

HEIDRICK & STRUGGLES INTERNATIONAL INC

Form 11-K

June 26, 2006

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 11-K

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ANNUAL REPORT

PURSUANT TO SECTION 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

x ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934.

For the fiscal year ended December 31, 2005.

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 000-25837

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A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

**HEIDRICK & STRUGGLES, INC.**

**401(k) PROFIT SHARING AND RETIREMENT PLAN**

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

HEIDRICK & STRUGGLES INTERNATIONAL, INC.

233 South Wacker Drive

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Suite 4200

Chicago, Illinois 60606

312-496-1200

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**HEIDRICK & STRUGGLES, INC.**

**401(k) PROFIT SHARING AND RETIREMENT PLAN**

Financial Statements and Supplemental Schedule

**December 31, 2005 and 2004**

(With Report of Independent Registered Public Accounting Firm)

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**HEIDRICK & STRUGGLES, INC.**

**401(k) PROFIT SHARING AND RETIREMENT PLAN**

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**Report of Independent Registered Public Accounting Firm**

The Plan Administrator and the Investment Committee

Heidrick & Struggles, Inc. 401(k) Profit Sharing and Retirement Plan:

We have audited the accompanying statements of net assets available for benefits of Heidrick & Struggles, Inc. 401(k) Profit Sharing and Retirement Plan (the Plan) as of December 31, 2005 and 2004, and the related statement of changes in net assets available for benefits for the year ended December 31, 2005. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits as of December 31, 2005 and 2004, and the changes in net assets available for benefits for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule, Schedule H, Line 4i Schedule of Assets (Held at End of Year) as of December 31, 2005, is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP

Chicago, Illinois

June 23, 2006

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**HEIDRICK & STRUGGLES, INC.**

**401(k) PROFIT SHARING AND RETIREMENT PLAN**

Statements of Net Assets Available for Benefits

**December 31, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
Assets:		
Investments, at fair value:		
Mutual funds	\$ 88,478,808	\$ 81,414,500
Heidrick & Struggles International, Inc. stock fund	11,919,056	17,000,216
Participant loans	530,830	520,853
Total investments	100,928,694	98,935,569
Company contribution receivable	0	661,185
Participants contribution receivable	1,721	0
Net assets available for benefits	\$ 100,930,415	\$ 99,596,754

See accompanying notes to financial statements.

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**HEIDRICK & STRUGGLES, INC.**

**401(k) PROFIT SHARING AND RETIREMENT PLAN**

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31, 2005

Additions to net assets attributed to:	
Interest and dividend income	\$ 3,569,028
Interest on participant loans	27,407
Contributions Company	1,073,821
Contributions participants	4,651,300
Contributions participant rollovers	1,271,517
Net appreciation in fair value of investments	869,860
 Total additions	 11,462,933
Deductions from net assets attributed to:	
Benefits paid to participants	10,128,022
Administrative expenses	1,250
 Total deductions	 10,129,272
Increase in net assets	1,333,661
Net assets available for benefits:	
Beginning of year	99,596,754
 End of year	 \$ 100,930,415

See accompanying notes to financial statements.

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**HEIDRICK & STRUGGLES, INC.**

**401(k) PROFIT SHARING AND RETIREMENT PLAN**

**Notes to Financial Statements**

**(1) Description of Plan**

The following description of the Heidrick & Struggles, Inc. 401(k) Profit Sharing and Retirement Plan (the Plan) provides only general information. Participants should refer to the plan document for a more complete description of the Plan's provisions.

***General***

The Plan was established as of January 1, 1989, as the result of the merger of the Heidrick & Struggles 401(k) Profit Sharing Plan and the Heidrick & Struggles, Inc. Pension Plan. The plan sponsor is Heidrick & Struggles, Inc. (the Company), a wholly owned subsidiary of Heidrick & Struggles International, Inc. (HSII). The Plan is a defined contribution plan established for the benefit of the Company's eligible employees and the eligible employees of any other organization designated by HSII's Board of Directors.

The Plan provides for elective contributions on the part of the participating employees and for employer matching and discretionary contributions. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended, and provisions of the Internal Revenue Code of 1986 (IRC) as it pertains to plans intended to qualify under Section 401(a) of the IRC.

Vanguard Fiduciary Trust Company (VFTC) is the trustee of the Plan under a contractual agreement with the Company. VFTC maintains all records of the Plan and assumes responsibility for proper allocation of income among all participants' accounts in the Plan. The Plan is administered by a Plan Administrator and an Investment Committee, the latter of which is appointed by the Company's Board of Directors.

***Contributions***

After completing 30 days of service and attaining age 21, participants may contribute up to 50% of their eligible compensation up to the maximum allowed by the IRC. For 2005, the Company matched contributions each payroll period of those participants with a minimum of one year of service on a one-for-one basis up to a maximum employer matching contribution per participant of \$2,500. In 2004, the Company matched contributions of those participants with a minimum of one year of service on a two-for-one basis up to a maximum employer matching contribution per participant of \$2,000. The Company matched contributions for 2004 were made following the end of the plan year. Additionally, the Company has the option of making discretionary contributions to participants with a minimum of one year of service. This discretionary amount is determined each year by the Company. For the 2005 and 2004 plan years, the Company elected not to make a discretionary contribution.

