

HEIDRICK & STRUGGLES INTERNATIONAL INC

Form 10-Q

November 05, 2012

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012**

**OR**

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

**For the transition period from            to**

**Commission File Number 0-25837**

**HEIDRICK & STRUGGLES INTERNATIONAL, INC.**

**(Exact Name of registrant as specified in its charter)**

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**36-2681268**  
(I.R.S. Employer  
Identification No.)

**233 South Wacker Drive Suite 4200**

**Chicago, Illinois**

**60606-6303**

(Address of principal executive offices)

**(312) 496-1200**

(Registrant's telephone number, including area code)

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

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-Accelerated filer  (Do not check if a smaller reporting company) 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

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

As of October 25, 2012, there were 17,971,420 shares of the Company's common stock outstanding.

**Table of Contents**

**HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES**

**INDEX**

	<b>PAGE</b>
<b>PART I. <u>FINANCIAL INFORMATION</u></b>	
Item 1. <u>Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2012 (Unaudited) and December 31, 2011</u>	1
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2012 and 2011</u>	2
<u>Unaudited Consolidated Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2012</u>	3
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011</u>	4
<u>Unaudited Notes to Condensed Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4. <u>Controls and Procedures</u>	22
<b>PART II. <u>OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	22
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
Item 6. <u>Exhibits</u>	24

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share amounts)

	September 30, 2012 (Unaudited)	December 31, 2011
<b>Current assets:</b>		
Cash and cash equivalents	\$ 127,137	\$ 185,390
Restricted cash	124	440
Accounts receivable, less allowance for doubtful accounts of \$5,757 and \$3,805 at September 30, 2012 and December 31, 2011, respectively	88,261	69,081
Other receivables	9,472	9,404
Prepaid expenses	16,782	16,551
Other current assets	1,353	1,382
Income taxes recoverable	5,990	19,866
Deferred income taxes	10,140	8,211
Total current assets	259,259	310,325
<b>Non-current assets:</b>		
Property and equipment, net	42,586	44,781
Restricted cash	1,515	1,470
Assets designated for retirement and pension plans	22,698	22,883
Investments	11,617	9,868
Other non-current assets	5,944	6,480
Goodwill	91,270	90,696
Other intangible assets, net	2,021	2,556
Deferred income taxes	23,322	26,506
Total non-current assets	200,973	205,240
<b>Total assets</b>	<b>\$ 460,232</b>	<b>\$ 515,565</b>
<b>Current liabilities:</b>		
Accounts payable	\$ 6,009	\$ 9,157
Accrued salaries and employee benefits	86,119	131,697
Other current liabilities	31,913	39,362
Income taxes payable	6,120	4,868
Deferred income taxes	185	6
Total current liabilities	130,346	185,090
<b>Non-current liabilities:</b>		
Retirement and pension plans	33,440	31,747
Other non-current liabilities	42,581	47,396
Deferred income taxes	94	37
Total non-current liabilities	76,115	79,180

Edgar Filing: HEIDRICK & STRUGGLES INTERNATIONAL INC - Form 10-Q

<b>Total liabilities</b>	206,461	264,270
<b>Commitments and contingencies (Note 16)</b>		
<b>Stockholders' equity:</b>		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, no shares issued at September 30, 2012 and December 31, 2011		
Common stock, \$.01 par value, 100,000,000 shares authorized, 19,585,777 shares issued, 17,971,420 and 17,870,236 shares outstanding at September 30, 2012 and December 31, 2011, respectively	196	196
Treasury stock at cost, 1,614,357 and 1,715,541 shares at September 30, 2012 and December 31, 2011, respectively	(53,269)	(58,690)
Additional paid in capital	234,810	238,523
Retained earnings	54,481	55,029
Accumulated other comprehensive income	17,553	16,237
<b>Total stockholders' equity</b>	<b>253,771</b>	<b>251,295</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 460,232</b>	<b>\$ 515,565</b>

