

Report
to Investors
2000

To Our Investors

This book, *Report to Investors 2000*, will provide you with an overview of Heidrick & Struggles International, as well as descriptive facts and figures on our global operations. All financial information is “as adjusted” unless otherwise noted. *Report to Investors 2000* serves as a companion piece to our Form 10-K, which we have filed with the Securities and Exchange Commission. For more detailed information, please refer to our Form 10-K. If you have additional questions, please contact our Investor Relations Department at the corporate headquarters in Chicago by telephone at 312-496-1200 or through our website at www.heidrick.com.

About Heidrick & Struggles

Heidrick & Struggles International, Inc. is the world’s premier provider of executive-level search and leadership consulting services. More than 1,200 Heidrick & Struggles professionals operate from offices in 79 locations throughout North and South America, Europe, the Middle East, Africa and Asia Pacific. For nearly 50 years, our core business—Heidrick & Struggles Executive Search—has specialized in chief executive, board member and senior-level management assignments for a broad spectrum of clients: multi-national corporations, mid-cap and start-up companies, nonprofit entities, educational institutions, foundations, associations and governmental units. We are expanding our range of complementary services to offer solutions to senior management teams for their human capital needs. LeadersOnline, our Internet-enhanced recruiting business, serves clients who seek the next generation of corporate leaders. We are capitalizing on our access and influence with the highest levels of our client organizations through Heidrick & Struggles Ventures, our unit responsible for other complementary businesses, alliances and investments.

Safe Harbor Statement

This Report to Investors contains forward-looking statements. The forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate and management’s beliefs and assumptions. Forward-looking statements may be identified by the use of words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” and similar expressions. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, forecasted or implied in the forward-looking statements. Factors that may affect the outcome of the forward-looking statements include, among other things, our ability to attract and retain qualified executive search consultants; a material economic downturn in the United States or Europe, or social or political instability in overseas markets; bad debt write-offs far in excess of allowances for doubtful accounts; continued increased acceptance of online recruiting; losses in our venture capital investments; an inability to control expenses; and delays in the development and/or implementation of new technology and systems. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Financial Highlights

NASDAQ: HSII

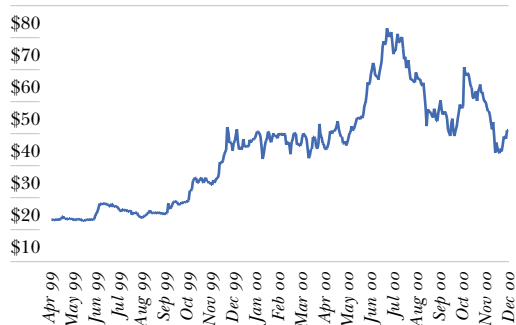
(Dollars in millions, except for diluted EPS and certain other operating data)

FOR THE YEAR ENDED DECEMBER 31,	2000	1999	1998	1997	1996
Revenue:					
Americas					
United States	\$ 341.6	\$ 256.4	\$ 190.9	\$ 169.0	\$ 134.3
Other	21.9	17.3	11.8	10.6	5.5
International					
Europe	176.4	138.9	125.0	82.7	64.6
Asia Pacific	34.4	20.6	14.1	13.5	7.6
Total Executive Search	574.2	433.2	341.8	275.8	212.0
LeadersOnline	20.2	2.6	—	—	—
Total company revenue	594.4	435.8	341.8	275.8	212.0
Salaries and employee benefits	395.1	292.5	246.2	194.5	149.6
General and administrative expenses	156.2	110.6	92.7	66.7	48.8
Total operating expenses	551.3	403.1	338.9	261.2	198.4
Operating income	\$ 43.0	\$ 32.8	\$ 2.9	\$ 14.5	\$ 13.6
Other operating data:					
Diluted earnings per share	\$ 1.60	\$ 1.18	\$ (0.23)	NA	NA
EBITDA	\$ 73.9	\$ 44.5	\$ 9.1	\$ 22.7	\$ 19.5
Number of locations at year-end	78	69	60	52	42
Number of executive search consultants at year-end	510	391	346	285	220

Results are on an "adjusted basis"—they exclude one-time adjustments and assume that the merger of Heidrick & Struggles, Inc. (H&S) and Heidrick & Struggles International, Inc. (HSI) had occurred as of January 1, 1996. For additional financial information and an explanation of "adjusted basis," please refer to our 2000 Form 10-K, which has been filed with the SEC.

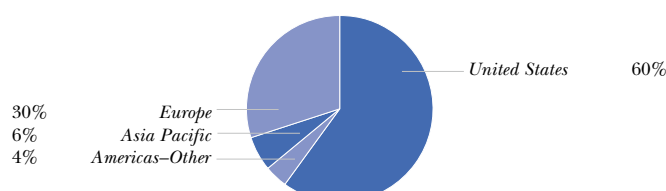
Totals above may not add due to rounding.

Stock Price Performance 4/27/99–12/31/00



Our stock price grew more than 200 percent during the period from April 27, 1999, our first day as a public company, through the end of 2000. In 2000, our stock price declined 0.4 percent, while the NASDAQ Composite and Russell 2000 indexes declined 39.2 percent and 2.9 percent, respectively.

2000 Consolidated Revenue by Geographic Region



PATRICK S. PITTARD
Chairman, President & Chief Executive Officer



Message to Shareholders

In our companion piece, *Knowing & Believing In the Value of People 2000*, we profile four of our consultants who exemplify the spirit of Heidrick & Struggles International, Inc. This spirit is comprised of powerful elements: partnership, trust, kindness, generosity. Understanding this spirit is key to understanding Heidrick & Struggles International and the values we represent. While we spotlight four individuals, you will find the attitude of knowing and believing informs the lives of people throughout our organization.

The book you are reading now, *Report to Investors 2000*, focuses on the operations and strategies of Heidrick & Struggles International.

