YAMANA GOLD INC
Form 6-K
November 14, 2007

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**FORM 6-K**

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**Report of Foreign Private Issuer**

**Pursuant to Rule 13a-16 or 15d-16**
**of the Securities Exchange Act of 1934**

**For the month of November 2007**
**Commission File Number 001-31880**

**Yamana Gold Inc.**
(Translation of registrant's name into English)

**150 York Street**
**Suite 1902**
**Toronto, Ontario M5H 3S5**
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

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|---|---|---|---|
| Form 20-F | o | Form 40-F | x |

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ____

**Note:** Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ____

**Note:** Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-________

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**YAMANA GOLD INC.**

Date: November 14, 2007

/s/ Charles Main

Name: Charles Main
Title: Senior Vice President, Finance and Chief Financial Officer

**EXHIBIT INDEX**

1 Yamana Gold Inc. s Third Quarter Report as of September 30, 2007

2 Form 52-109F2, Certification of Interim Filings, executed by Chief Executive Officer

3 Form 52-109F2, Certification of Interim Filings, executed by Chief Financial Officer

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**EXHIBIT 1**

# YAMANA GOLD

# Third Quarter Report

# September 30, 2007

*Fueled by Production*

***Driven by Vision***

**Yamana Gold Inc.**
**For the Third Quarter Ended September 30, 2007**

# Management s Discussion and Analysis of Operations and Financial Condition

*(US Dollars unless otherwise specified, in accordance with Canadian GAAP)*

*A cautionary note regarding forward-looking statements and non-GAAP measures follows this Management s Discussion and Analysis of Operations and Financial Condition.*

## 1. HIGHLIGHTS

***Operational***

Total production of 131,366 ounces of gold for the quarter, an increase of 48% over the comparative quarter ended September 30, 2006 and an increase of 13% over the quarter ended June 30, 2007. Total production of 367,816 ounces on a year-to-date basis.
Average cash costs of $(339) per ounce after by-product credits and on a co-product basis $322 per ounce of gold (excluding the Fazenda Nova Mine) and $0.71 per pound of copper on a co-product basis.
Chapada attained record production of gold and copper at 49,716 ounces and 33.0 million pounds, respectively, with mine operating earnings of $112.7 million.
Total concentrate production from Chapada of 54,268 tonnes for the quarter, up from 50,304 tonnes in the second quarter of 2007.

Continued development plan at Jacobina focusing on the Canavieiras Mine development with two ramps to accelerate development.

Received positive feasibility and scoping studies for the QDD and AIM deposit of Gualcamayo and the formal approval for its Gualcamayo Environmental Assessment report. Production is expected to begin in mid-2008.

***Financial***

Record quarterly sales of $199.7 million, an increase of 297% over the comparative quarter ended September 30, 2006 and an increase of 9% over the preceding quarter ended June 30, 2007.
Mine operating earnings of $124.9 million for the quarter, an increase of 1,216% over the comparative quarter ended September 30, 2006 and 17% over the preceding quarter ended June 30, 2007.
Adjusted earnings (a non-GAAP measure, see Section 3 Overview of Financial Statements ) for the quarter of $91.9 million before income taxes and $71.5 million after income tax effects representing $0.20 per share.

Net earnings for the quarter of $30.0 million or $0.08 per share (the primary difference between accounting net earnings and adjusted net earnings is non-cash mark-to-market copper hedge losses which assumes continued high prices for

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copper at the time of future settlement and which would have a meaningful positive impact on revenues and earnings for non-hedged copper at that time).

Cash flow from operations of $105.0 million before changes in non-cash working capital and $55.4 million after changes in non-cash working capital for the quarter.
Cash balance of $66.9 million as at September 30, 2007. Accounts receivable of $129.8 million as at September 30, 2007 of which $78.8 million has been received subsequent to the quarter end and $18.2 million is collectable by mid-November which will further increase available cash.
Declared further quarterly dividend of $0.01 per share.

***Exploration***

Received a scoping study for the Amelia Inés and Magdalena (AIM) deposits with work to date indicating that the deposits are higher grade, larger than initially projected, remain open for expansion and are expected to provide a larger and more significant contribution to the Gualcamayo project than was originally contemplated.
Resources expected to increase at Jacobina as exploration and development continues.

***Other***

Closed on a definitive business combination agreement with Northern Orion Resources Inc. and Meridian Gold Inc. subsequent to quarter end. Details provided in section 5 Business Acquisitions .
Obtained credit facility of up to $700 million subsequent to the quarter end.
Entered into copper forward contracts at a weighted average forward price of $2.97 per pound of copper on a total of 124.9 million pounds of copper for 2008, 2009 and 2010 and $2.37 per pound of copper on a total of 35 million pounds of copper for 2011.

## 2. STRATEGIC PLAN AND OUTLOOK

The Company s strategic plan is focused on organic growth initially targeting production of 1.2 million ounces of gold in 2008 and progressively increasing to a sustainable level of 2.2 million ounces of gold starting in 2012. Production at these levels will be driven from enhancements, expansions, improvements and development of existing assets. Exploration successes from the Company s robust exploration portfolio will support and supplement these levels. Assuming positive feasibility studies for its advanced exploration stage projects, the Company expects capital investments over the next four years to be in the range of $1.0 to $1.3 billion.

Specific aspects of the strategic plan include the following:

- Sustainable low cost production both before, and particularly after, by-product credits;
- Focus on growth in resources, production, cash flow and earnings;



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- Organic resource and production growth from development of existing projects and further exploration efforts from one of the most impressive portfolios of exploration concessions in the Americas;
- Focus on locations friendly to industry, and mining in particular, with mining pedigree, culture and history;
- Focus on areas with developed infrastructure;
- Focus on programs with manageable and modest capital costs;
- Results driven approach to exploration, development, construction and operations;
- Ensuring priority is given to environmental, community, health and safety issues; and
- Focus on government, community and social relations.

The Company owns seven producing mines, two of which are undergoing expansion, five development stage projects and an extensive exploration portfolio in the Americas. The Company s mining approach is to target low cost production, both before and particularly after by-product credits.

The principal components of targeted production to a sustainable production level of 2.2 million ounces of gold starting in 2012 include the following:

- Increase sustainable gold production at the Chapada Mine from a baseline of 170,000 ounces of gold in addition to copper with plant capacity increases;
- Increase production at the El Peñón Mine initially to 420,000 gold equivalent ounces ( GEO ) with the potential to achieve approximately 500,000 ounces (GEO) with modest plant capacity increases and tailings improvements;

Increase production at the Jacobina Mine to exceed 200,000 ounces of gold largely from development of new mine areas including Canavieiras and Morro do Vento;
Increase production at the Gualcamayo property from a recent target of 200,000 ounces of gold to over 300,000 ounces of gold from growing resources at satellite and potential underground areas;
Increase production at the Minera Florida Mine to approximately 120,000 ounces of gold from plant capacity increases;

Develop the Mercedes property to a production level of up to 200,000 ounces of gold per year with a target date for production of 2009;
Develop the C1-Santa Luz property to over 100,000 ounces of gold per year with a target date for a feasibility study of December 2007;
Develop the Jeronimo project to a production level of up to 150,000 ounces of gold per year (Yamana s share - 56.7%);

Pursue an expansion at the San Andrés Mine for a production level of 90,000 to 100,000 ounces of gold per year;

Improve and enhance the São Francisco Mine to increase production to up to 140,000 ounces of gold per year;

Continue development efforts at the São Vicente, La Pepa, Amancaya and other projects; and

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Commit to capital investments in the range of $1-1.3 billion over the next 4 years to fuel production growth targets.

## 3. OVERVIEW OF FINANCIAL RESULTS

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Net earnings for the quarter were $30.0 million compared to a loss for the comparative quarter ended September 30, 2006 of $12.1 million, representing an improvement of $42.1 million. Net earnings on a year-to-date basis were $110.1 million compared to a loss of $76.3 million for the nine months ended September 30, 2006, representing an improvement of $186.4 million. The increase in earnings is primarily due to commencement and ramp up of operations at the Chapada Mine since the beginning of this year.