***Vesting and Forfeitures***

Participants are immediately vested in their voluntary contributions as well as in their employer's matching contributions and earnings thereon. Vesting in the Company's discretionary contributions and earnings thereon commences after three years of service (at least 1,000 hours per year) according to the following schedule: 20% vested after three years of service, 40% vested after four years of service, 60% vested after five years of service, 80% vested after six years of service, and 100% vested after seven years of service. Nonvested portions of Company discretionary contributions are forfeited as of a participant's termination date and are used to reduce the Company's future contribution.



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**HEIDRICK & STRUGGLES, INC.**

**401(k) PROFIT SHARING AND RETIREMENT PLAN**

**Notes to Financial Statements**

At December 31, 2005 and 2004, forfeited nonvested accounts totaled \$43,931 and \$105,524, respectively. These accounts will be used to reduce future employer contributions. In Addendums to the Plan dated June 18, 2001, October 29, 2001, January 31, 2002 and October 30, 2002, the Plan was amended to permit certain participants to receive accelerated vesting on any unvested portions of their account so long as they satisfied certain conditions of eligibility.

**Participant Accounts**

Participants may direct their account balance among the various investment options offered by the Plan. Each participant's account is credited with his/her contributions, the employer matching contributions, and an allocation of the employer discretionary contribution, if any, and plan earnings. Allocations are based on participant earnings or account balances, as defined in the plan document. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account. As of December 31, 2005 and 2004, there were 760 and 753 participants in the Plan, respectively.

**Payment of Benefits**

When a participant terminates his/her employment with the Company and elects to receive a distribution, the participant's vested account may be rolled over to a qualified plan or be distributed as a lump-sum amount. If a terminated participant has prior money pension purchase monies and elects to receive a distribution, the participant's vested account for those monies may only be (a) rolled over to a qualified plan, (b) distributed as a lump-sum amount, (c) applied toward the purchase of various types of annuities, or (d) distributed in equal monthly or annual installments over a period not to exceed the life expectancy of the participant.

**Loans to Participants**

Participants may borrow the lesser of \$50,000 or one-half of their vested account balance in the Plan, exclusive of the HSII Company Stock Fund, with a minimum loan amount of \$1,000. Loans are repayable through payroll deductions over periods ranging up to 60 months. Loans are secured by the balance in the participant's account and bear interest at the prime rate plus 1%. Principal and interest are paid ratably through payroll deductions.

**Administrative Fees**

Administrative and trustee fees related to the general administration of the Plan are paid by the Plan. The Company provides certain administrative services to the Plan and pays substantially all other expenses of the Plan.

**Plan Termination**

Although it has not expressed an interest to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants will become 100% vested in their accounts. Any unallocated assets of the Plan shall then be distributed to participant accounts in such a manner as the Company shall determine.

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**HEIDRICK & STRUGGLES, INC.**

**401(k) PROFIT SHARING AND RETIREMENT PLAN**

**Notes to Financial Statements**

**(2) Summary of Significant Accounting Policies**

***Basis of Accounting***

The financial statements of the Plan have been prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions to and deductions from net assets available for benefits during the reporting period. Actual results could differ from those estimates.

***Valuation of Investments***

Shares of registered investment companies are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year-end. HSII common stock is valued at its year-end closing share price (comprised of year-end market price plus uninvested cash position). Other equity securities are valued at the last quoted sales price as of the close of trading at year-end; such securities not traded on the year-end date are valued at the last quoted bid price. Fixed income securities are valued using the last quoted bid price. Participant loans are valued at cost, which approximates fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded as earned and dividends are recorded on the ex-dividend date. Capital gain distributions are included in dividend income.

***Risks and Uncertainties***

The Plan provides for investments in HSII common stock and mutual funds that, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits.

***Payments of Benefits***

Benefits are recorded when paid.

**(3) Investments**

The following table presents the investments that represent 5% or more of the Plan's net assets at December 31, 2005.

	<b>2005</b>
American Funds EuroPacific Growth Fund; R-4 Class	\$ 6,259,285
Harbor Small Cap Value; Investor Class	5,582,911
PIMCO Total Return Fund; Institutional Class	7,266,207
Vanguard Strategic Equity Fund	10,851,989
Vanguard Total Stock Market Index Fund Investor Shares	14,817,346

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Vanguard Wellington Fund Investor Shares	6,407,787
Vanguard Windsor II Fund Investor Shares	10,103,961
Vanguard Retirement Savings Trust	19,501,867
HSII Company Stock Fund	11,919,056

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The following table presents the investments that represent 5% or more of the Plan's net assets at December 31, 2004.

