37.46		
Forfeited	(13,318)	33.79		
Outstanding on December 31, 2010	337,322	35.77	2.4	5,462
Granted				
Exercised				
Expired	(200,551)	34.57		
Forfeited	(3,400)	31.47		
Outstanding on December 31, 2011	133,371	37.67	4.4	1,516
Exercisable on December 31, 2009	400,532	$36.73	1.8	$ 7,319
Exercisable on December 31, 2010	303,781	36.06	1.9	5,116
Exercisable on December 31, 2011	133,371	37.67	4.4	1,516

Information about non-qualified stock options at December 31, 2011 is as follows:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$28.65	7,000	6.4	$28.65	7,000	$28.65

33.79	86,121	6.2	33.79	86,121	33.79
36.45	3,000	0.7	36.45	3,000	36.45
48.45	37,250	0.2	48.45	37,250	48.48
	133,371	4.4	37.67	133,371	37.67

As of December 31, 2011, there was no pre-tax unrecognized compensation expense related to unvested non-qualified stock options.

	Year Ended December 31,		
	2011	**2010**	**2009**
Total grant date fair value of stock options vested (in 000's)	$ 322	$ 700	$ 914
Total intrinsic value of stock options exercised (in 000's)			257

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16. Comprehensive Income (Loss)

Comprehensive income (loss) includes net income (loss) and also considers the effect of additional economic events that are not required to be reported in determining net income, but rather are reported as a separate component of stockholders equity. The Company reports foreign currency translation gains and losses, unrealized gains and losses on available-for-sale investments and pension adjustments, as components of comprehensive income (loss).

	Year Ended December 31, 2011	2010	2009
Comprehensive income (loss):			
Net income (loss)	$ (33,722)	$ 7,493	$ (20,908)
Change in foreign currency translation adjustment	(1,282)	2,859	3,175
Change in unrealized gain (loss) on available-for-sale investments	(104)	706	1,336
Pension adjustment, net of tax	(615)	(1,055)	(937)
Total comprehensive income (loss)	$ (35,723)	$ 10,003	$ (17,334)

The Company recorded a deferred tax benefit related to the pension adjustment of $0.3 million, $0.6 million and $0.5 in 2011, 2010, and 2009, respectively.

	December 31, 2011	2010
Accumulated other comprehensive income:		
Cumulative foreign currency translation adjustment	$ 14,073	$ 15,355
Net unrealized gain (loss) on available-for-sale investments, net of tax	565	669
Pension adjustment, net of tax	1,599	2,214
Total accumulated other comprehensive income	$ 16,237	$ 18,238

17. Basic and Diluted Earnings (Loss) Per Common Share

A reconciliation of the basic and diluted earnings (loss) per common share, and the shares used in the computation are as follows:

	December 31, 2011	2010	2009
Net income (loss)	$ (33,722)	$ 7,493	$ (20,908)
Weighted average common shares outstanding	17,780	17,437	16,901
Dilutive common shares		432	
Weighted average diluted common shares outstanding	17,780	17,869	16,901
Basic earnings (loss) per common share	$ (1.90)	$ 0.43	$ (1.24)

Diluted earnings (loss) per common share	$ (1.90)	$ 0.42	$ (1.24)

Options to purchase 0.1 million, 0.3 million, and 0.5 million shares of common stock that were outstanding during 2011, 2010 and 2009, respectively, were not included in the computation of diluted earnings per share because the exercise prices of these options were greater than the average market price of common shares. Additionally, approximately 0.2 million and 0.8 million dilutive common shares were excluded from the computation of the loss per common share for the years ended December 31, 2011 and 2009 because the effect of their inclusion would be anti-dilutive as a result of the Company s net loss position.

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18. Other Charges

The other charges of $4.2 million in the Consolidated Statement of Operations for the year ended December 31, 2010 consist of $3.2 million of accelerated occupancy costs and depreciation, dilapidation costs, and professional fees related to the settlement of the Company s lease obligations with its former London office which the Company vacated and $1.0 million due to an unfavorable judgment in a lawsuit filed by a former European employee separated from the Company in 2006.