Net earnings for the quarter and nine months ended September 30, 2007 included certain non-cash and non-recurring charges in respect of stock-based compensation, foreign exchange gains or losses, unrealized losses on derivatives, loss on impairment of the Fazenda Nova Mine, non-production costs during business interruption (sill pillar failure costs), a future income tax expense on foreign currency translation of inter-corporate debt and a provision for losses on certain tax credits. The largest adjustment item is the mark-to-market on the copper derivatives which is a non-cash and non-realized loss.

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This loss assumes continued high prices for copper at the time of future settlement which would have a meaningful positive impact on revenues and earnings for the non-hedged copper at that time and is a result of the Company not being able to apply hedge accounting for its copper derivatives given that copper is contained in concentrate.

Earnings adjusted for these non-cash and non-recurring items was $91.9 million before income tax effects and $71.5 million after income tax effects for the quarter ended September 30, 2007 compared to $4.7 million after tax for the comparative quarter, representing an increase of $1,421%.

Both basic and diluted earnings per share were $0.08 for the quarter. Basic earnings per share was $0.31 and diluted earnings per share was $0.30 for the nine month period ended September 30, 2007. This compares to a basic and diluted loss per share of $0.04 and $0.30 for the comparative periods ended September 30, 2006, respectively.

Earnings per share for the quarter adjusted for certain non-cash and non-recurring items were $0.20 per share. This compares to adjusted earnings per share of $0.02 for the comparative quarter ended September 30, 2006 and $0.22 per share for the quarter ended June 30, 2007.

Revenue for the quarter was $199.7 million, an increase of 9% over the preceding quarter and an increase of 297% over the comparative quarter ended September 30, 2006. Revenue on a year-to-date basis was $528.5 million, an increase of 384% over the comparative nine month period ended September 30, 2006.

Revenue for the quarter included sales from 128,056 ounces of gold and 33.0 million pounds of copper. Revenue for the nine months included sales of 370,777 ounces of gold and 88.6 million pounds of copper. Revenue for the comparative three and nine month period ended September 30, 2006 included sales from 82,602 and 180,702 ounces of gold, respectively.

The Company s average net realized gold price during the quarter was $686 per ounce, an increase of 12% from an average net realized price of $615 per ounce during the comparative quarter ended September 30, 2006. This compares to an average spot price for the quarter of $681 per ounce. On a year-to-date basis, the Company realized an average net gold sale price of $666 per ounce consistent with the average spot price for the period.

Mine operating earnings were $124.9 million and $308.0 million for the quarter and nine months ended September 30, 2007, respectively. Mine operating earnings for the nine months include earnings from all existing mines. Mine operating earnings for the comparative nine months were $26.2 million and included earnings from the Fazenda Brasileiro Mine, the Fazenda Nova Mine and the San Andrés Mine and Jacobina Mines as of the date of acquisition.



A total of 131,366 ounces were produced during the quarter up from 115,843 ounces for the quarter ended June 30, 2007. On a year-to-date basis, the Company produced 367,816 ounces of gold. A total of 88,781 ounces and 201,147 ounces of gold were produced by the Company s mines during the comparative quarter and nine month period ended September 30, 2006.

Additionally, production for the quarter and the nine months ended September 30, 2007 included 33.5 million pounds of copper within 54,628 tonnes of concentrate and 92.4 million pounds of copper within 149,362 tonnes of concentrate, respectively. For the quarter ended June 30, 2007 copper production amounted to 31.5 million pounds within 50,304 tonnes of concentrate.

Average cash costs for the quarter net of by-product credits were $(339) per ounce compared to $337 per ounce for the comparative quarter ended September 30, 2006. Average cash costs for the nine months ended September 30, 2007 were $(292) per ounce compared to $329 for the comparative nine months ended September 30, 2006. Cash costs for the three and nine month periods ended September 30, 2007 for the Fazenda Nova Mine are not reflective of ongoing operations as Fazenda Nova operations have been discontinued. Average cash costs for the quarter excluding Fazenda Nova were $(342) per ounce. On a co-product basis cash costs for the quarter were $0.71 per pound of copper and $322 per ounce of gold (excluding Fazenda Nova).

The Company recorded a non-recurring loss from non-production costs during business interruption of $13.2 million year-to-date as a result of sill pillar failures at its Jacobina Mine during the first quarter. The Company has filed an insurance claim with respect to these business interruption losses. Any insurance recovery will be credited to net earnings in the period that the claim is settled with the insurance company.

Inventory as at September 30, 2007 was $68.7 million and is comparable to that of the preceding quarter ended June 30, 2007 of $62.3 million. This compares to $51.3 million as at December 31, 2006.

Cash as at September 30, 2007 was $66.9 million compared to $89.0 million as at June 30, 2007 and $69.7 million as at December 31, 2006. The decrease in cash is due to capital investments in property, plant and equipment, mining interests and construction projects. As at September 30 2007, the Company had accounts receivables in the amount of $129.8 million, compared to $72.1 million as at June 30, 2007 and $6.0 million as at December 31, 2006. The increase in accounts receivable is due to concentrate receivables as at the quarter end from Chapada Mine sales and is ordinary course as it is dependent on the timing of shipments. As production increases at the Chapada Mine concentrate sales will increase accordingly.

Working capital as at September 30, 2007 was $159.4 million compared $76.3 million as at December 31, 2006 and $120.6 million as at June 30, 2007. The increase in working capital is primarily related to the start-up of operations at the Chapada Mine and the increase in sales accordingly.

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Cash flow from operations before changes in non-cash working capital items was $105.0 million for the quarter compared to $14.6 million for the comparative quarter ended September 30, 2006 and $90.9 million for the second quarter of 2007. Cash flow from operations before changes in non-cash working capital items was $264.8 million for the nine month period ended September 30, 2007 compared to $37.5 million for the comparative nine month period ended September 30, 2006. The increase in cash flow from operations for the three and nine months is primarily due to start-up of operations at the Chapada Mine. Cash flow from operations after changes in non-cash working capital was $55.4 million and $148.1 million for the three and nine month periods ended September 30, 2007, respectively. This compares to an outflow of $22.3 million and $7.1 million for the comparative periods ended September 30, 2006.

General and administrative expenses were $11.9 million and $30.8 million for the three and nine month periods ended, respectively. This compares to $5.1 million and $13.7 million for the comparative three and nine month periods ended September 30, 2006 and $10.7 million for the second quarter of 2007. The increase in general and administrative expenses reflects the Company s growth from operations and acquisitions and the growing infrastructure to support its production growth.

The Company recorded unrealized derivative losses of $50.8 million and $79.5 million for the three and nine months ended September 30, 2007, respectively. These unrealized losses consist principally of mark-to-market gains and losses commodity and copper contracts. The spot copper price has declined subsequent to the quarter end, from $3.70 per pound as at September 30, 2007 to $3.42 as at November 2, 2007. A change of this magnitude would totally reverse the third quarter unrealized loss.

The table below presents selected quarterly financial and operating data:

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*(i)* Revenues consist of sales net of sales taxes. Revenue per ounce data is calculated based on net sales.
*(ii)* Fazenda Nova recovery rate for the quarter ended September 30, 2007 and São Francisco recovery rate for quarter ended March 31, 2007 is in excess of 100% due to draw down of gold contained in ore on heap leach pads. Recovery grade calculated as recovered ounces divided by the quantity of ounces stacked in the month.
*(iii)* Certain mine general and administrative costs have been reclassified from mine operating earnings and cash costs to general and administrative expenses.
*(iv)* During commercial production.
*(v)* A cautionary note regarding non-GAAP measures follows below.

## 4. NON-GAAP MEASURES

The Company has included certain non-GAAP Measures including cash cost per ounce data, adjusted net earnings and adjusted net earnings per share to supplement its financial statements, which are presented in accordance with Canadian GAAP. Non-GAAP measures do not have any standardized meaning prescribed under Canadian GAAP, and therefore they may not be comparable to similar measures employed by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP.

The Company has included cash cost per ounce information data because it understands that certain investors use this information to determine the Company s ability to generate earnings and cash flow for use in investing and other activities. The Company believes that conventional measures of performance prepared in accordance with Canadian GAAP do not fully illustrate the ability of its operating mines to generate cash flow. The measures are not necessarily indicative of operating profit or cash flow from operations as determined under Canadian GAAP. Where cash cost per ounce data is computed by dividing GAAP operating cost components by ounces sold, the Company has not provided formal reconciliations of these statistics. Cash costs are determined in accordance with the Gold Institute s Production Cost Standard. For the purposes of co-product cash cost calculation purposes, the Company assumes that operating costs are attributable to copper and gold on a 70/30 split. The attributable costs will vary from time to time and would be influenced by a number of factors including current market terms



for treatment and refining costs and customer mix. Cost of sales under Canadian GAAP and cash costs are reconciled by the following: non-cash movements in net working capital items and provisions for losses on inventory.