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

**Table of Contents****HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(In thousands, except per share amounts)****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Revenue:</b>				
Revenue before reimbursements (net revenue)	\$ 117,312	\$ 142,213	\$ 339,903	\$ 400,634
Reimbursements	5,033	7,092	16,517	19,164
Total revenue	122,345	149,305	356,420	419,798
<b>Operating expenses:</b>				
Salaries and employee benefits	79,628	99,700	236,159	287,300
General and administrative expenses	27,499	28,782	82,824	93,381
Reimbursed expenses	5,033	7,092	16,517	19,164
Restructuring charges			810	
Impairment charges		26,366		26,366
Total operating expenses	112,160	161,940	336,310	426,211
<b>Operating income (loss)</b>	<b>10,185</b>	<b>(12,635)</b>	<b>20,110</b>	<b>(6,413)</b>
<b>Non-operating income (expense):</b>				
Interest income, net	149	300	856	853
Other, net	(299)	(1,803)	(949)	(3,477)
Net non-operating expense	(150)	(1,503)	(93)	(2,624)
<b>Income (loss) before income taxes</b>	<b>10,035</b>	<b>(14,138)</b>	<b>20,017</b>	<b>(9,037)</b>
Provision for income taxes	5,924	18,263	13,375	20,596
<b>Net income (loss)</b>	<b>4,111</b>	<b>(32,401)</b>	<b>6,642</b>	<b>(29,633)</b>
Other comprehensive income (loss), net of tax	1,278	(8,038)	1,316	(2,064)
<b>Comprehensive income (loss)</b>	<b>\$ 5,389</b>	<b>\$ (40,439)</b>	<b>\$ 7,958</b>	<b>\$ (31,697)</b>
Basic weighted average common shares outstanding	17,995	17,840	17,969	17,756
Dilutive common shares	102		167	
Diluted weighted average common shares outstanding	18,097	17,840	18,136	17,756
Basic net income (loss) per common share	\$ 0.23	\$ (1.82)	\$ 0.37	\$ (1.67)
Diluted net income (loss) per common share	\$ 0.23	\$ (1.82)	\$ 0.37	\$ (1.67)
Cash dividends paid per share	\$ 0.13	\$ 0.13	\$ 0.39	\$ 0.39

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

Table of Contents

**HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

(In thousands)

(Unaudited)

	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Accumulated	Total
	Shares	Amount	Shares	Amount			Other Compre- hensive Income	
<b>Balance at December 31, 2011</b>	19,586	\$ 196	1,715	\$ (58,690)	\$ 238,523	\$ 55,029	\$ 16,237	\$ 251,295
Net income						6,642		6,642
Other comprehensive income:								
Unrealized gain on available for sale investments							934	934
Foreign currency translation adjustment							382	382
Comprehensive income						6,642	1,316	7,958
Treasury and common stock transactions:								
Stock-based compensation					4,081			4,081
Vesting of restricted stock units, net of tax withholdings			(162)	5,598	(7,202)			(1,604)
Purchases of treasury stock			88	(1,123)				(1,123)
Re-issuance of treasury stock			(27)	946	(496)			450
Cash dividends declared (\$0.39 per share)						(7,022)		(7,022)
Dividend equivalents on restricted stock units						(168)		(168)
Tax deficit related to stock-based compensation					(96)			(96)
<b>Balance at September 30, 2012</b>	<b>19,586</b>	<b>\$ 196</b>	<b>1,614</b>	<b>(\$ 53,269)</b>	<b>\$ 234,810</b>	<b>\$ 54,481</b>	<b>\$ 17,553</b>	<b>\$ 253,771</b>