19. Restructuring and Impairment Charges

Restructuring Charges

In 2009, the Company recorded net restructuring charges of $22.6 million. These charges related to $22.9 million of employee-related costs, including severance associated with reductions in the Company s workforce of 363 employees globally, and included 75 executive search consultants. By segment, the restructuring charges recorded in 2009 were $9.5 million in the Americas, $9.5 million in Europe, $2.4 million in Asia Pacific and $1.5 million in Global Operations Support. Additionally, during 2009 the Company recorded a reduction of $0.3 million in Europe related to a previously restructured office.

In 2010, the Company recorded restructuring charges of $1.6 million. These charges consist of $0.6 million of severance associated with reductions in the Company s workforce of 19 employees globally and $1.0 million related to the default of two of our subtenants in previously restructured offices. By segment the restructuring charges recorded in the year ended December 31, 2010 were $1.0 million in the Americas, $0.3 million in Europe, and $0.3 million in Global Operations Support.

In 2011, the Company recorded restructuring charges of $16.3 million in connection with initiatives to reduce overall costs and improve operational efficiencies. These charges consist of $14.2 million of employee-related costs, including severance associated with reductions in our workforce of 139 employees globally, and $2.1 million of expenses associated with consolidating and closing 11 of our smaller office locations, predominately in Europe. By segment, the restructuring charges recorded in 2011 were $8.3 million in Europe, $5.1 million in the Americas, $0.7 million in Asia Pacific, and $2.2 million in Global Operations Support.

The accrued restructuring charges at December 31, 2011 and 2010 consist of employee-related costs that require cash payments based on individual severance agreements and real estate leases that require cash payments through the lease terms reduced by sublease income. These accruals are included within other current and non-current liabilities in the Consolidated Balance Sheets at December 31, 2011 and 2010, respectively. Based on current estimates, the Company expects that cash outlays over the next twelve months related to restructuring charges accrued at December 31, 2011 will be $8.4 million, with the remainder payable over the remaining lease terms of the vacated properties, which extend through 2016.

Impairment Charges

As a result of the Company s workforce reductions in January and May 2009 and continued business and economic uncertainty, during 2009, the Company performed an evaluation of the remaining client relationship intangible asset associated with its 2006 acquisition of Highland Partners. Based on this analysis, the Company recorded an impairment charge related to the Americas region of $3.8 million in 2009. See Note 10, *Goodwill and Other Intangible Assets*.

The deterioration in business performance in 2009 from the consultants acquired in the Ray and Berndtson Sp. z o. o acquisition triggered a review of the associated client relationship intangible assets, resulting in an impairment charge in the European region of $0.2 million. See Note 10, *Goodwill and Other Intangible Assets*.

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As a result of the Company s restructuring initiatives that occurred during the fourth quarter of 2011, which primarily related to Europe and the volatility associated with the economic outlook for Europe, including the political and economic uncertainty in the region, the Company, with the assistance of an independent valuation firm, conducted a goodwill impairment evaluation during the third quarter of 2011. Based on the evaluation, the Company determined that the goodwill within the Europe reporting unit was impaired, which resulted in a non-cash impairment charge of $23.5 million in 2011, to write-off all of the goodwill in the Europe reporting unit. See Note 10, *Goodwill and Other Intangible Assets*.

In connection with the goodwill impairment evaluation discussed above, the Company also performed an evaluation of its intangible assets during the third quarter of 2011. Based on this evaluation, the Company recorded an impairment charge related to its client relationship intangible assets in Europe of $2.5 million and the Americas of $0.4 million in 2011.