The Company uses the financial measures adjusted net earnings and adjusted net earnings per share to supplement its consolidated financial statements. The presentation of adjusted measures are not meant to be a substitute for net earnings or net earnings per share presented in accordance with GAAP, but rather should be evaluated in conjunction with such GAAP measures. Adjusted net earnings and adjusted net earnings per share are calculated as net earnings excluding (a) stock based compensation, (b) foreign exchange loss (gain), (c) future income tax expense on the translation of foreign currency inter-corporate debt, (d) unrealized losses on derivatives, (e) impairment losses, (f) non-production costs during business interruption (g) debt repayment expense and (h) provision for loss on certain tax credits. The terms adjusted net earnings and adjusted net earnings per share do not have a standardized meaning prescribed by Canadian GAAP, and therefore the Company s definitions are unlikely to be comparable to similar measures presented by other companies. The Company s management believes that the presentation of adjusted net earnings and adjusted net earnings per share provide useful information to investors because they exclude non-cash charges and are a better indication of the Company s profitability from operations. The items excluded from the computation of adjusted net earnings and adjusted net earnings per share, which are otherwise included in the determination of net earnings (loss) and net earnings (loss) per share prepared in accordance with Canadian GAAP, are items that the Company does not consider to be meaningful in evaluating the Company s past financial performance or the future prospects and may hinder a comparison of its period to period profitability.

The Company uses the financial measure cash flow from operations before changes in non-cash working capital or cash flow from operating activities before changes in non-cash working capital to supplement its consolidated financial statements. The presentation of cash flow from operations before changes in non-cash working capital is not meant to be a substitute for cash flow from operations or cash flow from operating activities presented in accordance with GAAP, but rather should be evaluated in conjunction with such GAAP measures. Cash flow from operations before changes in non-cash working capital excludes the non-cash movement from period to period in working capital items including accounts receivable, advances and deposits, inventory, accounts payable and accrued liabilities. The terms cash flow from operations before changes in non-cash working capital or cash flow from operating activities before changes in non-cash working capital do not have a standardized meaning prescribed by Canadian GAAP, and therefore the Company s definitions are unlikely to be comparable to similar measures presented by other companies. The Company s management believes that the presentation of cash flow from operations before changes in non-cash working capital provides useful information to investors because it excludes the non-cash movement in working capital items is a better indication of the Company s cash flow from operations and considered to be meaningful in evaluating the Company s past financial performance or the future prospects. The Company believes that conventional measure of performance prepared in accordance with Canadian GAAP does not fully illustrate the ability of its operating mines to generate cash flow.

## 5. BUSINESS ACQUISITIONS

**(i) Acquisition of Meridian Gold Inc. and Northern Orion Resources Inc.**

*Acquisition of Meridian Gold Inc.*

On September 24, 2007, the Company and Meridian Gold Inc. ( Meridian ) entered into a Support Agreement whereby the Company agreed to revise its offer to acquire all of the outstanding common shares of Meridian and Meridian s Board of Directors agreed to unanimously recommend Meridian s shareholders accept the revised offer.

Pursuant to the revised offer, Meridian shareholder s were entitled to receive 2.235 Yamana common shares plus C$7.00 in cash for each Meridian common share tendered and taken up by the Company. The offer was initially extended until October 12, 2007, at which time the Company announced approximately 76% of the fully diluted common shares of Meridian had been tendered and taken up, and the offer was subsequently extended until November 2, 2007. As of November 2nd, the Company had taken up approximately 90% of the outstanding shares of Meridian. The Company is continuing with a subsequent stage step that will increase the Company s interest to 100%.

As a result of the acquisition of Meridian, the Company has acquired interests in the El Peñón Mine (100%) and Minera Florida Mine (100%) both in Chile, the Rossi Mine (40%) in the United States, the Mercedes project (100%) in Mexico, and the Jeronimo project (56.7%) in Chile.

This business acquisition will be accounted for as a purchase transaction with Yamana being identified as the acquirer and Meridian as the acquiree. The acquisition will be accounted for as a multi-stage acquisition and minority interest in the earnings of Meridian from October 12, 2007 until the 100% interest is achieved.

Meridian is engaged in the business of gold mining. Meridian s historical summarized results of operations and operating statistics for the three and nine month periods ended September 30, 2007 and 2006 are presented in the following table:

*(i)* Net earnings and cash flow from operating activities for the quarter include $9 million of exploration expense that would have been partially capitalized under Yamana s accounting policies.

Meridian s Management s Discussion and Analysis and Interim Consolidated Financial Statements have been filed with the Canadian securities regulatory authorities and with the SEC and are available at www.sedar.com and www.sec.gov . Meridian s operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007. Meridian s results of operations for the three and nine months ending September 30, 2007 were adversely impacted by $30.0 million of investment banking and legal fees relating to its review, evaluation, and response to the Company s offer during the third quarter. Additionally, Meridian did not obtain a tax benefit from the above expenses resulting in a significantly higher effective tax rate than in prior quarters and periods. Cash flows from operating activities for the three and nine months ending September 30, 2007 were adversely impacted by $6.3 million of non-recurring expenditures related to investment banking and legal fees as described above, $3.3 million of payments on Meridian s non-qualified defined benefit plan, and approximately $3.1 million of higher reclamation expenditures at Meridian s Beartrack and Royal Mountain King mines compared to the same periods in 2006. Cash flow from operating activities for the quarter are not considered to be representative of future cash flows due to the above mentioned items.

*Financing the Meridian Gold Inc. and Northern Orion Resources Inc. Acquisitions*

To complete the Meridian offer and the Northern Orion transaction, Yamana will issue approximately 309.8 million new common shares (228.1 million and 83.7 million common shares to Meridian and Northern Orion shareholders, respectively) and pay cash consideration of approximately $736 million (C$7.00 per share) to Meridian shareholders. As further described in Note 21 of the Interim Consolidated Financial Statements, the cash consideration will be funded from a $400 million term credit facility and $300 million revolving line of credit facility. The balance will be funded from existing cash balances.



*Acquisition of Northern Orion Resources Inc.*

On July 19, 2007, the Company and Northern Orion Resources Inc. ( Northern Orion ) entered into a definitive business combination agreement whereby the Company would acquire all of the issued and outstanding securities of Northern Orion on the basis of 0.543 of a Yamana common share for each Northern Orion share. The agreement was subject to certain customary conditions including approval by the shareholders of Northern Orion and at least 50.1% of the fully diluted outstanding Meridian common shares having been tendered to the Company s offer. On August 22, 2007, 83.1% shareholders at a Special Meeting of Northern Orion shareholders approved the Plan of Arrangement and no notices of dissent were received. Additionally, as indicated above on October 12, 2007, 76% of the fully diluted common shares of Meridian were tendered in response to the Company s offer. Accordingly, Northern Orion was amalgamated as a 100% subsidiary of the Company on October 13, 2007.

As a result of the acquisition of Northern Orion, the Company has acquired interests in the Alumbrera Mine (12.5%) and the Agua Rica project (100%) in Argentina.

This business acquisition will be accounted for as a purchase transaction with Yamana being identified as the acquirer and Northern Orion as the acquiree. The results of operations of Northern Orion will be included in the consolidated financial statements of Yamana from October 13, 2007.

Northern Orion is engaged in the business of copper and gold mining. Northern Orion s historical summarized results of operations and operating statistics for the three and nine month periods ended September 30, 2007 and 2006 are presented in the following table:

Northern Orion s Management s Discussion and Analysis and Interim Consolidated Financial Statements for the three and nine month periods ended September 30, 2007 and 2006 have not been filed with the Canadian securities regulatory authorities and with the SEC, because Northern Orion ceased to be a reporting entity on October 13, 2007. Northern Orion s operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007. The decrease in equity of earnings of Alumbrera was attributable to an approximate 10% decrease in the price of copper compared to the same periods in

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2006, an approximate 10% decrease in the number of pounds of copper and an approximate 20% decrease in ounces of gold produced and sold, and an approximate 100% increase in royalty expense. The Alumbrera Mine s decrease in production was attributable to stockpile blending and processing ore with a higher gypsum content. The above decreases were partially offset by a foreign exchange gain, resulting from approximately 37% of Northern Orion s cash balances in Canadian dollars and an increase in the average realized price of gold.