In the pages to follow, you will find a synopsis of the competitive landscape of our industry, how we have built on past success in our core executive search business, and how we are positioning ourselves for future growth. We have established a foundation for expansion into the arena of leadership consulting—with services like management assessment and interim management, among others—that leverages the strong relationships we have developed with business leaders the world over. You also will find details on our core business, Heidrick & Struggles Executive Search, as well as on our complementary Internet-enhanced recruiting business for emerging executives, LeadersOnline. These include insights on their business models and how they thrive in the Heidrick & Struggles International model. The final pages of this book contain the basic financial statements that document our performance for 2000.

It was an exceptional year of growth and expansion for Heidrick & Struggles International as we focused on quality execution in our core Executive Search business and experienced unusually strong growth in all regions of the world. We outperformed on practically every expectation and we are proud of our key accomplishments during the year:

- ∞ *Achieving record revenue, which grew 36 percent to \$594 million, and diluted earnings per share, which grew 36 percent, on an adjusted basis, to \$1.60.*
- ∞ *Maintaining our strong financial position, closing the year with \$185 million of cash on the balance sheet.*
- ∞ *Completing a follow-on offering of more than three million shares of our common stock.*
- ∞ *Growing our warrant program substantially and watching it become the envy of the industry.*
- ∞ *Diversifying our industry practice groups and specialty practices in Executive Search and extending our complementary service offerings.*
- ∞ *Building upon our global reach with the completion of several acquisitions in the United States, Europe and Asia Pacific.*

It was a banner year for our core executive search business, during which a *Wall Street Journal* survey ranked us as the number one search firm in terms of quality of candidates, value of services and overall reputation—three of the most valuable criteria for our clients. We logged impressive growth in all of the important metrics of success in this industry: overall revenue, confirmed searches, revenue per consultant, number of new hires and number of offices, among others. And most gratifying, we continue to be known around the world as the gold standard of the executive search industry.

A key event during the year was our decision to tighten the linkages between Executive Search and LeadersOnline, forming an integrated recruiting solution that combines the established quality of our core executive search business with innovative, proprietary Internet technology. Revenue for LeadersOnline increased to more than \$20 million, up from just \$2.6 million in 1999, its first year of generating revenue.

In June, we announced an enhanced organizational structure to better reflect our transition from a traditional executive search company to a global source for human capital management solutions. In addition to Executive Search and LeadersOnline, we established Heidrick & Struggles Ventures, which is responsible for developing new, complementary businesses and for areas like strategic alliances, investments and our warrant program. An early accomplishment of H&S Ventures was the global expansion of our management assessment service, following several years of proven success in Europe. We call that business Strategic Leadership Review.

As part of our new organizational structure, we assembled a team of seasoned executives from both inside and outside the company. Joining our talented management team, Piers Marmion assumed the position of Chief Operating Officer of Heidrick & Struggles Executive Search and President of that division's International operations.

On the corporate governance side, we named Robert E. Knowling of Internet Access Technologies to our Board of Directors. This brought the total number of external directors to four.

As we celebrate a remarkable twelve months of growth and expansion at Heidrick & Struggles International, I can say that—from a global business perspective—2000 was unlike any year I have experienced in my 30 years of management. The year started with accelerating economic activity, particularly in the U.S., fueled in part by seemingly limitless funding and a proliferation of Internet

and dot-com initiatives. By the fall, hundreds of companies—some that had begun the year with multi-billion dollar market caps—saw their valuations plunge dramatically. By the end of the year, the same experts who predicted several more years of robust growth were predicting an economic slowdown. While we are not immune to downturns in the economy, we do believe our core executive search business has some inherent resistance to downturns because of the high-end market we serve, our geographic and industry practice diversification, and our performance-based expense structure.

When we took Heidrick & Struggles International public in 1999, the company was known around the world as the premier provider of executive search services. Today, we are still the executive search firm of choice, conducting more marquee CEO searches than any other firm. We have the resources and the passion necessary to grow that business—through investment spending and business development activities—even as we build upon the momentum of LeadersOnline and expand into complementary leadership consulting services. It is a natural extension for us as we leverage our access and influence with executives in the highest levels of our client organizations and help them build world-class leadership teams.

Thank you for your continued support of Heidrick & Struggles International.



We are Heidrick & Struggles International, Inc., a diverse group of more than 1,200 talented executive and mid-level search professionals and leadership consultants operating out of 79 locations in 37 countries throughout the world. Our geographic reach gives us a competitive advantage in providing our services across national borders to clients whose businesses are becoming increasingly globalized. We partner with our clients to build world-class management teams by helping them hire, develop and retain the most effective leaders in their industries. We measure our success by the number of long-term clients we serve, and we confirm our success by both the quality and duration of those relationships.

Helping our Clients *build* World-Class Leadership Teams

Our roots are in executive search but we are expanding our services beyond that by leveraging our greatest competitive advantage—our access and influence with the world's business leaders. At present, we operate principally through two lines of business: Executive Search and LeadersOnline. Heidrick & Struggles Executive Search, specializing in chief executive, board member and senior-level management assignments, has been an industry leader for nearly 50 years, fulfilling the leadership needs of the world's largest and most complex organizations.

Through LeadersOnline, our Internet-enhanced search business, we target the recruitment market for mid-level executives and professionals. LeadersOnline allows us to operate in what is, for us, a completely new sector of the recruiting industry. Deepening our exposure in human capital management, we are penetrating the market for emerging executives and professionals who earn salaries in the \$75,000 to \$150,000 range.

Why do organizations turn to us with their most important leadership decisions? A marquee placement is the ultimate result of our work, but the true value was created long before the placement. The consultative advice, and the quality of our consultants, have always set us apart.