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

**Table of Contents****HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows - operating activities:</b>		
Net income (loss)	\$ 6,642	\$ (29,633)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	8,083	7,207
Write-off of investment		2,810
Deferred income taxes	1,509	9,815
Net realized losses on investments	27	488
Stock-based compensation expense	4,081	4,161
Impairment charges		26,366
Restructuring charges	810	
Cash paid for restructuring charges	(8,743)	(658)
Changes in assets and liabilities:		
Trade and other receivables, net	(18,622)	(21,154)
Accounts payable	(3,165)	889
Accrued expenses	(48,861)	(12,716)
Income taxes recoverable (payable), net	15,309	1,658
Retirement and pension assets and liabilities	956	(290)
Prepayments	(75)	(1,988)
Other assets and liabilities, net	(1,110)	2,393
Net cash used in operating activities	(43,159)	(10,652)
<b>Cash flows - investing activities:</b>		
Restricted cash	282	13
Capital expenditures	(6,248)	(16,250)
Acquisition of business and earnout payments, net of cash acquired		(3,930)
Purchases of available for sale investments	(1,023)	(799)
Proceeds from sales of available for sale investments	107	58
Loan to equity method investment		(1,008)
Other, net		89
Net cash used in investing activities	(6,882)	(21,827)
<b>Cash flows - financing activities:</b>		
Cash dividends paid	(7,294)	(7,380)
Payment of employee tax withholdings on equity transactions	(1,630)	(2,752)
Purchases of treasury stock	(1,123)	
Acquisition earnout payments	(381)	
Net cash used in financing activities	(10,428)	(10,132)
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	<b>2,216</b>	<b>(3,014)</b>



Edgar Filing: HEIDRICK & STRUGGLES INTERNATIONAL INC - Form 10-Q

<b>Net decrease in cash and cash equivalents</b>	(58,253)	(45,625)
Cash and cash equivalents at beginning of period	185,390	181,124
<b>Cash and cash equivalents at end of period</b>	<b>\$ 127,137</b>	<b>\$ 135,499</b>

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

**Table of Contents****HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

(Unaudited)

**1. Basis of Presentation of Interim Financial Information**

The accompanying unaudited Condensed Consolidated Financial Statements of Heidrick & Struggles International, Inc. and subsidiaries (the Company) have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Significant items subject to estimates and assumptions include revenue recognition, allowance for doubtful accounts, interim effective tax rate, allowances for deferred tax assets, compensation accruals, and contingent liabilities. Estimates are subject to a greater degree of uncertainty and actual results could differ from these estimates. These financial statements and notes are to be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC on March 15, 2012.

**2. Summary of Significant Accounting Policies**

A complete listing of the Company's significant accounting policies are discussed in Note 2, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC on March 15, 2012.

*Recently Adopted Financial Accounting Standards*

On January 1, 2012 the Company adopted the Financial Accounting Standards Board's (FASB) 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 only present other comprehensive income within the statement of stockholders' equity was eliminated. The Company has presented the components of net income and other comprehensive income in a single continuous statement.

On January 1, 2012, the FASB Accounting Standards Update No. 2011-08, *Testing Goodwill for Impairment*, became effective. This standard gives an entity the option of performing a qualitative assessment to determine whether it is necessary to perform step 1 of the annual goodwill impairment test. An entity is required to perform step 1 only if it concludes that it is more likely than not that a reporting unit's fair value is less than its carrying amount. An entity may choose to perform the qualitative assessment on none, some, or all of its reporting units or an entity may bypass the qualitative assessment for any reporting unit in any period and proceed directly to step 1 of the impairment test. The Company performs its annual impairment test during the fourth quarter of each year.

**3. Allowance for Doubtful Accounts**

The activity of the allowance for doubtful accounts for the nine months ended September 30, 2012 is as follows:

Balance at December 31, 2011	\$ 3,805
Provision charged to income	3,019
Write-offs	(1,133)
Currency	66

Balance at September 30, 2012

\$ 5,757

#### **4. Stock-based Compensation**

The Company's 2007 Heidrick & Struggles GlobalShare Program (the "Prior Program") provided for grants of stock options, stock appreciation rights, and other stock-based awards to directors, selected employees, and independent contractors. The Prior Program expired on May 24, 2012. Outstanding awards granted under the Prior Program remain outstanding and subject to the terms of the Prior Program and award agreements until such awards vest, are exercised, terminate or expire pursuant to their terms. As of September 30, 2012, there were 556,408 awards outstanding under the Prior Program, consisting of 64,812 stock options, 379,744 restricted stock units, and 111,852 performance stock units.