*Business Rationale of the Acquisitions*

The Company believes that the business combination presents an opportunity to create a stronger cash flow generating and more diversified gold mining.

As part of the integration, the Company intends on retaining the entire exploration and operations groups at the Reno and South America offices; retaining most of the accounting group at Meridian s Reno office; and retaining all general managers and senior managers at the acquired mines.

The integration combines and complements the core competencies and skill sets of various groups in the respective companies. In particular, it recognizes:

The significant exploration expertise and intellectual property from Meridian complemented by the equally significant construction and development expertise from Yamana;
Contribution of operational depth from both companies;

Corporate and management strength from Yamana.

The following table summarizes pro forma production for the three and nine month period ended September 30, 2007 for Yamana, Meridian and Northern Orion as a combined entity:

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## 6. MINES AND DEVELOPMENT PROJECTS

The following chart summarizes commercial production and cash costs per ounce of gold for the quarter ended September 30, 2007 with comparative figures for the quarter ended September 30, 2006 by mine:

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*(i)* Chapada cash costs on a co-product basis:

Gold - $188 per ounce; Copper - $0.71 per pound

The following chart summarizes commercial production and cash costs per ounce of gold for the nine months ended September 30, 2007 with comparative figures for the nine months ended September 30, 2006.

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*(i)* Chapada cash costs on a co-product basis:

Gold - $194 per ounce; Copper - $0.70 per pound

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In addition to gold production, the Company produced a total of 33.5 million pounds of copper contained in concentrate from its Chapada Mine for the quarter. A total of 92.4 million pounds of copper contained in concentrate were produced for the nine months. A total of 54,628 tonnes and 149,362 tonnes of concentrate were produced during the three and nine months ended September 30, 2007, respectively. There was no production for the comparative periods ended September 30, 2006.

Mine operating earnings for the quarter were $124.9 million, an increase of 1,215% from mine operating earnings of $9.5 million for the comparative quarter ended September 30, 2006 and an increase of 17% over the second quarter of the fiscal year 2007.

The following chart summarizes mine operating earnings by mine for the nine months ended September 30, 2007 with comparatives for the nine months ended September 30, 2006:

Revenue for the quarter was $199.7 million from the sale of 128,056 ounces of gold and 33.0 million pounds of copper contained in concentrate. This compares to revenue of $50.3 million from the sale of 82,602 ounces of gold for the comparative quarter ended September 30, 2006 and revenue of $183.7 million from the sale of 120,022 ounces of gold and 31.7 million pounds of copper contained in concentrate in the preceding quarter. There were no sales from copper concentrate for the comparative quarter.

The following chart summarizes revenue by mine for the nine months ended September 30, 2007 with comparatives for the nine months ended September 30, 2006:

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Inventory as at September 30, 2007 was $68.7 million compared to $51.3 million as at December 31, 2006 and $62.3 million as at June 30, 2007. Inventory increased from the comparative period as at December 31, 2006 due to the commencement of operations at the Chapada Mine early 2007.

## CHAPADA MINE

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Commercial production was declared at the Chapada Mine ahead of schedule on February 11, 2007.

The original design and operational results to date show the promise of expanding mill throughput to over 16 million tonnes per year of mill feed. The Company expects to increase the mill and increase throughput during the remainder of the year. High grade ore mined in for the third quarter was 3.3 million tonnes and plant throughput was 3.25 million tonnes of ore. The vertimill commenced operation in mid-April.

Combined with refinements to the ore grinding size, selection of reagents and management of the circulating load, recovery rate improvements are ongoing. Recovery rates for the third quarter were consistent with the second quarter for both gold and copper. Gold ore grade increased from an average of 0.54g/t in the second quarter to an average of 0.64g/t in the third quarter, an improvement of 18.5% and copper grade increased slightly from 0.51% to 0.52%.

Chapada produced 54,628 tonnes of concentrate in the third quarter. Concentrate production increased by 9% from the second quarter and is expected to rise further for the remainder of the year.

Gold contained in concentrate production was 49,716 ounces for the quarter at cash costs after by-product credits of $(1,560) per ounce. This compares to gold contained in concentrate production of 44,027 ounces for the second quarter at cash costs of $(1,789) per ounce. Gold production is forecast at 54,000 ounces for the fourth quarter for a total forecast of 186,000 ounces for 2007.

Total gold contained in concentrate produced for the nine months was 132,697 ounces at cash costs of $(1,494) per ounce after by-product credits. The Company measures cash costs based on the aggregate of all treatment, refining and transportation costs incurred for all copper and gold sold during the quarter rather than only costs attributed to ounces of gold and pounds of copper produced during the quarter.

Copper contained in concentrate revenue is applied as a by-product credit in the determination of cash costs per ounce of gold produced. On a co-product basis cash costs at Chapada during the quarter were approximately $0.71 per pound of copper and $188 per ounce of gold.



The Chapada Mine produced 33.5 million pounds of copper contained in concentrate for the quarter and 92.4 million pounds on a year-to-date basis. Copper production is forecast at 37 million pounds for the fourth quarter.

Total revenue for the quarter net of sales taxes, treatment and refining costs during the quarter was $145.7 million and $369.5 million on a year-to-date basis. Associated transportation costs were approximately $7.6 million and $23.2 million for the respective periods. As at September 30, 2007, the Company had receivables in the amount of $123.8 million in respect of concentrate sales. Increases in third quarter revenues due to final pricing adjustments on first and second quarter sales were $2.9 million. As at September 30, 2007, revenues included 54.2 million pounds of copper recorded at $3.44 per pound that were still subject to final pricing adjustments.

Concentrate sales amounted to 55,773 tonnes containing 48,133 ounces of gold and 33.0 million pounds of copper for the quarter.

Mine operating earnings for the quarter from the Chapada Mine were $112.7 million, making it the Company s most profitable mine. Mine operating earnings for the nine months ended September 30, 2007 were $280.1 million. There were no mine operating earnings for the comparative periods in 2006 as the Chapada Mine was still under construction.

Depreciation, amortization and depletion expenses were approximately $99 per ounce of gold for the quarter.

The Company has completed a scoping study to evaluate the potential of a pyrite recovery circuit to roast pyrite to produce sulphuric acid for the fertilizer and mining industry. The sulphuric acid market study is expected by the end of 2007. This initiative would provide an additional source of revenue and further increase copper and gold recovery rates.

## OPTION GRANT TABLE

**(Options granted in fiscal year 2004)**

| | Individual Grants | | | | | |
|---|---|---|---|---|---|---|
| | | | | | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (2) | |
| **Name** | **Number of Securities Underlying Options Granted (1)** | **% of Total Options Granted to Employees in Fiscal Year** | **Exercise Price ($/Sh)** | **Expiration Date** | **5%** | **10%** |
| Thomas J. Friel | 50,000 | 9.35% | $ 27.00 | 05/12/09 | $ 372,980 | $ 824,189 |
| Bonnie W. Gwin | 25,000 | 4.68% | $ 27.00 | 05/12/09 | $ 186,490 | $ 412,094 |
| L. Kevin Kelly | 15,000 | 2.81% | $ 27.00 | 05/12/09 | $ 111,894 | $ 247,257 |
| Jocelyn A. Dehnert | 25,000 | 4.68% | $ 27.00 | 05/12/09 | $ 186,490 | $ 412,094 |
| Jeffrey R. Scherb | 20,000 | 3.74% | $ 27.00 | 05/12/09 | $ 149,192 | $ 329,675 |

(1) Of these nonqualified stock options, 33 $^{1}/3$% vest on each of the first three anniversaries of May 12, 2004, or immediately upon a change in control of the Company.

(2) The values in these columns are based upon calculations assuming the 5% and 10% annual stock price appreciation rate specified by the Securities and Exchange Commission. These assumed rates are not intended to forecast future price appreciation of the common stock. Actual gains, if any, on stock option exercises are dependent upon the future market performance of the common stock and the date on which the options are exercised.