The table below outlines the restructuring and impairment charges along with related cash payments for each of the years in the three-year period ended December 31, 2011:

	Restructuring			
	Employee Related	Office Related	Impairment	Total
Accrual balance at December 31, 2008	$	$ 5,753	$	$ 5,753
Restructuring and impairment charges	22,901	(261)	4,080	26,720
Cash payments	(22,031)	(2,989)		(25,020)
Non cash write-offs	455		(4,080)	(3,625)
Exchange rate fluctuations	202	238		440
Accrual balance at December 31, 2009	1,527	2,741		4,268
Restructuring charges	580	1,041		1,621
Cash payments	(1,745)	(1,694)		(3,439)
Exchange rate fluctuations	(47)	(6)		(53)
Accrual balance at December 31, 2010	315	2,082		2,397
Restructuring charges	14,264	2,080		16,344
Impairment charges			26,366	26,366
Cash payments	(6,925)	(566)		(7,491)
Non cash write-offs		(1,044)	(26,366)	(27,410)
Other	498			498
Exchange rate fluctuations	(488)	(40)		(528)
Accrual balance at December 31, 2011	$ 7,664	$ 2,512	$	$ 10,176

20. Income Taxes

The sources of income (loss) before income taxes are as follows:

	December 31,		
	2011	2010	2009
United States	$ 7,104	$ 4,396	$ (18,226)

Foreign	(21,879)	12,552	(11,473)
Income (loss) before income taxes	$ (14,775)	$ 16,948	$ (29,699)

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The provision for (benefit from) income taxes are as follows:

	December 31, 2011	2010	2009
Current			
Federal	$ 2,777	$ (6,479)	$ (3,397)
State and local	1,356	327	258
Foreign	4,512	8,903	3,643
Deferred	10,302	6,704	(9,295)
Total provision for (benefit from) income taxes	$ 18,947	$ 9,455	$ (8,791)

A reconciliation of the provision for (benefit from) income taxes to income taxes at the statutory U.S. federal income tax rate of 35% is as follows:

	December 31, 2011	2010	2009
Income tax provision (benefit) at the statutory U.S. federal rate	$ (5,171)	$ 5,932	$ (10,395)
State income tax provision (benefit), net of federal tax benefit	1,497	513	(828)
Nondeductible expenses	6,728	1,936	428
Foreign tax higher (lower) than U.S. (includes changes in foreign valuation allowance)	4,641	2,367	1,625
Goodwill impairment	7,590		
Establishment of valuation allowance	3,493	2,078	1,436
Change in uncertain tax positions	55	(3,079)	
U.S. tax (benefit) on foreign dividends		379	(991)
Other, net	114	(671)	(66)
Total provision for (benefit from) income taxes	$ 18,947	$ 9,455	$ (8,791)

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The deferred tax assets and liabilities are attributable to the following components:

	December 31, 2011	December 31, 2010
Deferred tax assets attributable to:		
Receivable allowances	$ 1,527	$ 2,349
Accrued vacation	2,312	2,257
Accrued bonuses	5,072	5,943
Liability for nonqualified retirement plans	4,501	5,782
Accrued compensation-restricted stock units	1,515	2,695
Accrued rent	4,401	5,152
Foreign net operating loss carryforwards	21,615	15,679
Goodwill		55
Accrued restructuring charges	1,647	551
Deferred compensation	10,763	13,616
Foreign tax credit carryforwards	16,630	17,455
U.S. state net operating loss carryforwards	609	609
U.S. capital loss carryforward	1,252	1,173
Other accrued expenses	4,589	4,138
Deferred tax assets, before valuation allowance	76,433	77,454
Deferred tax liabilities attributable to:		
Unrealized gain on equity and warrant portfolio	375	(758)
Prepaid expenses	(585)	(478)
Depreciation on property and equipment	(2,446)	(1,380)
Goodwill	(9,845)	(5,133)
Other	(2,178)	(5,551)
Deferred tax liabilities	(14,679)	(13,300)
Valuation allowance	(27,080)	(18,392)
Net deferred tax assets	$ 34,674	$ 45,762

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

The valuation allowance increased from $18.4 million at December 31, 2010 to $27.1 million at December 31, 2011. The valuation allowance at December 31, 2011 was related to foreign net operating loss carryforwards, certain foreign deferred tax assets, and U.S. capital loss carryforward. The Company intends to maintain these valuation allowances until sufficient evidence exists to support their reversal.