We speak more than a dozen different languages and operate in 13 different time zones. Our consultants and their teams maintain relationships with more than 37,000 clients worldwide and have access to a sophisticated global technology platform with proprietary databases of more than one million qualified candidate profiles. We are continually making investments to improve our technology.

Sharing information and knowledge is integral to our partnership culture and this shows in the way that we do business. In fact, the majority of our searches are shared by two or more consultants working as a team.

Our Growth Strategy

We aim to expand our leadership position as the global provider of choice for executive search and leadership consulting services that complement our top-level recruiting business, while achieving sustainable revenue and earnings growth. Our growth strategy is based on four key elements:

Expand and Develop Client Relationships.

We continually seek to expand relationships with existing clients and to develop new client relationships by:

- ∞ *Aggressively pursuing the highest level executive search assignments.*

Heidrick & Struggles Ventures

- ∞ *Expanding the breadth and depth of our industry practice groups and functional specialties.*
- ∞ *Offering other services that complement our core business across a broad range of geographic locations.*
- ∞ *Actively recruiting executive search consultants who demonstrate the ability to expand our client base.*

Pursue New, Complementary Lines of Business.

Companies around the world are turning with increasing frequency to outside firms to assist them in attracting and retaining leadership talent. We are working hard to become the global source for leadership services and human capital management solutions by providing answers to the issues that keep leaders awake at night. We offer clients a suite of services that provides a natural complement to our core executive search business.

In 2000, we extended our management assessment business, Heidrick & Struggles Strategic Leadership Review, to a global platform, following our success in Europe. Strategic Leadership Review provides senior-level executives with an objective appraisal of the individuals and teams reporting to them. Management assessment is critical for senior executives who want to establish a framework for managing human capital during change:

- ∞ *Mergers, acquisitions or divestitures;*
- ∞ *A new CEO joining an organization;*
- ∞ *A shift in strategic direction;*
- ∞ *A revised succession plan.*

We believe management assessment will create an additional and significant revenue stream for us over time.

Also in 2000, we expanded our interim executive management placement service, Protem. Responding to demand from our clients, we developed the capability to provide interim senior management in proactive roles, including temporary board-level talent.

Heidrick & Struggles International invests in areas that are strategically important to our business. As the executive search industry continues to evolve with more sophisticated technology and more efficient business processes, we will lead the way. But we will continue to exercise good financial discipline and take a measured approach as we invest in the future.

Heidrick & Struggles Ventures is responsible for developing new complementary businesses in the leadership services and human capital market that will accelerate our growth, and for areas like strategic alliances, investments and our warrant program.

Warrant Program

In addition to our normal cash fee of one-third of the placed executive's first year compensation, we also receive warrants for equity securities in connection with searches conducted for certain pre-public, as well as some public, firms. In 2000, we grew our warrant program significantly. Since the program's inception in late 1998, we've been engaged to perform more than 900 searches containing provisions for equity. (It is important to note, however, that about 15 to 20 percent of searches are never completed.) In 2000, we realized \$7.2 million in non-operating net gains from the sale of equity—or \$0.20 per diluted share—that we used to fund growth initiatives in our complementary businesses.

We have worked with more than 100 venture capital firms on such contracts, and more than one-third of our consultants worldwide have conducted searches containing an equity component. Our warrant program is unequaled in the industry.

THOMAS J. FRIEL
President, Heidrick & Struggles Ventures

Heidrick & Struggles is the most trusted name in executive search, especially among our clients and the candidates we place. Through H&S Ventures, we aim to build upon that trust and grow beyond traditional executive search by developing Strategic Leadership Review, Protem, executive coaching and other complementary leadership consulting services.

Enhance Professional Productivity.

We believe that our consultants generate one of the highest levels of average revenue per consultant in the industry. Our executive search consultants produced an average of \$1.3 million in revenue per consultant in 2000, as they continued to focus on the placement of senior-level executives. Technology will play a critical role in the evolution of executive search and could increase our consultants' productivity over time. We view LeadersOnline as our incubator for change, where we can quickly develop innovative eSearch concepts and new delivery processes. Our goal is to apply those capabilities to our traditional executive search model. We expect that, over time, our technology initiatives will enable our professionals to access more information quickly, allowing them to perform even more sophisticated searches. The result: a more efficient and effective process for identifying quality candidates.

Pursue Strategic Acquisitions and Alliances.

We maintain an acquisition and alliance strategy designed to expand our leadership position as consultants to senior-level decision makers in organizations around the world. This strategy allows us to increase penetration in existing and new geographic markets, and to expand the depth and breadth of our industry practice groups and functional specialties.

In 2000 we completed several acquisitions, including:

- ∞ *Lynch Miller Moore O'Hara, a Chicago-based executive search firm that specialized in venture capital and high tech markets.*
- ∞ *Argonaut Search Group, a San Francisco-based executive search firm that specialized in the real estate and financial services industries.*

- ∞ *T.A.O. Group, an executive recruitment firm based in Seoul, Korea, with offices in Taipei, Taiwan and Shanghai, China, expanding our presence in Asia Pacific.*
- ∞ *AMROP-Finland, a consortium of the Finnish, Russian and Baltic executive search companies that were part of the AMROP Worldwide network. The acquisition of these three firms establishes us as the number one executive search firm in Finland and expands our presence in the emerging markets of Russia, Latvia and Estonia.*

We will continue to be opportunistic about pursuing acquisitions and alliances that have a strong cultural and strategic fit within our firm.

As the world economy continues to evolve, the most important corporate resource will be leadership talent. The growing intellectual demands of an exceedingly competitive and complex global business environment make it urgent for companies to recruit and retain good people.

Demographic projections show that the demand for qualified managers and executives will increase over the next several years while the supply will decline. And the "war for talent" has made the recruitment, development and retention of these senior-level and mid-level executives even more complex and competitive. It is the classic supply and demand problem, and Heidrick & Struggles International is positioned to prosper in this environment because we provide a product that is by far the least commoditized of any—leadership talent.

