HEIDRICK & STRUGGLES INTERNATIONAL INC
Form 10-Q
May 05, 2008
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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 MARCH 31, 2008

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	**36-2681268**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

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, and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small 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 x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

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

As of April 28, 2008, there were 17,188,817 shares of the Company s common stock outstanding.

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

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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)

	March 31, 2008 (Unaudited)	December 31, 2007
Current assets:		
Cash and cash equivalents	$ 142,823	$ 260,580
Short-term investments		22,275
Accounts receivable, less allowance for doubtful accounts of $4,764 and $4,262 at March 31, 2008 and December 31, 2007, respectively	111,088	82,240
Other receivables	5,973	5,868
Prepaid expenses	19,375	15,026
Other current assets	1,538	1,419
Income taxes recoverable, net	1,965	
Deferred income taxes, net	15,259	15,290
Total current assets	298,021	402,698
Non-current assets:		
Property and equipment, net	20,153	18,730
Restricted cash	9,761	9,826
Assets designated for retirement and pension plans	28,187	26,067
Investments	10,028	7,832
Other non-current assets	7,855	6,296
Goodwill	85,616	84,217
Other intangible assets, net	15,059	15,363
Deferred income taxes, net	42,383	45,855
Total non-current assets	219,042	214,186
Total assets	$ 517,063	$ 616,884

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

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	March 31, 2008 (Unaudited)	December 31, 2007
Current liabilities:		
Accounts payable	$ 9,807	$ 8,699
Accrued salaries and employee benefits	89,712	197,954
Other current liabilities	45,246	43,238
Current portion of accrued restructuring charges	2,768	2,813
Income taxes payable, net		995
Total current liabilities	147,533	253,699
Non-current liabilities:		
Retirement and pension plans	33,199	28,831
Non-current portion of accrued restructuring charges	6,081	6,735
Other non-current liabilities	21,629	17,819
Total non-current liabilities	60,909	53,385
Total liabilities	208,442	307,084
Commitments and contingencies (Note 13)		
Stockholders equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, no shares issued at March 31, 2008 and December 31, 2007		
Common stock, $.01 par value, 100,000,000 shares authorized, 19,585,777 shares issued, 17,181,230 and 17,272,005 shares outstanding at March 31, 2008 and December 31, 2007, respectively	196	196
Treasury stock at cost, 2,404,547 and 2,313,772 shares at March 31, 2008 and December 31, 2007, respectively	(88,576)	(88,871)
Additional paid in capital	261,628	273,287
Retained earnings	105,452	100,624
Accumulated other comprehensive income	29,921	24,564
Total stockholders equity	308,621	309,800
Total liabilities and stockholders equity	$ 517,063	$ 616,884

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

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Revenue:		
Revenue before reimbursements (net revenue)	$ 153,139	$ 143,126
Reimbursements	6,802	6,450
Total revenue	159,941	149,576
Operating expenses:		
Salaries and employee benefits	110,606	98,359
General and administrative expenses	31,657	28,440
Reimbursed expenses	6,802	6,450
Total operating expenses	149,065	133,249
Operating income	10,876	16,327
Non-operating income (expense):		
Interest income	2,058	1,876
Interest expense	(17)	(38)
Net realized and unrealized losses on equity and warrant portfolio, net of the consultant s share of the losses	(24)	(59)
Other, net	(1,063)	233
Net non-operating income	954	2,012
Income before income taxes	11,830	18,339
Provision for income taxes	4,762	8,263
Net income	$ 7,068	$ 10,076
Basic weighted average common shares outstanding	17,296	17,847
Diluted weighted average common shares outstanding	18,460	19,029
Basic earnings per common share	$ 0. 41	$ 0.56
Diluted earnings per common share	$ 0.38	$ 0.53
Cash dividends paid per share	$ 0.13	$

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

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND

COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Common Stock		Treasury Stock					
	Shares	**Amount**	**Shares**	**Amount**	**Additional Paid in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Total**
Balance at December 31, 2007	19,586	$ 196	2,314	$ (88,871)	$ 273,287	$ 100,624	$ 24,564	$ 309,800
Net income						7,068		7,068
Other comprehensive income:								
Unrealized loss on available for sale investments							(278)	(278)
Foreign currency translation adjustment							5,635	5,635
Other comprehensive income						7,068	5,357	12,425
Treasury and common stock transactions:								
Issuance of restricted stock units previously classified as liabilities					10,537			10,537
Stock-based compensation					5,470			5,470
Exercise of stock options			(26)	1,000	(669)			331
Vesting of restricted stock units, net of tax withholdings			(478)	18,550	(25,411)			(6,861)
Purchases of treasury stock			595	(19,255)				(19,255)
Cash dividends declared ($0.13 per share)						(2,240)		(2,240)
Tax charges related to stock-based compensation					(1,586)			(1,586)
Balance at March 31, 2008	19,586	$ 196	2,405	$ (88,576)	$ 261,628	$ 105,452	$ 29,921	$ 308,621