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**AGGREGATED OPTION EXERCISES AND YEAR-END OPTION VALUES**

| Name | Shares Acquired on Exercise (#) | Realized Value ($) | Number of Unexercised Options at Fiscal Year-End Exercisable/ Unexercisable (#) | Value of Unexercised In-the-Money Options at Fiscal Year-End Exercisable/ Unexercisable ($)(1) |
|---|---|---|---|---|
| Thomas J. Friel | 0 | 0 | 83,503/129,117 | $ 1,317,633/1,907,495 |
| Bonnie W. Gwin | 0 | 0 | 24,816/61,651 | $ 482,122/969,757 |
| L. Kevin Kelly | 13,266 | 127,033 | 11,115/37,652 | $ 6,081/579,810 |
| Jocelyn A. Dehnert | 0 | 0 | 43,954/68,934 | $ 789,298/1,086,132 |
| Jeffrey R. Scherb | 0 | 0 | 23,333/46,667 | $ 440,361/701,139 |

(1) Number computed based on the excess of $34.27, the closing price of our common stock on December 31, 2004, over the stock option exercise price. The actual value, if any, that the individual may realize will depend on the excess of the stock price over the exercise price on the date the option is exercised, so there can be no assurance the value realized will be at or near the value estimated.

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**EMPLOYMENT AGREEMENTS**

*Thomas J. Friel*. In connection with his appointment as Chief Executive Officer, we entered into an employment agreement with Mr. Friel, effective June 24, 2003. The 2003 agreement provides for Mr. Friel to receive a base annual salary of $600,000 and to participate in the Performance Share Plan ( PSP ), annual Management Incentive Plan ( MIP ), and Management Stock Option Plan ( MSOP ) at the levels determined by the Compensation Committee of the Board of Directors. Mr. Friel s employment agreement will automatically extend for additional periods of twelve months unless either party provides notice of non-renewal at least six months prior to the end of the term.

*Jocelyn A. Dehnert*. In connection with her assignment as Regional Managing Partner, Northern Europe, we entered into an employment agreement with Ms. Dehnert effective September 1, 2002. This agreement provides for Ms. Dehnert to receive an annual base salary of $475,000 and to participate in the PSP and the annual MIP and MSOP at the levels determined by the Compensation Committee of the Board of Directors. The agreement also provides for certain expatriate adjustments and reimbursements while Ms. Dehnert is located in London, including a housing allowance of up to $481,481 (or £256,497), based on an exchange rate of US$ = £0.533) per annum, a cost of living allowance, initially set at US$150,923 (or £80,442 based on the same exchange rate) per annum to be adjusted semi-annually, and tax preparation fees.

*Bonnie W. Gwin*. In connection with her assignment as Regional Managing Partner, North America, we entered into an employment agreement with Ms. Gwin, effective June 9, 2003. This agreement provides for Ms. Gwin to receive an annual base salary of $350,000 and to participate in the PSP and the annual MIP and MSOP at the levels determined by the Compensation Committee of the Board of Directors. Ms. Gwin was appointed President, Americas effective April 1, 2005.

*L. Kevin Kelly*. In connection with his assignment as Regional Managing Partner, Asia Pacific, we entered into an employment agreement with Mr. Kelly, effective September 2, 2002. This agreement provides for Mr. Kelly to receive an annual base salary of ¥21,000,000 (or $195,170, based on an exchange rate of US$ = ¥0.0093) and to participate in the PSP and the annual MIP and MSOP at the levels determined by the Compensation Committee of the Board of Directors. The agreement also provides for certain expatriate adjustments and reimbursements, including a housing allowance of ¥8,400,000 (or $78,120 based on the same exchange rate) and tax preparation fees. Mr. Kelly was appointed President, Europe, Middle East and Africa effective April 1, 2005.

*Jeffrey R. Scherb*. In connection with his joining the company, we entered into an employment agreement with Mr. Scherb, effective September 9, 2002**.** The 2002 agreement provides for Mr. Scherb to receive a base annual salary of $300,000 and to participate in the PSP and the annual MIP and MSOP at the levels determined by the Compensation Committee of the Board of Directors.

All of the named executive officers are participants in our Change in Control Severance Plan (the CIC Plan ) at the top tier described below and in our severance plan (the Severance Plan ) at the top management level described below.

We established and maintain the CIC Plan in order to secure, in our best interests and the best interest of our stockholders, the continued services, dedication and objectivity of certain of our key employees in the event of any threat or occurrence of a change in control (as defined in the CIC Plan). The CIC Plan provides that upon our termination of a participant s employment without cause or the participant s resignation for good reason (as those terms are defined in the CIC Plan) within the two-year period commencing on a change in control, we will pay such participant a lump-sum cash payment equal to one or two times the sum of the participant s base salary and bonus amount (as defined in the CIC Plan). Top-tier executives will receive two times base salary and bonus. The participant is also entitled to any accrued but unpaid compensation, as well as the continuation of certain benefits. In addition, for top-tier executives, upon the occurrence of a change in control, we will accelerate the vesting of certain awards granted to such participants under the GlobalShare Plan and other compensatory plans

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maintained by us will be automatically accelerated and such participants may receive golden parachute gross-up payments. In order to receive any severance payments under the CIC Plan, the participant must waive his or her rights to any severance payments that he or she is entitled to receive under any other severance plan or employment agreement maintained by us. Each participant must also agree to abide by certain restrictive covenants, including covenants barring the participant from competing with us or soliciting any of our customers or employees for a period of one year.

The Severance Plan provides severance benefits that are payable to a participant upon the involuntary termination of such participant s employment for any reason other than cause (as defined in the Severance Plan). Participants in the Severance Plan will not be eligible to receive benefits in the cases of voluntary resignation, commencement of a leave of absence, retirement, death or disability. In cases where the participant s employment is terminated by reason of the transfer to an affiliated business, the sale of the Company or all or part of its assets or the outsourcing of a division, department, business unit or function, benefits will be provided only if a new offer of employment with us or any of our affiliates has not been made to the affected participant. Executive officers participating in the Severance Plan at the top management level will receive a severance payment equal to one year of base salary plus target bonus amount. All severance payments, however, are capped at two times the participant s annual compensation (as defined in the Department of Labor Regulations). To receive any payment of severance benefits under the Severance Plan in excess of two weeks base salary, the participant must sign a release.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee consists of four independent directors (Messrs. Knowling, Beattie and Yearley and Ms. Kanin-Lovers). During 2004, no person who was a member of the Compensation Committee was one of our officers or employees, nor did any of our executive officers serve as a member of the Board of Directors or Compensation Committee of any entity that has one or more executive officers serving on our Board of Directors or Compensation Committee. From time to time, our Chief Executive Officer, certain other officers and outside consultants may attend meetings of the Compensation Committee but none of our officers may be present during discussions or deliberations regarding his or her own compensation nor may they vote on any matters brought before the Compensation Committee.

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## REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS ON EXECUTIVE COMPENSATION

**Compensation Philosophy.** We believe that executive compensation should be directly linked to increased stockholder value. Our approach to executive compensation is designed to support achieving our key business objectives, to align the executive officers interests with those of our stockholders and to enable us to attract, retain and reward key personnel. It has been and currently is our philosophy to position our total compensation for our executive officers and other key employees at levels competitive with those of other major executive recruiting firms. Because many of these organizations are privately held, much of the compensation data is derived from executives and search consultants recruited by us and our understanding of pay practices and trends within the professional services industry.

**Relationship of Company Performance to Executive Compensation.** Our executive compensation is comprised of two components: base salary and incentives (cash and non-cash), each of which is intended to serve the overall compensation program. Our salary levels are intended to be consistent with competitive pay practices and level of responsibility, with salary increases reflecting competitive trends, our overall financial performance, and general economic conditions as well as a number of factors relating to the particular employee, including his or her performance and the level of experience, ability and knowledge required for the job.

The Compensation Committee has approved a management compensation program that consists of an annual Management Incentive Plan ( MIP ), a Management Stock Option Plan ( MSOP ) and a Performance Share Program ( PSP ). These plans provide for designated participants to receive annual and longer-term incentive compensation and seek to ensure that certain members of management participate as a group rather than have individual contracts or other arrangements with varying incentives and other terms.