	<b>2004</b>
PIMCO Total Return Fund; Institutional Class	\$ 5,521,236
Sentinel Small Company Fund	5,333,140
Vanguard Strategic Equity Fund	9,771,334
Vanguard Total Stock Market Index Fund Investor Shares	14,413,360
Vanguard Wellington Fund Investor Shares	5,813,219
Vanguard Windsor II Fund Investor Shares	9,692,852
Vanguard Retirement Savings Trust	19,674,917
HSII Company Stock Fund	17,000,216

During 2005, the Plan's investments (including gains and losses on investments bought and sold, as well as investments held during the year) appreciated (depreciated) in value as follows:

Mutual funds	\$ 2,223,502
Heidrick & Struggles International, Inc. Company Stock Fund	(1,353,642)
	<b>\$ 869,860</b>

**(4) Party-in-Interest Transactions**

Certain Plan investments are shares of mutual funds managed by The Vanguard Group, an affiliate of VFTC. VFTC is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions.

As of December 31, 2005, the Plan's HSII Company Stock Fund held \$46,422 of cash and 370,441 shares of HSII common stock with a cost of \$583,787 and a current value of \$11,872,634. This represents 2.0% of HSII's outstanding stock at December 31, 2005. During the year ended December 31, 2005, 80,752 shares were sold at a weighted average price of \$31.30 per share, or total sales of \$2,527,794. There were 42,952 shares distributed to participants during the year ended December 31, 2005. There were 600 shares purchased during the year ended December 31, 2005, at a weighted average price of \$27.28 per share, for total purchases of \$16,368.

As of December 31, 2004, the Plan's HSII Company Stock Fund held \$86,429 of cash and 493,545 shares of HSII common stock with a cost of \$954,362 and a current value of \$16,913,787. This represents 2.6% of HSII's outstanding stock at December 31, 2004. During the year ended December 31, 2004, 148,289 shares were sold at a weighted average price of \$28.10 per share, or total sales of \$4,166,205. There were 20,916 shares distributed to participants during the year ended December 31, 2004.

**(5) Tax Status**

The Internal Revenue Service (IRS) has determined and informed the Company by a letter dated June 23, 2005, that the Plan and related trust, as amended and restated effective January 1, 2003, including the First Amendment thereto, are designed in accordance with the applicable sections of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

Effective March 28, 2005, the Plan was amended to implement the automatic rollover provisions under Section 401(a)(31)(B) of the IRC as amended by the Economic Growth and Tax Relief Reconciliation Act of 2001. This Second Amendment lowered the mandatory cash out threshold from \$5,000 to \$1,000 and converted the form of direct rollovers for amounts between \$1,000 and \$5,000 to a qualified individual

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retirement account. Although the Second Amendment has not been approved by the IRS, the Plan Administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

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Schedule H, Line 4i - Schedule of Assets (Held at End of Year)

December 31, 2005

<b>Identity of issuer, borrower, lessor, or similar party</b>	<b>Description of investment including, maturity date, rate of interest, collateral, par, or maturity value</b>	<b>Current value</b>
American Funds	American Funds EuroPacific R-4 Class; 154,056 shares	\$ 6,259,285
Harbor Fund	Harbor Small Cap Value; Investor Class; 283,973 shares	5,582,911
PIMCO	PIMCO Total Return Bond; Institutional Class; 692,020 shares	7,266,207
*Vanguard Group	Vanguard PRIMECAP Fund; 58,250 shares	3,804,291
*Vanguard Group	Vanguard Strategic Equity Fund; 494,847 shares	10,851,989
*Vanguard Group	Vanguard Target Retirement 2005; 26,211 shares	286,486
*Vanguard Group	Vanguard Target Retirement 2015; 29,293 shares	335,696
*Vanguard Group	Vanguard Target Retirement 2025; 28,175 shares	331,622
*Vanguard Group	Vanguard Target Retirement 2035; 46,185 shares	566,233
*Vanguard Group	Vanguard Target Retirement 2045; 22,028 shares	276,890
*Vanguard Group	Vanguard Target Retirement Income Fund; 4,973 shares	51,917
*Vanguard Group	Vanguard Total Stock Market Index Fund Investor Shares; 493,912 shares	14,817,346
*Vanguard Group	Vanguard Wellington Fund Investor Shares; 211,130 shares	6,407,787
*Vanguard Group	Vanguard Windsor II Fund Investor Shares; 322,501 shares	10,103,961
*Vanguard Group	Vanguard Brokerage Option Fund	2,034,320
*Vanguard Group	Vanguard Retirement Savings Trust; 19,501,867 shares	19,501,867
*Heidrick & Struggles International, Inc.	HSII Company Stock Fund; 370,441 shares	11,919,056
*Plan participants	Participant Loan Fund; interest rates range from 5% - 8%; maturity dates range from 05/06 to 01/11.	530,830
<b>Total investments</b>		<b>\$ 100,928,694</b>

\* Represents a party-in-interest to the Plan.  
See accompanying Report of Independent Registered Public Accounting Firm.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: June 23, 2006

Heidrick & Struggles, Inc.

401(k) Profit Sharing and Retirement Plan

By: /s/ Kathy Jensen-Watts  
Plan Administrator