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

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Cash flows from operating activities:		
Net income	$ 7,068	$ 10,076
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,707	2,700
Deferred income taxes	1,518	284
Net realized and unrealized losses on equity and warrant portfolio	24	59
Stock-based compensation expense, net	6,649	7,559
Cash paid for restructuring charges	(724)	(1,075)
Changes in assets and liabilities:		
Trade and other receivables	(26,437)	(19,748)
Accounts payable	(307)	(1,220)
Accrued expenses	(104,237)	(65,527)
Income taxes recoverable and payable, net	(2,774)	5,057
Other assets and liabilities, net	(3,182)	(6,560)
Net cash used in operating activities	(119,695)	(68,395)
Cash flows from investing activities:		
Decrease in restricted cash	191	
Acquisition	(171)	(1,026)
Capital expenditures	(3,552)	(1,917)
Proceeds from sales of equity securities	80	136
Payments to consultants related to sales of equity securities	(18)	
Proceeds from sales of short-term investments	22,275	51,500
Purchases of short-term investments		(7,950)
Other, net		7
Net cash provided by investing activities	18,805	40,750
Cash flows from financing activities:		
Proceeds from stock options exercised	331	8,233
Purchases of treasury stock	(18,013)	(12,732)
Excess tax benefits related to stock-based compensation		3,981
Cash dividends paid	(2,246)	
Other	140	1,128
Net cash provided by (used in) financing activities	(19,788)	610
Effect of foreign currency exchange rates on cash and cash equivalents	2,921	1,071
Net decrease in cash and cash equivalents	(117,757)	(25,964)
Cash and cash equivalents:		

Beginning of period	260,580	147,440
End of period	$ 142,823	$ 121,476
Supplemental schedule of noncash financing activities:		
Total value of treasury stock purchases	$ 19,255	$ 13,456
Cash paid for treasury stock purchases	(16,408)	(12,732)
Accrued treasury stock purchases	$ 2,847	$ 724

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

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Heidrick & Struggles International, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(All tables in thousands, except 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), included herein 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 requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates. In the opinion of management, the financial statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly the Company s financial position, results of operations, stockholders equity and cash flows. 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, 2007, as filed with the SEC on February 28, 2008.

2. Summary of Significant Accounting Policies

A complete listing of the Company s significant accounting policies is 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, 2007, as filed with the SEC on February 28, 2008.

Recently Adopted Financial Accounting Standards

On January 1, 2008, the Company adopted SFAS No. 157 Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. See Note 5, *Fair Value Measurements*, for disclosures required by SFAS No. 157. In February 2008, the FASB released FASB Staff Position (FSP FAS 157-2 Effective Date of FASB Statement No. 157), which delayed the effective date of SFAS No. 157 for nonfinancial assets, such as goodwill and long-lived assets, and nonfinancial liabilities, subject to certain exceptions until January 1, 2009. The adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on the Company s financial condition or results of operations.

On January 1, 2008, the Company adopted SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of SFAS No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. The Company has currently chosen not to adopt the provisions of SFAS No. 159 for its existing financial instruments.

Recently Issued Financial Accounting Standards

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) requires that all business combinations be accounted for by applying the acquisition method. Under the acquisition method, the acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, and any contingent consideration and contractual contingencies, as a whole, at their fair values as of the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recorded against income tax expense. The adoption of SFAS No. 141(R) will change the Company s accounting treatment for business combinations on a prospective basis beginning on January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160). SFAS No. 160 changes the accounting and

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reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 160 is effective for the Company on a prospective basis for business combinations with an acquisition date beginning as of January 1, 2009. The Company is currently evaluating the impact that SFAS No. 160 will have on its financial condition and results of operations.

3. Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R).

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

	Three Months Ended March 31, 2008	2007
Total stock-based compensation expense included in net income	$ 6,649	$ 7,559
Income tax benefit to stock-based compensation included in net income	$ 2,726	$ 3,099

Restricted Stock Units

Restricted stock unit activity for the three months ended March 31, 2008:

	Number of Restricted Stock Units	Weighted-Average Grant-date Fair Value
Outstanding on December 31, 2007	1,634,736	$ 40.23
Granted	1,043,702	$ 33.77
Vested and converted to common stock	(695,633)	$ 38.99
Forfeited	(23,666)	$ 42.23
Outstanding on March 31, 2008	1,959,139	$ 37.21

As of March 31, 2008, there was $40.3 million of pre-tax total restricted stock unit compensation expense related to nonvested awards not yet recognized, which is expected to be recognized over a weighted average period of 2.4 years.