The MIP is an annual bonus program designed to link participant performance with the attainment of pre-established Company, strategic business unit and individual performance goals. It provides for an annual bonus ranging from 0% to 150% of target incentive compensation. Bonuses are paid in cash for awards up to 100% of target incentive compensation.

The MSOP is designed to align the interests of executives and stockholders with the common goal of increasing stockholder value. It provides for annual grants of non-qualified stock options. Generally, the options vest over a three-year period, are forfeited in the event the participant is not in the Company s employ on the vesting date and have a five-year term.

The PSP, awards under which were discontinued in 2004, provided long-term incentive compensation based on our cumulative performance and the price of our common stock measured at the end of three-year award cycles. Under the PSP, a participant received a grant expressed in shares that are earned if we have reached specific performance goals at the end of the relevant three-year cycle. Depending upon actual performance versus target and whether the participant remains employed by us as of the payout date, he or she may earn a fewer or greater number of performance share units (from 0% to 150% of those initially granted). The value of an award (which may be paid in cash or restricted stock units) at the end of the three-year award cycle will be equal to the product of the number of performance share units earned multiplied by the fair market value of the shares of our common stock on the payout date. We do not expect to achieve the profitability targets established for the awards under the PSP and thus do not expect that these awards will require any payout.

**Compensation of the Chief Executive Officer.** Mr. Friel became our Chief Executive Officer on June 24, 2003, having held numerous leadership positions with the firm since joining us in 1979. Effective June 24, 2003, we entered into a contract with Mr. Friel under which Mr. Friel receives a salary of $600,000 per year with a target bonus of $600,000. While the 2003 agreement provides that Mr. Friel would receive 100% of his target bonus for his first twelve months of service as CEO, the Compensation Committee used the executive compensation practices described above to determine the balance of Mr. Friel s 2004 compensation. In setting

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both the cash and equity elements of Mr. Friel s compensation, the Committee made an overall assessment of Mr. Friel s leadership in establishing the Company s long-term and short-term strategic, operational and business goals. Mr. Friel s total compensation reflects a consideration of both competitive factors and the Company s performance against an operating income target and other strategic objectives established by the Committee. For 2004, Mr. Friel received his base salary of $600,000. Mr. Friel s incentive compensation consisted of a target bonus of $600,000, and options to purchase 50,000 shares of Company common stock.

In 2001, we received warrants to purchase 1,194,308 shares of Google, Inc. ( Google ) at a price of $0.30 per share issued in connection with recruitment fees. On August 19, 2004, we exercised the warrants pursuant to their cashless exercise feature and received 1,190,092 shares of Google common stock. In September, 2004 we sold all the shares of common stock of Google that we held in ordinary brokerage transactions with the transaction resulting in aggregate net proceeds of approximately $128.8 million.

Pursuant to the terms of our compensation policy with respect to warrants, 55% of the net proceeds from these sales of shares of common stock of Google is payable to our consultants involved with the search in the month following the monetization. Prior to becoming our Chief Executive Officer, Mr. Friel was a member of this search team and was entitled to receive 25% of the consulting team s share. In 2004, Mr. Friel s compensation included $389,816 of his share of the net proceeds of this monetization. Mr. Friel has elected to defer receipt of the balance of his share of the net proceeds ($17,272,900) under an unfunded deferred compensation arrangement that provides a market rate of return.

**Certain Tax Matters.** Section 162 (m) of the Internal Revenue Code limits the deduction a publicly held corporation is allowed for compensation paid to the chief executive officer and to the four most highly compensated executive officers other than the chief executive officer. Generally, amounts in excess of $1 million paid to a covered executive, other than performance-based compensation, cannot be deducted. We consider ways to maximize the deductibility of executive compensation but reserve the right to compensate executive officers in a manner commensurate with performance and the competitive environment for executive talent. As a result, some portion of executive compensation paid to an executive officer whose compensation is subject to the deduction limits described above may not be deductible in the United States.

**THE COMPENSATION COMMITTEE**

Robert E. Knowling, Jr. (Chairman)

Richard I. Beattie

Jill Kanin-Lovers

Douglas C. Yearley

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**PERFORMANCE GRAPH**

The following performance graph compares the annual percentage change in our cumulative total stockholder return for the last five fiscal years with the cumulative total stockholder return of the Nasdaq Composite Index and a Peer Group constructed by us. Cumulative total stockholder return for each of the periods shown in the graph is measured assuming an initial investment of $100 as of December 31, 1999, and assumes the reinvestment of any dividends paid.

The Peer Group is comprised of four publicly traded companies that are engaged principally, or in significant part, in executive search consulting and/or leadership consulting services. We believe that they constitute the best approximation of a peer group among companies that were publicly traded for the period being evaluated. Many of our direct competitors who specialize in senior-level executive search are privately held firms.

The returns of each company have been weighted according to their respective stock market capitalization at the beginning of each measurement period for purposes of arriving at a Peer Group average. Previously, the members of the Peer Group were Caldwell Partners International, Inc., Korn/Ferry International, Monster Worldwide Inc., Hudson Highland Group, Inc. and Whitehead Mann Group PLC. For 2004, we have changed our Peer Group to remove Caldwell Partners (which focuses its executive search business primarily in Canada) and add Hewitt Associates, Inc., a firm that engages in human resources consulting and outsourcing.

*The stock price performance depicted in this graph is not necessarily indicative of future price performance. This graph will not be deemed to be incorporated by reference by any general statement incorporating this Proxy Statement into any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent we specifically incorporate this information by reference, and shall not otherwise be deemed soliciting material or deemed filed under those Acts.*

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN**

AMONG HEIDRICK & STRUGGLES INTERNATIONAL, INC.,

THE NASDAQ MARKET (U.S.) INDEX, A NEW PEER GROUP AND AN OLD PEER GROUP

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| Measurement Period (1) | HSII ($) | NASDAQ ($) | Old Peer Group ($) | New Peer Group ($) |
|---|---|---|---|---|
| 12/99 | 100.00 | 100.00 | 100.00 | 100.00 |
| 12/00 | 99.56 | 60.09 | 74.39 | 63.11 |
| 12/01 | 42.96 | 45.44 | 55.47 | 35.62 |
| 12/02 | 34.72 | 26.36 | 16.82 | 21.52 |
| 12/03 | 51.60 | 38.55 | 34.58 | 28.66 |
| 12/04 | 81.11 | 40.87 | 50.16 | 33.01 |

(1) Based on $100 invested on December 31, 1999 in our common stock, the Nasdaq Composite Stock Index and the Peer Group Index. Total return assumes reinvestment of dividends.

**REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

The Audit Committee of the Board of Directors is responsible for providing general oversight of our financial accounting and reporting processes, selection of critical accounting policies, and system of internal controls. The Audit Committee is presently composed of four directors, Messrs. Knowling, Fazio and Unruh and Ms. Kanin-Lovers, each of whom is independent within the meaning of applicable Nasdaq Rules. The Board of Directors has determined that John A. Fazio and V. Paul Unruh are audit committee financial experts as defined in Securities and Exchange Commission rules. During 2004, the Audit Committee met ten times.

In 2005, the Board of Directors amended the Audit Committee s charter. A copy of the amended charter is attached to this proxy statement as Appendix A. You can also access the amended charter on the Corporate Governance portion of our website at: http://www.heidrick.com.

As part of its oversight of our financial statements, the Audit Committee reviews and discusses with both management and our independent registered public accounting firm ( KPMG LLP ) all annual and quarterly financial statements prior to their issuance.

The Audit Committee has discussed with KPMG LLP the matters required to be discussed pursuant to Statement on Auditing Standards No. 61, as amended ( Communication with Audit Committees ).

The Audit Committee also discussed with KPMG LLP matters relating to its independence including the written disclosures and letter from KPMG LLP to the Audit Committee pursuant to Independence Standards Board Standard No.1 ( Independence Discussions with Audit Committees ), as currently in effect .

During 2004, the Audit Committee reviewed key initiatives and programs aimed at strengthening the effectiveness of our internal and disclosure control structures. The Audit Committee s meetings include, whenever appropriate, executive sessions with KPMG LLP and with our director of internal audit, in each case without the presence of management, to raise and discuss any issues they may have about the adequacy and proper functioning of our internal and disclosure control systems and procedures.