At December 31, 2011, the Company had a net operating loss carryforward of $74.8 million and $10.5 million related to its foreign and U.S. state tax filings, respectively. Depending on the tax rules of the tax jurisdictions, the losses can be carried forward indefinitely or for periods ranging from five to twenty years. The Company also had a foreign tax credit carryforward of $16.6 million, expiring in 2012 through 2020.

Additionally, the Company had U.S. capital loss and charitable contribution carryforwards of $1.4 million that may be carried forward three years.

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As of December 31, 2011, the Company had unremitted earnings held in its foreign subsidiaries of approximately $54.3 million. The Company did not recognize a deferred tax liability for U.S. income taxes and foreign withholding taxes related to the unremitted earnings of its foreign operations because the Company intends to reinvest those earnings indefinitely. Determination of the amount of unrecognized deferred tax liability related to unremitted earnings of foreign subsidiaries is not practicable. A deferred tax liability will be recognized if and when the Company is no longer able to demonstrate that it plans to permanently reinvest unremitted earnings.

As of January 1, 2011, the Company had $1.0 million of unrecognized tax benefits. As of December 31, 2011 the Company had $0.4 million of unrecognized tax benefits of which, if recognized, approximately $0.2 million, net of federal tax benefits, would be recorded as a component of income tax expense.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

	December 31,		
	2011	**2010**	**2009**
Gross unrecognized tax benefits at January 1,	$ 972	$ 3,850	$ 4,090
Gross increases for tax positions of prior years	10	76	254
Gross decreases for tax positions of prior years	(6)	(18)	(4)
Settlements	(534)	(2,814)	
Lapse of statute of limitations	(10)	(122)	(490)
Gross unrecognized tax benefits at December 31,	$ 432	$ 972	$ 3,850

In many cases the Company s uncertain tax positions are related to tax years that remain subject to examination by the relevant taxable authorities. Years 2009 and 2010 are subject to examination by the federal and state taxing authorities. There are certain foreign jurisdictions that are subject to examination for years prior to 2009.

The Company is currently under audit by some U.S. state and foreign jurisdictions. It is likely that the examination phase of several of these audits will conclude in the next 12 months. Additionally, there are several statutes of limitation expected to close within the next 12 months. No significant increases or decreases in unrecognized tax benefits are expected to occur by December 31, 2012.

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of the provision for income taxes in the Consolidated Statements of Operations. Accrued interest and penalties are $0.5 million as of December 31, 2011.

21. Segment Information

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

For segment purposes, reimbursements of out-of-pocket expenses classified as revenue, restructuring charges, impairment charges, and other operating income are reported separately and, therefore, are not included in the results of each geographic region. The Company believes that analyzing trends in revenue before reimbursements (net revenue), analyzing operating expenses as a percentage of net revenue, and analyzing operating income (loss) excluding restructuring charges, impairment charges, and other operating income, more appropriately reflects its core operations.

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By segment, the restructuring charges recorded in 2011 were $8.3 million in Europe, $5.1 million in the Americas, $0.7 million in Asia Pacific and $2.2 in Global Operations Support; and the impairment charges recorded in 2011 were $26.0 million in Europe and $0.4 million in the Americas. By segment, the restructuring charges recorded in 2010 were $1.0 million in the Americas, $0.3 million in Europe region, and $0.3 million in Global Operations Support. The other operating income of $1.1 million in 2010 was recorded in Europe. By segment, the restructuring charges recorded in 2009 were $9.5 million in the Americas, $9.5 million in Europe, $2.4 million in Asia Pacific and $1.5 million in Global Operations Support; and the impairment charges recorded in 2009 were $3.8 million in the Americas and $0.2 million in Europe. Additionally, the Company recorded an adjustment of $0.3 million in Europe related to a previously restructured office. The other operating income of $1.7 million in 2009 was recorded in Europe.