Advantages of Top-level Search

- ∞ *Provides access and influence with decision makers*
- ∞ *Strengthens the Heidrick & Struggles brand*
- ∞ *Generates higher levels of revenue per search*
- ∞ *Offers some resistance to economic downturns*
- ∞ *Maintains high barriers to entry*
- ∞ *Attracts and retains high-caliber consultants*
- ∞ *Increases the probability of down-stream work*

Executive Search *the Year* in Review

DAVID C. ANDERSON

President and CEO, Heidrick & Struggles Executive Search

We have come to be recognized as the gold standard in executive search by our clients and stakeholders. With our team of talented professionals, we're building on our success in our core executive search business by expanding into new, complementary service offerings. The challenge ahead: to invest selectively in new services that capitalize on our strong brand name and generate profitable growth.

Heidrick & Struggles Executive Search operates in a fragmented market of more than 5,000 search firms worldwide. Approximately 70 percent of these firms are contingency-based firms that focus primarily on filling mid-level positions at a salary level of \$150,000 and lower.

Heidrick & Struggles Executive Search competes in the higher-end retained search market, typically defined as positions with compensation of \$150,000 and greater. Retained firms are generally paid a retainer equal to one-third of the first year compensation of the placed executive. According to Kennedy Information, the retained search market has grown every year for the past 13 years, from \$2 billion in 1987 to an estimated \$10 billion today. Of the estimated 1,700 retainer-based firms, only about 2 percent had 2000 revenues that exceeded \$10 million. The top 10 executive search firms account for approximately 27 percent of the retained executive search market.

In June 2000, David C. Anderson was appointed President and Chief Executive Officer of Heidrick & Struggles Executive Search. He also retained his position of President–Americas, with responsibility for both North America and Latin America. A 20-year executive search veteran, Anderson joined the company in 1992. In August 2000, Piers Marmion was appointed Chief Operating Officer and President–International of Heidrick & Struggles Executive Search. Marmion joined Heidrick & Struggles following a decade of leadership experience, including six years as Chief Operating Officer of another major global search firm.

Heidrick & Struggles Executive Search experienced a remarkable twelve months of growth in 2000. We generated \$574.2 million in revenue in 2000, an increase of 33 percent over last year, with double-digit gains in all of our geographic segments. We confirmed 7,816 searches, a 28 percent increase over 1999. Our average fees per search grew 4 percent to \$73,500 compared to \$70,900 in 1999.

How Retained Search Works

Our clients hire us to advise them in making an informed choice from the best-qualified candidates available. Each search has unique requirements and points of emphasis, but searches share common essential elements. We begin by analyzing the client's needs in order to determine the required set of skills for the position. We take time to understand our client's organizational structure, relationships and culture, define the required experience, and identify other characteristics necessary for the successful candidate. We then develop the position specification and candidate profile, and begin to identify potential candidates, contacting those who may be suitable. We consult frequently with the client to review our search strategy and to agree on a short list of candidates. After agreeing on a suitable short list, we interview candidates and perform referencing and qualification checks, where needed. We then present detailed profiles of each candidate to our client and arrange interviews.

After recommending the best-qualified candidates, we work closely with our clients as we move toward selection and presentation of the offer to the most qualified candidate. Our referencing continues throughout this stage even as the client makes the formal offer.

Some clients choose to utilize our extranet, HeidrickOnline, which provides secure, reliable and up-to-date information regarding their searches 24 hours a day. This is a critical benefit, considering the different time zones in which our clients and candidates live and work.

We realize that we are only as good as our last search, and it is imperative that we maintain high standards of excellence. Quality remains at the forefront throughout each stage of the search process.

We added 119 new consultants during the year, net of departures, bringing our total number of executive search consultants to 510 as of December 31, 2000. Operating income increased 54 percent to \$84.4 million. Our operating margin in Executive Search increased to 14.7 percent compared to 12.6 percent in 1999.

In the United States, our largest geographic segment, revenue grew 33 percent to \$341.6 million, with double-digit growth in all of our practice groups. Operating income in the U.S. increased 52 percent to \$58.6 million, excluding corporate expenses. In our Americas-Other segment (Canada and Latin America), which represents about 4 percent of worldwide revenue, revenue increased 26 percent to \$21.9 million, primarily due to the growth of our technology and financial services practice groups. Operating profit in Americas-Other declined 26 percent to \$2.6 million, due in part to investments in new offices and increased technology costs. In Europe, revenue grew 27 percent to \$176.4 million, with particular strength in our financial services practice. Excluding the effects of a stronger U.S. dollar on foreign currency translation, revenue in Europe grew 44 percent on a local currency basis. Operating income in Europe increased 85 percent to \$17.9 million. In Asia Pacific, revenue increased 67 percent to \$34.4 million, due to strong performance in the financial services and technology practice groups. Operating profit in Asia Pacific grew 82 percent to \$5.4 million.

In addition to acquisitions, during 2000 we opened new offices in Austin, Texas; Emeryville, California; Denver, Colorado; Foster City, California as part of our Silicon Valley operation; and Bogota, Colombia.

PIERS MARMION
*COO and President—International,
Heidrick & Struggles Executive Search*

As we have grown, we've come to do much more than simply find stellar leaders. Today, we are known globally for building great management teams—and serving as respected business advisors—for our clients. The key to our success is our ability to attract the best people in the industry to Heidrick & Struggles, and retain them by infusing our culture with a deep sense of partnership.