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Non-qualified Stock Options

Activity for non-qualified stock options for the three months ended March 31, 2008:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding on December 31, 2007	714,895	$ 30.35	2.4	$ 10,395
Granted	134,952	$ 33.79		
Exercised	(25,779)	$ 12.86		
Expired	(250)	$ 14.00		
Forfeited	(3,334)	$ 35.61		
Outstanding on March 31, 2008	820,484	$ 31.45	3.5	$ 11,971
Exercisable on March 31, 2008	553,079	$ 30.74	2.1	$ 9,041

As of March 31, 2008, there was $2.1 million of pre-tax total stock option compensation expense related to nonvested awards not yet recognized, which is expected to be recognized over a weighted average period of 1.4 years.

Additional information pertaining to non-qualified stock options:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Weighted average grant date fair value of stock options granted	$ 10.50	$ 13.70
Total grant date fair value of stock options vested	986	856
Total intrinsic value of stock options exercised	569	6,657

The fair value of each option grant is estimated on the date of grant using the Black-Scholes valuation model with the following weighted average assumptions:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Expected life (in years) (1)	4.7	3.3
Risk-free interest rate	2.5%	4.7%
Expected volatility	37.7%	31.7%
Expected dividend yield (2)	1.5%	0%

(1) Options granted during 2008 and 2007 have a contractual term of 10 years and 5 years, respectively.

(2) Options granted during 2007 were granted prior to the Company s initiation of a cash dividend in September 2007, thus the expected dividend yield on the date of grant was 0%.

The expected option life input is based on a forward-looking stock price Monte Carlo simulation model incorporating the Company s historical exercise data and projected post-vest turnover rate. The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero coupon issues with a remaining term equal to the expected option life. The expected volatility is based on a simple average of the historical volatility of the Company s stock corresponding to the expected life of the option and the implied volatility provided by its traded options pursuant to SEC Staff Accounting Bulletin No. 107.

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4. Restricted Cash

The Company had deposits of $8.3 million at March 31, 2008 and December 31, 2007 in a U.S dollar bank account in support of a 5.7 million (equivalent to $9.0 million at March 31, 2008) bank guarantee related to an ongoing tax audit in a European country. The Company earns a market rate of interest on this cash deposit, which is reviewed quarterly. The bank guarantee is determined based upon the tax audit assessment of 4.3 million (equivalent to $6.7 million at March 31, 2008) plus post-assessment accrued interest on that assessment amount. See Note 13, *Commitments and Contingencies,* for a discussion of the tax audit.

Upon review of the terms of the restrictions on the use of the pledged cash, the Company has reported these funds as restricted cash on the Condensed Consolidated Balance Sheets as of March 31, 2008 and December 31, 2007. The restricted cash is reflected in non-current assets based on the terms of the guarantee which require that it be renewed annually until the results of the tax audit are settled. At this time, the Company is not able to determine when a settlement will be reached.

The restricted cash balance includes $1.5 million at March 31, 2008 and December 31, 2007 of restricted cash in support of lease guarantees and deposits. In accordance with the terms of the lease agreements, the cash balances are restricted through the term of the lease agreements which extend through 2013.

5. Fair Value Measurements

On January 1, 2008, the Company adopted SFAS No. 157 for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. Fair value is defined by SFAS 157 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

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

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

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

Substantially all of the Company s financial assets that are measured at fair value on a recurring basis are measured using Level 1 inputs.

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6. Goodwill and Other Intangible Assets

During the first quarter of 2008, the Company recorded $0.2 million of goodwill related to the acquisition of Advantage Recruitment (Thailand) Ltd. The previous owner, who is now a Heidrick & Struggles employee, is eligible to receive earnout payments up to a total of $0.2 million.

In connection with the Company s 2006 acquisition of Highland Partners, Hudson Highland Group, Inc. is eligible to receive up to $15 million in earnout payments based on the acquired consultants achieving certain revenue metrics in 2007 and 2008. The Company paid $3.4 million of the earnout related to 2007 performance in April 2008.

In connection with the Company s 2007 acquisition of RentonJames, the previous owners, who are now Heidrick & Struggles employees, are eligible to receive earnout payments up to a total of $2.8 million based on achievement of certain revenue metrics in 2007, 2008 and 2009. The Company expects to pay approximately $1.6 million of the earnout related to 2007 performance in the second quarter of 2008.