The revenue, operating income (loss), depreciation, and capital expenditures, by segment, are as follows:

	Year Ended December 31,		
	2011	**2010**	**2009**
Revenue:			
Americas	$ 286,503	$ 255,690	$ 201,530
Europe	132,722	127,267	119,441
Asia Pacific	108,568	110,134	74,680
Revenue before reimbursements (net revenue)	527,793	493,091	395,651
Reimbursements	26,187	20,145	19,067
Total	$ 553,980	$ 513,236	$ 414,718
Operating income (loss):			
Americas	$ 60,612	$ 40,307	$ 18,509
Europe	1,250	(604)	2,741
Asia Pacific	12,983	24,517	9,457
Total regions	74,845	64,220	30,707
Global Operations Support	(43,050)	(46,147)	(32,359)
Operating income (loss) before restructuring charges, impairment charges, and other operating income	31,795	18,073	(1,652)
Restructuring charges	(16,344)	(1,621)	(22,640)
Impairment charges	(26,366)		(4,080)
Other operating income		1,072	1,661
Total	$ (10,915)	$ 17,524	$ (26,711)
Depreciation and amortization:			
Americas	$ 4,852	$ 4,746	$ 5,086
Europe	2,926	4,218	2,956
Asia Pacific	1,798	2,016	2,398
Total regions	9,576	10,980	10,440
Global Operations Support	687	604	825
Total	$ 10,263	$ 11,584	$ 11,265
Capital expenditures:			
Americas	$ 7,526	$ 5,600	$ 9,013
Europe	5,373	9,917	1,792

Asia Pacific	2,420	1,862	988
Total regions	15,319	17,379	11,793
Global Operations Support	2,697	185	481
Total	$ 18,016	$ 17,564	$ 12,274

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Identifiable assets, and goodwill and other intangible assets, net, by segment, are as follows:

	December 31,	
	2011	2010
Identifiable assets:		
Americas	$ 295,488	$ 291,851
Europe	108,437	129,390
Asia Pacific	102,980	120,011
Total regions	506,905	541,252
Global Operations Support	8,660	3,775
Total	$ 515,565	$ 545,027
Goodwill and other intangible assets, net:		
Americas	$ 85,028	$ 82,353
Europe		25,657
Asia Pacific	8,224	8,358
Total	$ 93,252	$ 116,368

22. Guarantees

The Company has issued guarantees supporting the payment of office lease obligations of certain of its subsidiaries in Europe and Asia Pacific. The guarantees were made to secure the respective lease agreements and are for the term of the lease agreements, which extend through 2018. For each guarantee issued, should the subsidiary default on a lease payment, the Company would have to perform under the guarantee. The maximum amount of undiscounted payments the Company would be required to make in the event of default on all outstanding guarantees is approximately $1.9 million as of December 31, 2011. The Company has not accrued for these guarantee arrangements as no event of default exists.

23. Commitments and Contingencies

Operating Leases

The Company leases office space in 57 cities in 28 countries. The terms of these office-related leases provide that the Company pay base rent and a share of operating expenses and real estate taxes in excess of defined amounts. These leases expire at various dates through 2024. The Company also leases certain computer equipment and cars, the terms of which are accounted for as operating leases. Rent expense, which includes the base rent, operating expenses and real estate taxes, and the costs of equipment leases for the years ended December 31, 2011, 2010 and 2009 was $32.7 million, $35.5 million, and $39.2 million, respectively.

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

	Office Leases	Equipment Leases	Total
Year ending December 31,			
2012	$ 31,240	$ 930	$ 32,170
2013	26,733	603	27,336
2014	21,668	322	21,990
2015	18,809	116	18,925
2016	16,448	9	16,457
Thereafter	85,620		85,620
Total	$ 200,518	$ 1,980	$ 202,498

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The aggregate minimum future payments on office leases are $202.5 million. The Company has contractual arrangements to receive aggregate sublease income of $6.8 million related to certain leases that expire at various dates through 2016. This sublease income primarily relates to properties that were part of prior office consolidations and closings.