With the ever-greater economic acceleration in 2000, we saw a spike in our executive search business unlike any in the nearly 50-year history of Heidrick & Struggles, particularly in the first half of the year. Since then, the U.S. economy has slowed from its frenzied pace. Europe continues to be solid in early 2001 but no one can predict with certainty which direction that economy will turn. Regardless of the economic ups and downs, we believe that we are well positioned for long-term growth. Our executive search business has some inherent resistance to downturns due to the high-end market we serve and the diversification of our geography and industry practices. In addition, our performance-based cost structure has some built-in variability to mitigate some effects of a downturn. Entering these uncertain waters, our financial position and our balance sheet are stronger than ever in our history.

Marquee Chief Executive Searches

Maintaining the highest standards of excellence, Heidrick & Struggles Executive Search helps solve the leadership needs of the world's largest and most complex organizations. Known for leading the field in marquee chief executive searches, we perform more than a thousand CEO searches every year.

And no mention of our front-runner position can be made without acknowledging the leadership example set by our Senior Chairman, Gerard R. Roche. Actively involved in some of our most significant assignments of 2000, Roche completed an impressive array of marquee chief executive searches, including those for 3M Worldwide, The Home Depot, Inc. and Sears, Roebuck & Co. Named "Recruiter of the Century" by his peers, Roche continues to inspire and challenge colleagues and competitors alike.

GERARD R. ROCHE
Senior Chairman,
Heidrick & Struggles International



3M Worldwide
Burger King Corporation
Conseco, Inc.
The Home Depot, Inc.
NASDAQ
Network Associates, Inc.
Petróleos Mexicanos
Reuters Group, PLC
San Francisco 49ers
Sears, Roebuck & Co.
The ServiceMaster Company
Sydney Futures Exchange
Wendy's International, Inc.

Importance of Industry Practice Groups

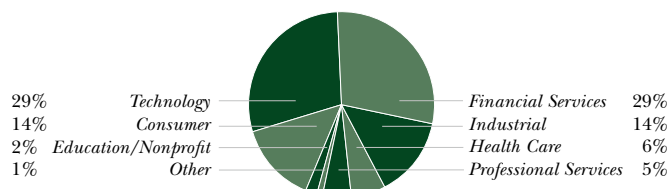
We manage Heidrick & Struggles Executive Search on a geographic and industry practice matrix. Our seven vertical industry practice groups drive revenue growth and, within each group, specialty practices closely align our business with that of our clients.

We staff virtually all of our practice groups with professionals who have senior-level management experience within the industries they serve. As a result, we are able to combine in-depth knowledge of the industry dynamics and the top talent with expertise in attracting the most qualified leaders to our clients. We frequently team consultants across different practices to provide perspective from other market sectors.

In 2000, we established an enterprise structure for our two largest practices, Financial Services and Technology. This allows us to capitalize on our highly successful dedicated competency centers in several U.S. cities where those industries thrive, and expand the concept to international markets.

Our practice structure serves as the "global glue" of Heidrick & Struggles Executive Search, connecting all our offices and regions. We view our practice groups as critical marketing, business development and search execution hubs that foster teamwork and seamless knowledge sharing.

2000 Executive Search Revenue by Industry Practice Group



At year-end, LeadersOnline had 84 full-time staff members focused on building the business in North America and on future expansion in other markets.

LeadersOnline

a Closer Look

LeadersOnline, our Internet-enhanced recruiting business, competes in the highly fragmented recruitment market for mid-level executives and professionals who earn annual compensation of \$75,000 to \$150,000. The mid-level management and emerging executive talent recruiting market is estimated to be approximately \$10 billion in the United States, according to Hunt-Scanlon Advisors. Current economic and demographic trends are making it particularly challenging for employers to find and retain qualified professionals in this salary range, either through traditional or online means. We believe that our competition at this level is primarily contingency-based firms placing managers who earn an annual compensation of \$150,000 and below.

In September 2000, James R. Quandt was named President and CEO of LeadersOnline after serving as COO for nearly a year. Quandt has been intimately involved with the Internet recruiting industry since its inception. And in March 2001, Jeffrey Hyman was named Chief Operating Officer. Hyman founded Cruel World (formerly

known as CareerCentral) in 1996, one of the first companies dedicated to mid-level Internet recruiting, and was most recently its Chief Executive Officer.

In 2000, LeadersOnline generated \$20.2 million in revenue compared to \$2.6 million in 1999, its first year of generating revenue. LeadersOnline reported an operating loss of \$13.2 million on an adjusted basis in 2000, or \$0.41 per share, compared to a loss of \$5.2 million, or \$0.17 per share, in 1999. We expect that the losses peaked in 2000, which was a critical year of investing for LeadersOnline. During 2000, LeadersOnline entered into contracts for 485 searches with an average fee of \$42,400 per placement, representing approximately 31 percent of the average compensation level of \$135,900.

LeadersOnline operates primarily on a retained basis and typically charges about one-third of the placed candidate's total annual compensation, although its fees can vary depending on several factors, the most important of which is the number of positions per assignment.

Business WeekTM

Alliance

In April 2000, LeadersOnline entered into a strategic five-year alliance with Business Week, under which The Business Week Online Careers Channel and the LeadersOnline website were linked to form a comprehensive online career destination for professional and managerial talent. In October 2000, Business Week launched a magazine called *LeadersOnline*, with an initial circulation of 300,000. This magazine is custom-published by Business Week and designed to be the premier career management resource for the next generation of corporate leaders.

How the Process Works

*Develop Search
Strategy*

*Design
Opportunity
Page*

*Identify
and Match
Candidates*

*Candidate
Views
Opportunity
Page*

*Candidate
Releases Resume*

*Present List
of Qualified
Candidates*

*Interviews and
Selection*

JAMES R. QUANDT

President and CEO, LeadersOnline

These are exciting times, and I am constantly invigorated by what we're learning about the quality of candidates in the mid-level management space—the next generation of premier executives. The cutting-edge processes that we are incubating at LeadersOnline will revolutionize the approach to candidate identification and search execution throughout Heidrick & Struggles, greatly enhancing the quality of service we bring to our clients.