In performing these functions, the Audit Committee acted and continues to act only in an oversight capacity on behalf of the Board of Directors. Management has primary responsibility for our financial statements and the overall reporting process, including our systems of internal controls.

In its oversight role, the Audit Committee necessarily relies on the procedures, work and assurances of management. KPMG LLP has audited the annual financial statements prepared by management, expressed an opinion as to whether those financial statements fairly present our financial position, results of operation and cash flows in conformity with generally accepted accounting principles in the U.S., and discussed any issues they believe should be raised with the Audit Committee.

During 2004, management documented, tested and evaluated our internal controls pursuant to the requirements of the Sarbanes-Oxley Act of 2002. Management and KPMG LLP kept the Audit Committee apprised of the company s progress at each regularly scheduled Audit Committee meeting. Management has provided the Audit Committee with a report on the effectiveness of our internal controls. We have reviewed

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management s assessment of the effectiveness of our internal controls and KPMG LLP s evaluation thereof included in our Annual Report on Form 10-K for the year ended December 31, 2004.

Based on the above mentioned reviews and discussions with management and our independent registered public accounting firm, the undersigned Audit Committee members recommended to the Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2004. The Audit Committee has also recommended that KPMG LLP be selected as our independent registered public accounting firm for 2005.

**THE AUDIT COMMITTEE**

John A. Fazio (Chairman)

Robert E. Knowling, Jr.

Jill Kanin-Lovers

V. Paul Unruh

## INDEPENDENT AUDITORS

As recommended by the Audit Committee, the Board of Directors has appointed KPMG LLP as our independent registered public accounting firm for 2005. Representatives of KPMG LLP are expected to be present at our annual meeting. KPMG LLP will be provided the opportunity to make a statement at the annual meeting if they desire to do so and will be available to respond to appropriate questions from stockholders.

All services provided by KPMG LLP in 2004 were, and all services to be provided by KPMG LLP in 2005 will be, permissible under applicable laws and regulations. All services provided by KPMG LLP are pre-approved by the Audit Committee.

The table below sets forth the fees billed by KPMG LLP for professional services (both audit and non-audit). Non-audit services are defined as services other than those provided in connection with an audit or a review of our financial statements.

| Fee Category | 2004 | % of Total | 2003 | % of Total |
|---|---|---|---|---|
| Audit Fees (1) | $ 2,198,400 | 99% | $ 801,537 | 82% |
| Audit-Related Fees (2) | 19,000 | 1% | 11,000 | 1% |
| Tax Fees (3) | 8,359 | 0% | 88,818 | 9% |
| All Other Fees (4) | 0 | 0% | 81,459 | 8% |
| Total Fees | $ 2,225,759 | 100% | $ 982,814 | 100% |

(1) Fees for professional services rendered for the audit of our annual consolidated financial statements, reviews of the consolidated financial statements included in our Quarterly Reports on Form 10-Q, statutory audits required internationally and, in 2004 only, the audit of the effectiveness of our internal control over financial reporting.

(2) Fees for professional services rendered related to the audit of an employee benefit plan.

(3) Fees for tax services, including tax compliance, tax advice and tax planning.

(4) Fees for miscellaneous accounting advice, employee benefit plan compliance services and Sarbanes-Oxley Section 404 advisory services.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

We have no reportable certain relationships and transactions.

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## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires that our officers and directors, and persons who own more than ten percent (10%) of a registered class of our equity securities, file reports of ownership on Form 3 and changes in ownership on Forms 4 or 5 with the Securities and Exchange Commission. These officers, directors and individuals, entities or groups holding ten percent (10%) or more of our outstanding shares of common stock are also required by the Securities and Exchange Commission rules to furnish us with copies of all forms they file.

Based solely on a review of the copies of the forms and written representations from certain reporting persons, we believe that, during 2004, all forms required under Section 16(a) applicable to our officers, directors, and individuals, entities or groups holding ten percent (10%) or more of our outstanding shares of common stock were filed on a timely basis.

## STOCKHOLDER PROPOSALS FOR NEXT YEAR S ANNUAL MEETING

*Advance Notice Procedures.* Under our Amended and Restated Bylaws, no business may be brought before an annual meeting unless it is specified in the notice of the meeting or is otherwise brought before the meeting by or at the direction of the Board or by a stockholder entitled to vote at the meeting who has delivered advance notice to us. The advance notice must contain certain information specified in our Amended and Restated Bylaws and be delivered to our Secretary at our principal executive offices (233 South Wacker Drive, Suite 4200, Chicago, Illinois 60606-6303) not less than sixty (60) days nor more than ninety (90) days prior to the first anniversary of the preceding year s annual meeting. These requirements are separate from and in addition to the Securities and Exchange Commission s requirements that a stockholder must meet in order to have a stockholder proposal included in our Proxy Statement for the 2006 Annual Meeting of Stockholders pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended ( SEC Rule 14a-8 ).

*Stockholder Proposals to be Included in the Proxy Statement.* Proposals of our stockholders intended to be included in our proxy materials for the 2006 Annual Meeting of Shareholders must be received by our Secretary at our principal executive offices by December 16, 2005. Stockholders interested in submitting a proposal for inclusion in our proxy materials for the 2006 Annual Meeting of Stockholders may do so by following the procedures prescribed in SEC Rule 14a-8. A proposal that does not comply with the applicable requirements of SEC Rule 14a-8 will not be included in our proxy materials for the 2006 Annual Meeting of Stockholders.

## OTHER MATTERS

As of the date of this Proxy Statement, the above is the only business we are aware of that is to be acted upon at the annual meeting. If, however, other matters should properly come before us at the annual meeting, the persons appointed by your signed proxy will vote on those matters according to their best judgment.

By the order of the Board of Directors,

Stephen W. Beard

*Secretary*

Chicago, Illinois

April 14, 2005

**YOUR VOTE IS IMPORTANT. THE PROMPT RETURN OF PROXIES WILL SAVE US THE EXPENSE OF FURTHER REQUESTS FOR PROXIES. PLEASE MARK, SIGN, DATE AND RETURN YOUR PROXY CARD PROMPTLY IN THE ENCLOSED ENVELOPE.**

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**APPENDIX A**

**HEIDRICK & STRUGGLES INTERNATIONAL, INC.**

**Audit Committee Charter**

## A. Name

There shall be a committee of the Board of Directors (the Board ) of Heidrick & Struggles International, Inc. (the Company ) which shall be called the Audit Committee.

## B. Purpose

As described in more detail below, the purpose of the Audit Committee is as follows. The Audit Committee shall be directly responsible for the appointment of, compensation of and oversight over the work of the Company s independent auditors. The Audit Committee shall monitor (1) the integrity of the financial statements of the Company, (2) the independent public accountant s qualifications and independence and (3) the performance of the Company s internal audit function and independent auditors. The Audit Committee shall review and approve the report required by the rules of the Securities and Exchange Commission (the SEC ) to be included in the Company s annual meeting proxy statement.

## C. Organization and Procedure

The Audit Committee shall be appointed by the Board and shall be comprised of no fewer than three Board members satisfying the membership requirements set forth below.

The members of the Audit Committee shall be appointed by the Board, considering the recommendation of the Nominating and Board Governance Committee and further considering the views of the Chairman of the Board and the Chief Executive Officer, as appropriate. The members of the Audit Committee shall serve until their successors shall be duly appointed and qualified or until their earlier resignation or removal. Unless a Chairperson is elected by the full Board, the members of the Audit Committee may designate a Chairperson by majority vote of the full Committee membership.

The Audit Committee shall meet as often as it determines is appropriate, but not less frequently than four times per year. The Audit Committee periodically will hold private meetings with the internal auditor and the independent auditor (without management) and will hold private meetings with management as appropriate. Meeting agendas will be prepared by the Chief Financial Officer and the Corporate Secretary, in consultation with the Audit Committee Chairperson, and provided in advance to members, along with appropriate briefing materials.

The Board shall have the power at any time to change the membership of the Audit Committee and to fill vacancies in it. Except as expressly provided in this Charter, the Amended and Restated Bylaws of the Company or the Corporate Governance Guidelines of the Company, or as otherwise provided by The NASDAQ Stock Market, Inc. ( NASDAQ ), the Audit Committee shall fix its own rules of procedure.