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

Litigation

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

UK Employee Benefits Trust

On January 27, 2010, HM Revenue & Customs (HMRC) in the United Kingdom notified the Company that it was challenging the tax treatment of certain of the Company s contributions in the United Kingdom to an Employee Benefits Trust between 2002 and 2008. HMRC alleges that these contributions should have been subject to Pay As You Earn tax and Class 1 National Insurance Contributions in the United Kingdom; and HMRC is proposing an adjustment to the Company s payroll tax liability for the affected years. The aggregate amount of HMRC s proposed adjustment is approximately £3.9 million (equivalent to $6.1 million at December 31, 2011). The Company has appealed the proposed adjustment. At this time, the Company believes that the likelihood of an unfavorable outcome with respect to the proposed adjustment is not probable and the potential amount of any loss cannot be reasonably estimated. The Company also believes that the amount of any final adjustment would not be material to the Company s financial condition.

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PART II (continued)

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Exchange Act of 1934, as amended, (the Exchange Act) Rule 13a-15(e) and 15d-15(e) that are designed to ensure that information required to be disclosed in the Company s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission (the SEC) rules and forms, and that such information is accumulated and communicated to the Company s management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Management of the Company, with the participation of the principal executive officer and the principal financial officer, evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures as of December 31, 2011. Based on the evaluation, the Company s chief executive officer and chief financial officer concluded that the Company s disclosure controls and procedures were effective as of December 31, 2011.

(b) Management s report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f) and 15d-15(f). The Company s internal control over financial reporting is a process designed by, or under the supervision of, the Company s principal executive and principal financial officers, or persons performing similar functions, and effected by the Company s board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and includes those policies and procedures that:

(1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(2)

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

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

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Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Company s system of internal control over financial reporting was effective as of December 31, 2011.

The Company s independent registered public accounting firm, KPMG LLP, has issued a report on the Company s internal control over financial reporting. The report on the audit of internal control over financial reporting appears in this Form 10-K.

(c) Changes in Internal Control over Financial Reporting

As previously reported in the Company s Annual Report on Form 10-K, as filed with the SEC on March 16, 2011, in connection with the Company s assessment of the effectiveness of its internal control over financial reporting, management identified a material weakness in the internal control over its financial reporting as of December 31, 2010. The material weakness related to ineffective controls over the accounting for compensation arrangements between the Company and certain of its employees. Specifically, the Company did not maintain appropriate controls over the complete and timely distribution of compensation related agreements to accounting personnel. Additionally, the Company did not maintain sufficient review controls over recording the financial statement impact of changes made to underlying data and assumptions within compensation arrangements.

Through the course of 2011, management was actively engaged in the implementation of remediation efforts to address the material weakness and made changes in internal controls.

Specifically, management established a Remediation Committee which:

- Evaluated, redesigned and enhanced controls to provide a more formal process for granting, updating and disseminating compensation arrangements to facilitate the complete and timely review by accounting personnel.

- Improved the review processes and procedures over the compensation process and period end compensation liabilities. Such procedures include additional levels of oversight and controls around the validation of information utilized in the calculations.

As of December 31, 2011, based upon the actions taken and the testing and evaluation of the controls, management has concluded that the material weakness was remediated.

With the exception of the changes mentioned above to remediate the material weakness, there have been no changes in our internal control over financial reporting that occurred during the period covered by this Annual Report on Form 10-K as of December 31, 2011, that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference to the captions Proposal I-Election of Class III Directors, Committees of the Board of Directors, Corporate Governance-Code of Ethics, Corporate Governance-Stockholder Recommendations for Nominations and Section 16(a) Beneficial Ownership Reporting Compliance in our definitive proxy statement for our annual meeting of stockholders to be held on May 24, 2012 (the 2012 Proxy Statement). The remaining information required by this Item is included in Executive Officers in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the discussion under the captions Executive Compensation, Director Compensation and Human Resources and Compensation Committee Interlocks and Insider Participation in our 2012 Proxy Statement.

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

The information required by this Item is incorporated by reference to the caption Voting Securities of Certain Beneficial Owners and Management in our 2012 Proxy Statement.