We took a successful business model for executive search—based on the tried and true method that has made Heidrick & Struggles the gold standard of executive search—and did two important things. First, we targeted an entirely different market niche, focusing on the next generation of executives and professionals. Second, we took that successful business model and put it on an Internet-enhanced candidate identification and distribution platform.

We work directly with our clients and, based on their specific requirements, we plan, develop and tailor the particular position specifications and the eConsulting search strategy. Our eConsultants then coordinate the design of the position's Opportunity Page to post on our exclusive website. The Opportunity Page describes the available position with information including salary, location, promotion potential, and other pertinent facts.

We proactively identify prospective candidates through targeted advertising and direct e-mail campaigns. LeadersOnline's eConsultants, supported by a team of eSearch associates, identify the candidates that fit the parameters of the position specifications. In many cases, these prospective candidates are not actively searching for a career change. They are successful and content in their positions, but they understand, in the interest of wise career management, that there is great potential in keeping their options open. These are the sort of talented professionals we selectively invite to join our Candidate Community and the sort of qualified candidates we share and ultimately place with clients.

To register with LeadersOnline, candidates complete a simple yet comprehensive online profile. Based on these profiles, we match potential candidates with suitable positions. Only members who have been matched by LeadersOnline as appropriate and qualified candidates will be given access to view the Opportunity Page for the available position. Candidates review the position description to decide whether they are interested in proceeding with the assessment process. This process consists of a thorough interview by our qualified eConsultants to evaluate the competencies of the candidate in order to determine a suitable match with the client's specifications. We maintain candidates' complete confidentiality until they agree to release their resumes to the client.

We then present a customized list of qualified and interested candidates according to the client's skill and competency specifications.

We believe that we currently lead the industry in speed of execution, and the number of days to present a slate of qualified candidates to our clients has been averaging well under 30 days. Our proprietary eSearch capabilities place us well ahead of the industry curve in our ability to quickly identify and present attractive candidates for interviews and selection. The closing of the hiring process is managed by our eConsultants, who coordinate the presentation of the offer and negotiate key aspects of the hiring terms.

Consolidated Statements of Income

AS ADJUSTED

(Excluding one-time adjustments and assuming completion of the merger of H&S and HSI and public company status at January 1, 1999)

(In thousands, except per share data)

YEAR ENDED DECEMBER 31,	2000 ⁽¹⁾	1999 ⁽²⁾⁽³⁾	% CHANGE
Revenue	\$594,394	\$435,832	36.4%
Operating expenses:			
Salaries and employee benefits ⁽⁴⁾⁽⁵⁾	395,105	292,496	35.1%
General and administrative expenses ⁽⁶⁾	156,242	110,585	41.3%
Total operating expenses	551,347	403,081	36.8%
Operating income	43,047	32,751	31.4%
Non-operating income (expense):			
Interest income	8,723	3,513	148.3%
Interest expense	(209)	(1,560)	- 86.6%
Minority interest	208	—	—
Other, net	7,369	630	1069.7%
Net non-operating income	16,091	2,583	523.0%
Income before income taxes ⁽⁷⁾	59,138	35,334	67.4%
Provision for income taxes	26,499	15,741	68.3%
Net income	\$ 32,639	\$ 19,593	66.6%
Basic earnings per common share	\$ 1.72	\$ 1.20	43.3%
Basic weighted average common shares outstanding ⁽⁸⁾	18,979	16,326	16.3%
Diluted earnings per common share	\$ 1.60	\$ 1.18	35.6%
Diluted weighted average common shares outstanding ⁽⁸⁾⁽⁹⁾	20,389	16,596	22.9%

(1) Amounts exclude the \$14.0 million nonrecurring charge (\$0.60 per share on a diluted basis) the Company incurred during the third quarter of 2000 as a result of the withdrawal of LeadersOnline's IPO. This included a non-cash compensation charge of \$12.2 million which represents the remainder of the non-cash compensation charge related to the issuance of options by LeadersOnline, at a price below the deemed fair market value for accounting purposes, at the time of issuance. The remaining \$1.8 million is due to the write-off of expenses related to the planning of the IPO.

(2) Amounts assume that the merger of H&S and HSI had occurred on January 1, 1999.

(3) Amounts exclude merger costs of \$2.8 million (\$0.12 per share on a diluted basis) for the year ended December 31, 1999, arising from the merger of Heidrick & Struggles International and Sullivan & Company on September 1, 1999. The merger costs consist of (1) a \$2.0 million non-cash charge for accelerated vesting of an employee equity ownership program in place at Sullivan and (2) \$0.8 million of transaction-related costs, including legal, accounting and advisory fees. This transaction was accounted for using the pooling of interests method.

(4) Amount excludes the \$12.4 million nonrecurring Mülder charge (\$0.75 per share on a diluted basis) for the year ended December 31, 1999. This charge is the result of the modification of the terms of the Mülder and Partner acquisition agreement, including the termination of all employment contingencies. It represents the write-off of \$2.9 million of deferred compensation assets, the settlement of the remaining cash due of \$4.3 million and the

issuance of 428,452 common shares (worth \$5.2 million at that time) to the previous owners of Mülder. In addition, \$0.9 million of deferred compensation expense relating to the acquisition has been excluded for the year ended December 31, 1999.

(5) Amount includes a non-cash compensation charge of \$2.7 million (\$0.13 per share on a diluted basis) for the year ended December 31, 2000. This charge is due to the issuance of options by LeadersOnline, at a price below the deemed fair market value for accounting purposes, at the time of issuance.

(6) Amount has been adjusted to include amortization related to acquired intangibles and goodwill arising from the merger of H&S and HSI of \$0.2 million for the year ended December 31, 1999.