Goodwill

Changes in the carrying amount of goodwill by segment for the three months ended March 31, 2008 are as follows:

	Americas	Europe	Asia Pacific	Total
Balance at December 31, 2007	$ 59,341	$ 20,409	$ 4,467	$ 84,217
Acquisition of Advantage Recruitment (Thailand) Ltd.			171	171
Exchange rate fluctuations	(98)	1,265	61	1,228
Balance at March 31, 2008	$ 59,243	$ 21,674	$ 4,699	$ 85,616

Other Intangible Assets

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

	Weighted Average Life (in years)	March 31, 2008			December 31, 2007		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	14.4	$ 23,354	$ (9,778)	$ 13,576	$ 22,924	$ (9,130)	$ 13,794
Candidate database	6.0	1,800	(450)	1,350	1,800	(375)	1,425
Other	5.1	173	(40)	133	175	(31)	144
Total intangible assets	13.6	$ 25,327	$ (10,268)	$ 15,059	$ 24,899	$ (9,536)	$ 15,363

Intangible asset amortization expense for the three months ended March 31, 2008 and 2007 was $0.5 and $0.6 million, respectively. The estimated intangible amortization expense is approximately $2.0 million for fiscal years 2008 through 2009, $1.9 million for fiscal year 2010, $1.7 million for fiscal year 2011, and $1.5 million for fiscal year 2012. These amounts are based on intangible assets recorded as of March 31, 2008 and actual amortization expense could differ from these estimates as a result of future acquisitions and other factors.

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7. Components of Net Periodic Benefit Cost

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

The components of net periodic benefit cost are as follows:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Service cost	$ 35	$ 35
Interest cost	329	268
Amortization of net gain	(170)	(30)
Net periodic benefit cost	$ 194	$ 273

The pension benefits are fully reinsured through a group insurance contract with Victoria Lebensversicherung AG. The change in the fair value of these assets approximates the net periodic benefit cost for the three months ended March 31, 2008.

8. Basic and Diluted Earnings Per Common Share

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Net income	$ 7,068	$ 10,076
Weighted average common shares outstanding	17,296	17,847
Dilutive common shares	1,164	1,182
Weighted average diluted common shares outstanding	18,460	19,029
Basic earnings per common share	$ 0.41	$ 0.56
Diluted earnings per common share	$ 0.38	$ 0.53

Options to purchase 0.6 million and 0.1 million shares of common stock that were outstanding at March 31, 2008 and 2007, respectively, were not included in the respective computation of diluted earnings per share as the exercise prices of these options were greater than the average market price of the common shares.

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9. Restructuring Charges

Changes in the accrual for restructuring charges for the three months ended March 31, 2008 are as follows:

Accrual balance at December 31, 2007	$ 9,548
Cash payments	(724)
Exchange rate fluctuations	25
Accrual balance at March 31, 2008	$ 8,849

The accrued restructuring charges as of March 31, 2008 relate to real estate leases, which require cash payments through the lease terms, reduced by sublease income, or until such time as lease negotiations with the lessor to terminate the lease are completed. Based on current estimates, the Company expects that cash outlays over the next twelve months related to restructuring charges accrued at March 31, 2008 will be $2.8 million with the remainder payable over the remaining lease terms of the vacated properties.

10. Income Taxes

In determining the quarterly provision for income taxes, the Company uses an estimated annual effective tax rate based on expected annual income by jurisdiction, statutory tax rates, and tax planning opportunities available in the various jurisdictions in which the Company operates. The impact of significant discrete items is separately recognized in the quarter in which they occur.

In the first quarter of 2008, the Company reported income before taxes of $11.8 million and recorded an income tax provision of $4.8 million. The Company s effective tax rate for the first quarter of 2008 was 40.3%.

In the first quarter of 2007, the Company reported income before taxes of $18.3 million and recorded an income tax provision of $8.3 million. An estimated annual effective tax rate of 42% was used to record the income tax provision for the first three months of 2007. The income tax provision includes $0.6 million of expense related to certain discrete adjustments recorded in the first three months of 2007 that were not considered in the estimated annual effective tax rate. Such items include certain one-time costs associated with tax planning initiatives.

11. Segment Information

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

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

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The revenue, operating income, depreciation and amortization, and capital expenditures, by segment, are as follows:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Revenue:		
Americas	$ 77,337	$ 83,399
Europe	52,866	42,555
Asia Pacific	22,936	17,172
Revenue before reimbursements (net revenue)	153,139	143,126
Reimbursements	6,802	6,450
Total	$ 159,941	$ 149,576
Operating income:		
Americas	$ 11,724	$ 16,668
Europe	5,261	3,799
Asia Pacific		