Equity Compensation Plan Information

The following table sets forth additional information as of December 31, 2011, about shares of our common stock that may be issued upon the vesting of restricted stock units and performance stock units and the exercise of options under our existing equity compensation plans and arrangements, divided between plans approved by our stockholders and plans or arrangements not submitted to the stockholders for approval. For a description of the types of securities that may be issued under our 2007 Heidrick & Struggles GlobalShare Program, see Note 15, *Stock-Based Compensation*.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))

Equity compensation plans approved by stockholders	763,321(1)	$37.67	735,494
Equity compensation plans not approved stockholders			
Total equity compensation plans	763,321	$37.67	735,494

(1) Includes 489,720 restricted stock units, 140,230 performance stock units at their target levels and 133,371 options.

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

The information required by this Item is incorporated by reference to the discussion under the captions Certain Relationships and Related Transactions and Corporate Governance Director Independence in our 2012 Proxy Statement.

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the discussion under the caption Audit Fees in our 2012 Proxy Statement.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. Index to Consolidated Financial Statements:

See Consolidated Financial Statements included as part of this Form 10-K beginning on page 38.

2. Exhibits:

Exhibit No.	Description
3.01	Amended and Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.02 of this Registrant s Registration Statement on Form S-4 (File No. 333-61023))
3.02	Amended and Restated By-laws of the Registrant (Incorporated by reference to Exhibit 3.02 of the Registrant s Form 10-K filed March 26, 2003)
4.01	Specimen Stock Certificate (Incorporated by reference to Exhibit 4.01 of this Registrant s Registration Statement on Form S-4 (File No. 333-61023))
10.01	Credit Agreement among Heidrick & Struggles International, Inc., certain foreign subsidiary borrowers thereto, the lenders party thereto and JPMorgan Chase Bank, as Administrative Agent, dated June, 2011 (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K, dated June 22, 2011, filed on June 27, 2011)
10.02	Purchase Agreement, dated as of September 18, 2006, by and among Hudson Highland Group, Inc., Highland Partners Co (Canada), Highland Partners (Aust) Pty Ltd and Highland Partners Limited, and the Company, Heidrick & Struggles Canada, Inc. and Heidrick & Struggles Australia, Ltd (Incorporated by reference to Exhibit 10.01 of the Registrant's Form 8-K Filed on September 20, 2006)
10.03	Lease between 1114 6th Avenue Co., LLC and Heidrick & Struggles International, Inc., and Heidrick & Struggles, Inc., dated August 31, 2007 (Incorporated by reference to Exhibit 10.04 of the Registrant s From 10-K filed on February 28, 2008)
10.04	Amended and Restated Employment Agreement of L. Kevin Kelly (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K, dated December 29, 2011, filed on January 5, 2012)**
10.05	Employment Agreement of Richard Caldera (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K filed on May 6, 2008)**
10.06	Employment Agreement of Scott Krenz (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K filed on June 12, 2008)**
10.07	Separation Agreement and General Release between Heidrick & Struggles International, Inc. and Scott J. Krenz dated April 22, 2011 (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K, dated April 27, 2011, filed April 27, 2011)**
10.08	Consulting Agreement between Heidrick & Struggles International, Inc. and Richard W. Pehlke dated May 16, 2011 (incorporated by reference to Exhibit 10.1 of the Registrant s Form 10-Q filed on August 1, 2011)**
10.09	

	Employment Agreement of Richard W. Pehlke dated August 15, 2011 (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K, dated August 15, 2011, filed August 16, 2011) **
10.10	Employment Agreement of S. John Kim (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K/A filed April 13, 2011)**
10.11	Employment Agreement of Stephen Beard (Incorporated by reference to Exhibit 10.2 of the Registrant s Form 10-Q filed on August 1, 2011)**