**D. Statement of Policy**

The Audit Committee shall provide assistance to the Board in fulfilling the Board s responsibilities to the shareholders and other securityholders of the Company regarding corporate accounting and reporting practices, including the quality and integrity of the financial reports of the Company. In doing so, the Audit Committee should strive to maintain free and open means of communication among the Audit Committee Members, independent auditors and financial management of the Company.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to prepare financial statements, plan or conduct audits or determine that the Company s financial statements and disclosures are complete and accurate and are in accordance with GAAP and applicable rules and regulations. These are the responsibilities of management and the independent auditors.

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**E. Membership Requirements**

The following criteria for membership on the Audit Committee shall be followed:

1. Each member of the Audit Committee shall be able to read and understand fundamental financial statements, including the Company s balance sheet, income statement and cash flow statement.

2. At least one member of the Audit Committee shall be an  audit committee financial expert  as defined in the applicable SEC rules.

3. Each member of the Audit Committee shall meet the independence requirements of the Company s Director Independence Standards and the applicable NASDAQ and SEC rules for being a member of an audit committee, subject to any exceptions authorized under the rules, as such rules are amended from time to time.

**F. Committee Authority**

The Audit Committee shall have the sole authority to appoint or replace the independent auditors and shall approve all audit engagement fees and terms. The Audit Committee shall also have the sole authority to approve the provision of any permissible non-audit services by the independent auditors and the fees with respect thereto. The Audit Committee shall consult with management but shall not delegate these responsibilities, except that pre-approvals of permissible non-audit services may be made by the Chairperson of the Audit Committee in accordance with the rules of the SEC.

The Audit Committee shall be given the resources and assistance necessary to discharge its responsibilities, including unrestricted access to Company personnel and documents and the Company s independent auditors. The Audit Committee shall have the authority to retain and fund legal, accounting or other consultants to advise it, and to conduct or authorize investigations into any matters within its scope of responsibilities. The Audit Committee may request any officer or employee of the Company, the independent auditor, the Company s outside counsel, the Audit Committee s counsel or others to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee.

**G. Committee Responsibilities**

The Audit Committee shall have the following responsibilities:

1. *The Audit.* Meet and review with management and the independent auditor the following:

a. The scope and plan, and coordination of audit efforts.

b. The results of the audit of the Company s annual financial statements and the review of the Company s quarterly financial statements.

c. Any problems, difficulties or differences encountered in the course of audit work, including any disagreements with management or restrictions on the scope of activities or access to requested information and responses thereto (the Audit Committee also shall resolve such disagreements).

d. Any changes required in the planned scope of the audit plan.

e. Critical accounting policies and practices used by the Company in preparing its financial statements.

f. All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditor.

g. The independent auditor s judgments about the quality, not just the acceptability, of accounting principles as applied in the Company s financial reporting, including the consistency of the Company s accounting policies and their application and the clarity and completeness of the Company s financial statements and related disclosures.

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h. The independent auditor s reasoning in determining the appropriateness of (i) changes in the Company s accounting practices or policies, (ii) Company estimates, judgments and uncertainties, (iii) unusual transactions and (iv) accounting policies relating to significant financial statement items.

i. Material communications between the independent auditor and management, including any management letter.

j. Any other matters related to the conduct of the audit which are to be communicated to the Audit Committee under generally accepted auditing standards, particularly Statement of Auditing Standards ( SAS ) No. 61, as may be modified or supplemented, or the rules of the SEC.

k. Any accounting adjustments that were noted or proposed by the independent auditors but were passed (as immaterial or otherwise).

l. The scope and results of testing done by the independent auditor to support its attestation reports required under Section 404 of the Sarbanes-Oxley Act of 2002.

2. *Company Reporting.* The Audit Committee shall do the following with respect to the Company s reporting obligations:

a. Advise financial management and the independent auditor that they are expected to provide a timely analysis of significant current financial reporting issues and practices.

b. Recommend to the Board whether the annual audited financial statements should be included in the annual report on Form 10-K for filing with the SEC.

c. Review and discuss the annual audited financial statements and quarterly financial statements with management and the independent auditor, including the Company s disclosures under Management s Discussion and Analysis of Financial Condition and Results of Operations, before the filing of the Company s Form 10-K and Form 10-Q.

d. Prepare the Audit Committee s report that is made in periodic filings as required by the applicable NASDAQ and SEC rules, and take the appropriate steps to ensure that such report complies with applicable requirements, including compliance with the SEC requirement that this Charter be appended to the Company s proxy statement at least once every three years.

e. Confirm that the Company s quarterly financial statements have been reviewed by the Company s independent auditor, in accordance with SAS No. 71, as amended by SAS No. 90, prior to the filing with the SEC of each quarterly report on Form 10-Q.

f. Review with management the adequacy and effectiveness of the Company s internal accounting and financial controls, including any related recommendations of the independent auditor and management s responses thereto.

g. Review with management, and any outside professional as the Committee considers appropriate, the effectiveness of the Company s disclosure controls and procedures.

h. Review with management and any outside professionals as the Committee considers appropriate, important trends and developments in financial reporting practices and requirements and their effect on the Company s financial statements

3. *Earnings Announcements.* Discuss with management, prior to distribution, earnings press releases (paying particular attention to any use of pro forma information or non-GAAP financial measures), as well as financial information and earnings guidance (generally or on a case-by-case basis) provided to analysts and rating agencies.

4. *Independent Auditor Selection.* Appoint the independent auditor; approve all audit and permissible non-audit engagements and fees of the independent auditor; and oversee and review the performance of the independent auditor and take any appropriate actions, including discharge and replacement.

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5. *Independence of Auditor.* Confirm the independence and objectivity of the independent auditor, including receiving from the independent auditor, on an annual basis, a formal written statement delineating all relationships between the independent auditor and the Company consistent with Independence Standards Board Standard No. 1; actively engage in discussions with the independent auditor regarding any disclosed relationships or services that may affect their objectivity and independence; oversee the independence of the independent auditor; and ensure that appropriate audit personnel are rotated from the review and audit of the Company s financial statements as required by the applicable rules of the SEC.

6. *Peer Review.* Confirm that the independent auditor meets the peer review requirements set forth in the applicable NASDAQ and PCAOB rules; review with the independent auditor the results of its annual PCAOB review.

7. *Second Opinions.* Discuss with management any second opinions sought from an accounting firm other than the independent auditors, including the substance and reasons for seeking any such opinion.

8. *Internal Audit.* Review findings from completed internal audits and progress reports on the proposed internal audit plan. Approve the appointment, reassignment or dismissal of the director of internal audit.

9. *Investigations.* Conduct or authorize investigations into any matters within the Audit Committee s scope of responsibilities.

10. *Whistleblower Complaints.* Establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters in accordance with the applicable NASDAQ rules.

11. *Regulatory Matters.* Review with the General Counsel any legal and regulatory matters that may have a material impact on the Company s financial statements, financial condition or results of operations.

12. *Code of Business Conduct and Ethics.* Consult with the Nominating and Board Governance Committee on the adequacy of the Code of Business Conduct and Ethics; review the Company s procedures for detecting violations of and ensuring compliance with the Code of Business Conduct and Ethics; review all violations and waivers of the Code of Business Conduct and Ethics.

13. *Related Party Transactions.* Review all related party transactions reported to the Audit Committee by the Nominating and Board Governance Committee for appropriate financial statement disclosure.

14. *Significant Risks.* Inquire of management and the independent auditor concerning significant financial risks or exposures and assess the steps management has taken to minimize such risks; review with the independent auditor its assessment of fraud risks under SAS 99.

15. *Retention of Independent Auditor Personnel.* Recommend to the Board policies for the Company s hiring of employees or former employees of the independent auditors who were engaged on the Company s account, which comply with the applicable rules of the SEC.

16. *Private Meetings.* Meet periodically with the independent auditors and the internal auditors in separate executive sessions to discuss any matters that the Audit Committee or these groups believe should be discussed privately with the Audit Committee.

17. *Board Reports.* Report periodically to the Board on its meetings and other activities.

18. *Delegation.* Form and delegate authority to subcommittees when appropriate.

19. *Annual Review of Charter.* Review and reassess the adequacy of this Charter annually and recommend any changes to the Board for approval.

Adopted: October 2, 2003 Board Meeting.

Amended: February 15, 2005 Board Meeting.

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