(7) Equity in net loss of affiliate has been eliminated for the year ended December 31, 1999 to reflect 100% ownership of HSI after the merger.

(8) Amount has been adjusted to give effect to the initial public offering of 3.7 million shares and issuance of 0.7 million shares under the Company's GlobalShare plan as of January 1, 1999. In addition, the year ended December 31, 1999 has been adjusted for the issuance of 0.5 million shares on June 1, 1999 which arose from the exercise of a portion of the over-allotment option granted to certain underwriters of the initial public offering.

(9) Amount has been adjusted to give effect to the issuance of options pursuant to the Company's GlobalShare plan equivalent to 0.3 million shares for the year ended December 31, 1999, under the treasury stock method.

Consolidated Income Statements Discussion

(Discussion is based on "as adjusted" numbers, which exclude one-time adjustments and assume completion of the merger of H&S and HSI and public company status at January 1, 1999)

On a consolidated basis, our revenue grew 36 percent to \$594.4 million in 2000 from \$435.8 million in 1999, due to continued strong demand for our services in Executive Search and LeadersOnline. All of our geographic segments experienced significant growth.

We divide our operating expenses into two categories:

- ∞ Salaries and employee benefits;
- ∞ General and administrative expenses.

At Heidrick & Struggles International, our people represent our most important resource. It follows that the largest expense on our income statement is salaries and employee benefits, which increased 35 percent to \$395.1 million in 2000. As a percentage of revenue, this line decreased to 66.5 percent in 2000 from 67.1 percent in 1999. The improvement was primarily because, under our variable compensation structure, our consultants do not earn compensation on uncollected fees. We wrote off a greater amount of bad debts compared to 1999, particularly in the 2000 fourth quarter, due in part to an increase in failed dot-com start ups. In addition, the salaries and employee benefits margin improved because we were able to leverage the fixed component of our salaries against higher revenue.

Our general and administrative expenses increased 41 percent to \$156.2 million in 2000. As a percentage of revenue, general and administrative expenses increased to 26.3 percent in 2000 from 25.4 percent in 1999. This percentage increase was primarily due to investment spending for complementary growth initiatives, including LeadersOnline. In addition, depreciation expense was higher as we continued to invest in the growth of our company. Bad debt expense also was higher in 2000 compared to 1999.

Revenue (in millions)

2000	\$594
1999	\$436
1998	\$342
1997	\$276
1996	\$212

Revenue grew at a compound annual rate of more than 25 percent over the past five years on a pro forma basis.

We grew our consolidated operating income by 31 percent to \$43.0 million in 2000 from \$32.8 million in 1999.

Non-operating income increased 523 percent to \$16.1 million in 2000, compared to \$2.6 million in 1999. Our interest income increased 148 percent to \$8.7 million in 2000 compared to \$3.5 million in 1999 because of higher levels of cash on the balance sheet, primarily due to our follow-on offering in February 2000 and cash generated from operations during the year. We lowered our interest expense by 87 percent to \$209,000 in 2000, compared to \$1.6 million in 1999, due to lower levels of debt outstanding. Our "other" non-operating income increased more than tenfold to \$7.4 million in 2000, compared to \$630,000 in 1999. Most of the increase in this line came from gains, net of consultant bonuses, and administrative and other costs, realized by selling our equity positions in client companies that we received as part of our warrant program. During the year we had 25 monetizations in this program, and used this income to help fund spending for LeadersOnline and other complementary growth initiatives.

Our consolidated diluted earnings per share grew 36 percent to \$1.60 in 2000, compared to \$1.18 in 1999. This growth rate was lower than that of our net income because of the increase in the number of shares outstanding as a result of our follow-on offering of common stock in February 2000 and a higher level of options and restricted stock units outstanding for employee programs.

	2000	1999
Core Executive Search	\$ 1.81	\$ 1.32
LeadersOnline	(0.41)	(0.17)
Warrant gains	0.20	0.03
Consolidated Diluted EPS	\$ 1.60	\$ 1.18

Condensed Consolidated Segment Information

AS ADJUSTED

(Excluding one-time adjustments and assuming completion of the merger of H&S and HSI and public company status at January 1, 1999)

(In thousands)

YEAR ENDED DECEMBER 31,	2000	1999	% CHANGE	2000 MARGIN	1999 MARGIN
Revenue:					
Americas					
United States	\$341,553	\$256,394	33.2%		
Other	21,858	17,342	26.0%		
International					
Europe	176,431	138,865	27.1%		
Asia Pacific	34,361	20,614	66.7%		
Total Executive Search	574,203	433,215	32.5%		
LeadersOnline	20,191	2,617	671.5%		
Total	\$594,394	\$435,832	36.4%		
Operating Income (Loss):					
Americas					
United States	\$ 58,552	\$ 38,638	51.5%	17.1%	15.1%
Other	2,556	3,466	- 26.3%	11.7%	20.0%
International					
Europe	17,926	9,666	85.5%	10.2%	7.0%
Asia Pacific	5,367	2,944	82.3%	15.6%	14.3%
Total Executive Search	84,401	54,714	54.3%	14.7%	12.6%
LeadersOnline	(13,203)	(5,157)	156.0%	—	—
Corporate	(28,151)	(16,806)	67.5%	—	—
Total	\$ 43,047	\$ 32,751	31.4%	7.2%	7.5%

For more detailed information, please refer to our Form 10-K.