Exhibit No.	Description
*10.12	Employment Agreement of Timothy C. Hicks, dated March 7, 2012**
10.13	Heidrick & Struggles International, Inc. Management Severance Pay Plan and Summary Plan Description as Amended and Restated Effective December 31, 2010 (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K dated, October 25, 2011, filed on October 25, 2011) **
10.14	2007 Heidrick & Struggles GlobalShare Plan (Incorporated by reference to Appendix A to the Registrant s Proxy Statement dated April 25, 2011)**
10.15	The Heidrick & Struggles Incentive Plan, as Amended and Restated Effective January 1, 2008 (Incorporated by reference to Exhibit 10.20 of the Registrant s From 10-K filed on February 27, 2009)**
10.16	Form of Non-Qualified Stock Option Agreement (Incorporated by reference to Exhibit 10.5 of the Registrant's Form 8-K dated December 29, 2011, filed on January 5, 2012)**
10.17	Form of Restricted Stock Unit Participation Agreement (Incorporated by reference to Exhibit 10.3 of the Registrant's Form 8-K dated December 29, 2011, filed on January 5, 2012)**
10.18	Form of Performance Stock Unit Participation Agreement (Incorporated by reference to Exhibit 10.4 of the Registrant's Form 8-K dated December 29, 2011, filed on January 5, 2012)**
*10.19	Form of Non-Employee Director Restricted Stock Unit Participation Agreement**
10.20	Heidrick & Struggles International, Inc. U.S. Employees Deferred Compensation Plan (Incorporated by reference to Exhibit 10.10 of the Registrant's Form 10-K for the year ended December 31, 2005, filed on March 10, 2006)**
10.21	Heidrick & Struggles International, Inc. Deferred Compensation Plan for UK Employees (Incorporated by reference to Exhibit 4.1 of this Registrant's Registration Statement on Form S-8 (File No. 333-82424))**
10.22	First Amendment to the Heidrick & Struggles International, Inc. U.S. Employees Deferred Compensation Plan (Incorporated by reference to Exhibit 10.25 of the Registrant s Form 10-K for the year ended December 31, 2008, filed on February 27, 2009)**
10.23	Heidrick & Struggles Non-Employee Directors Voluntary Deferred Compensation (Incorporated by reference to Exhibit 10.10 of the Registrant's Form 10-K for the year ended December 31, 2005, filed on March 10, 2006)**
10.24	Heidrick & Struggles International, Inc. Change in Control Severance Plan, as amended and restated effective December 29, 2011 (Incorporated by reference to Exhibit 10.2 of the Registrant s Form 8-K dated December 29, 2011, filed on January 5, 2012).**
*21.01	Subsidiaries of the Registrant
*23.01	Consent of Independent Registered Public Accounting Firm
*31.1	Certification of the Company s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of the Company s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification of the Company s Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification of the Company s Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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Exhibit No.	Description
***101	The following financial information from the Heidrick & Struggles International, Inc. Annual Report on Form 10-K for the year ended December 31, 2011 formatted in Extensible Business Reporting Language (XBRL) and furnished electronically herewith: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statement of Stockholders Equity and Comprehensive Income; (iv) Consolidated Statements of Cash Flows; and (v) related Footnotes to the Consolidated Financial Statements, tagged as blocks of text.

* Filed herewith.

** Denotes a management contract or compensatory plan or arrangement.

*** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

(b) SEE EXHIBIT INDEX ABOVE

(c) FINANCIAL STATEMENTS NOT PART OF ANNUAL REPORT

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 14, 2012.

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

By /s/ RICHARD W. PEHLKE
Title Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 14, 2012.

Signature	Title
/s/ L. KEVIN KELLY L. Kevin Kelly (principal executive officer)	Chief Executive Officer
/s/ RICHARD W. PEHLKE Richard W. Pehlke (principal financial officer)	Executive Vice President & Chief Financial Officer
/s/ MATTHEW W. HALLGREN Matthew W. Hallgren (principal accounting officer)	Chief Accounting Officer
/s/ RICHARD I. BEATTIE Richard I. Beattie	Director
/s/ JOHN A. FAZIO John A. Fazio	Director
/s/ MARK FOSTER Mark Foster	Director
/s/ JANE D. HARTLEY	Director

Jane D. Hartley

/s/ JILL KANIN-LOVERS	Director
Jill Kanin-Lovers	
/s/ GARY E. KNELL	Director
Gary E. Knell	
/s/ ROBERT E. KNOWLING, JR	Director
Robert E. Knowling, Jr.	
/s/ V. PAUL UNRUH	Director
V. Paul Unruh	