On May 24, 2012, the stockholders of the Company approved the 2012 Heidrick & Struggles GlobalShare Program (the "2012 Program") at the Company's Annual Meeting of Stockholders. The 2012 Program provides for grants of stock options, stock appreciation rights, and other stock-based awards that are valued based upon the grant date fair value of shares. These awards may be granted to directors, selected employees and independent contractors.

**Table of Contents**

The total number of shares authorized or reserved for issuance under the 2012 Program is 1,300,000 shares (consisting of a number of shares not previously authorized for issuance under any plan, and the number of shares not subject to awards and remaining available for issuance under the Prior Program, as amended on April 2, 2012), plus any shares subject to the 671,528 outstanding awards as of April 2, 2012 under the Prior Program that on or after the effective date cease for any reason to be subject to such awards. Stock awards forfeited or cancelled under the Prior Program and the 2012 Program are eligible for reissuance under the 2012 Program. As of September 30, 2012, there were 1,350,564 shares remaining available for future awards. The 2012 Program provides that no awards can be granted after May 24, 2022.

The Company measures its stock-based compensation costs based on the grant date fair value of the awards and recognizes these costs in the financial statements over the requisite service period.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Total stock-based compensation expense included in operating income	\$ 1,281	\$ 1,013	\$ 4,081	\$ 4,161
Income tax benefit related to stock-based compensation included in net income	\$ 495	\$ 428	\$ 1,576	\$ 1,761

**Restricted Stock Units**

Restricted stock unit activity for the nine months ended September 30, 2012:

	Number of Restricted Stock Units	Weighted- Average Grant-date Fair Value
Outstanding on December 31, 2011	489,720	\$ 23.99
Granted	123,951	19.84
Vested and converted to common stock	(186,150)	21.61
Forfeited	(40,277)	24.85
Outstanding on September 30, 2012	387,244	23.72

As of September 30, 2012, there was \$5.2 million of pre-tax unrecognized compensation expense related to unvested restricted stock units, which is expected to be recognized over a weighted average of 1.7 years.

**Performance Stock Units**

Performance stock unit activity for the nine months ended September 30, 2012:

	Number of Performance Stock Units	Weighted- Average Grant-date Fair Value
Outstanding on December 31, 2011	140,230	\$ 23.67
Granted	50,315	20.62
Vested and converted to common stock	(58,487)	18.07
Forfeited	(20,206)	24.75
Outstanding on September 30, 2012	111,852	25.03

## Edgar Filing: HEIDRICK & STRUGGLES INTERNATIONAL INC - Form 10-Q

As of September 30, 2012, there was \$1.3 million of pre-tax unrecognized compensation expense related to unvested performance stock units, which is expected to be recognized over a weighted average of 2.1 years.

**Table of Contents****5. Property and Equipment**

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

	September 30, 2012	December 31, 2011
Leasehold improvements	\$ 42,300	\$ 42,789
Office furniture, fixtures and equipment	23,808	24,602
Computer equipment and software	39,744	45,270
Property and equipment, gross	105,852	112,661
Accumulated depreciation	(63,266)	(67,880)
Property and equipment, net	\$ 42,586	\$ 44,781

Depreciation expense for the three months ended September 30, 2012 and 2011 was \$2.5 million and \$2.4 million, respectively. Depreciation expense for the nine months ended September 30, 2012 and 2011 was \$7.4 million and \$6.1 million, respectively.

**6. Restricted Cash**

The Company had \$1.6 million and \$1.9 million of restricted cash at September 30, 2012 and December 31, 2011, 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 2018.