Condensed Consolidated Balance Sheets

ACTUAL

(In thousands)

DECEMBER 31,	2000	1999
Current assets:		
Cash and cash equivalents	\$184,836	\$ 76,848
Accounts receivable, net of allowance for doubtful accounts	106,334	83,162
Other receivables	7,357	4,241
Prepaid expenses	11,783	7,583
Deferred income taxes	26,071	19,881
Total current assets	336,381	191,715
Property and equipment, net	52,660	52,352
Other assets:		
Cash and investments designated for nonqualified retirement plans	16,506	32,702
Investments and other assets	45,097	11,772
Deferred income taxes	6,792	376
Goodwill and other intangibles, net	66,208	45,832
Total other assets	134,603	90,682
Total assets	\$523,644	\$334,749
Current liabilities:		
Current maturities of long-term debt	\$ 1,135	\$ 3,039
Accounts payable	10,051	8,052
Accrued expenses —		
Salaries and employee benefits	160,552	100,762
Other	27,888	14,964
Income taxes payable	16,415	10,891
Total current liabilities	216,041	137,708
Long-term debt, less current maturities	610	—
Liability for nonqualified retirement plans	19,316	29,161
Stockholders' equity	287,677	167,880
Total liabilities and stockholders' equity	\$523,644	\$334,749

For more detailed information, please refer to our Form 10-K.

Consolidated Statements of Cash Flows

ACTUAL

(In thousands)

YEAR ENDED DECEMBER 31,

2000

1999

Cash flows from operating activities		
Net income	\$ 19,417	\$ 5,792
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	19,064	10,591
Loss on sale of property and equipment	538	63
Gain on sale of equity securities	(7,159)	(782)
Deferred income taxes	(12,672)	2,004
Equity in net loss of affiliate	—	630
Minority interest in loss of consolidated subsidiary	(208)	—
Nonrecurring charges	13,975	15,220
Stock-based compensation expense	3,920	252
Changes in assets and liabilities:		
Trade and other receivables	(26,435)	(23,326)
Accounts payable	1,341	1,058
Accrued expenses	75,175	37,860
Income taxes payable	5,720	6,930
Nonqualified retirement plan liability	923	1,936
Other, net	(4,240)	(3,449)
Net cash provided by operating activities	89,359	54,779
Cash flows from investing activities		
Acquisitions, net of cash acquired	(15,648)	(1,466)
Purchases of securities for nonqualified retirement plan	(239)	(482)
Purchases of property and equipment	(17,885)	(21,519)
Purchases of long-term investments	(23,417)	—
Proceeds from sales of equity securities, net	7,159	782
Cash acquired in merger transaction with HSI	—	8,166
Other, net	3,994	445
Net cash used in investing activities	(46,036)	(14,074)
Cash flows from financing activities		
Proceeds from sales of common stock and treasury stock	76,185	61,158
Proceeds from sale of subsidiary stock	2,919	—
Proceeds from stock options exercised	553	—
Repurchase of subsidiary options and stock	(13,018)	—
Proceeds from debt	—	17,700
Payments on debt	(1,822)	(53,512)
Net cash provided by financing activities	64,817	25,346
Effect of foreign currency exchange rates on cash and cash equivalents	(152)	(724)
Net increase in cash and cash equivalents	107,988	65,327
Cash and cash equivalents:		
Beginning of period	76,848	11,521
End of period	\$184,836	\$ 76,848

For more detailed information, please refer to our Form 10-K.

Board of Directors and Executive Officers

Patrick S. Pittard
*Chairman, President and
Chief Executive Officer*
DIRECTOR

Gerard R. Roche
Senior Chairman
DIRECTOR

David C. Anderson
*President and Chief Executive Officer
Heidrick & Struggles Executive Search*
DIRECTOR

Thomas J. Friel
President, Heidrick & Struggles Ventures
DIRECTOR

Robert E. Knowling Jr.
DIRECTOR
*Chairman and Chief Executive Officer
Internet Access Technologies Inc.*

Bengt Lejsved
*Area Managing Partner,
New Markets*
DIRECTOR

Robert Louis-Dreyfus
DIRECTOR
*Chairman
LD Communications*

Piers Marmion
*Chief Operating Officer and President—International
Heidrick & Struggles Executive Search*
DIRECTOR

Dr. Jürgen B. Müller
Chairman
Heidrick & Struggles Executive Search
DIRECTOR

Robert W. Shaw
DIRECTOR
*Chief Executive Officer
Silicon Valley Internet Capital*

Dr. John C. Viney
Chairman—Europe
DIRECTOR

Carlene M. Ziegler
DIRECTOR
*Co-Founder and Managing Partner,
Artisan Partners LP*

Stephanie W. Abramson
*Chief Legal Officer,
Chief Corporate Development Officer
and Corporate Secretary*

Donald M. Kilinski
Chief Financial Officer and Treasurer

Shareholder Information

CORPORATE HEADQUARTERS
Heidrick & Struggles International, Inc.
233 South Wacker Drive Suite 4200
Chicago, Illinois 60606-6303
312-496-1200
www.heidrick.com

ANNUAL MEETING
The annual meeting of shareholders
will be held at 9:30 a.m. central time
on Tuesday, June 5, 2001,
at the Metropolitan Club,
233 South Wacker Drive, 66th floor
Chicago, Illinois 60606-6303.

TRANSFER AGENT AND REGISTRAR
Mellon Investor Services, LLC
Overpeck Centre
85 Challenger Road
Ridgefield Park, New Jersey 07660
888-213-0965
*Shareholders can obtain account
information through Investor Service
Direct at www.mellon-investor.com.*

INVESTOR CONTACT
Shareholders, analysts and investors
should contact the Investor Relations
Department at the corporate headquarters
address or through our website at
www.heidrick.com.

FORM 10-K AND OTHER
FINANCIAL PUBLICATIONS
The Form 10-K Annual Report to the
Securities and Exchange Commission
and other financial publications are
available through our website or upon
written request to the Investor Relations
Department.

INDEPENDENT PUBLIC ACCOUNTANTS
Arthur Andersen LLP
Chicago, Illinois

EXCHANGE LISTING
Heidrick & Struggles International's
common stock is listed on the Nasdaq Stock
Market under the symbol HSII.



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