

KORN FERRY INTERNATIONAL
Form 10-Q
March 11, 2014
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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 January 31, 2014

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 001-14505

KORN/FERRY INTERNATIONAL
(Exact Name of Registrant as Specified in its Charter)

Delaware **95-2623879**
(State or Other Jurisdiction of Incorporation or (I.R.S. Employer Identification Number)
Organization)
1900 Avenue of the Stars, Suite 2600, Los Angeles, California 90067
(Address of principal executive offices) (Zip code)
(310) 552-1834
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

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

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

The number of shares outstanding of our common stock as of March 6, 2014 was 49,733,326 shares.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements****KORN/FERRY INTERNATIONAL AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	January 31, 2014 (unaudited)	April 30, 2013
	(in thousands, except per share data)	
ASSETS		
Cash and cash equivalents	\$ 247,784	\$ 224,066
Marketable securities	6,337	20,347
Receivables due from clients, net of allowance for doubtful accounts of \$10,125 and \$9,097, respectively	190,982	161,508
Income taxes and other receivables	8,979	8,944
Deferred income taxes	1,857	3,511
Prepaid expenses and other assets	29,834	28,724
Total current assets	485,773	447,100
Marketable securities, non-current	123,083	121,569
Property and equipment, net	55,009	53,628
Cash surrender value of company owned life insurance policies, net of loans	93,748	85,873
Deferred income taxes, net	60,347	63,203
Goodwill	255,792	257,293
Intangible assets, net	51,722	58,187
Investments and other assets	27,359	28,376
Total assets	\$ 1,152,833	\$ 1,115,229
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	\$ 17,187	\$ 19,460
Income taxes payable	12,879	5,502
Compensation and benefits payable	148,457	160,298
Other accrued liabilities	62,512	83,291
Total current liabilities	241,035	268,551
Deferred compensation and other retirement plans	168,629	159,706
Other liabilities	20,590	22,504

Total liabilities	430,254	450,761
Stockholders' equity:		
Common stock: \$0.01 par value, 150,000 shares authorized, 62,196 and 61,022		
shares issued and 49,707 and 48,734 shares outstanding, respectively	446,542	431,508
Retained earnings	287,570	236,090
Accumulated other comprehensive loss, net	(11,042)	(2,631)
Stockholders' equity	723,070	664,967
Less: notes receivable from stockholders	(491)	(499)
Total stockholders' equity	722,579	664,468
Total liabilities and stockholders' equity	\$ 1,152,833	\$ 1,115,229

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

Table of Contents**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(unaudited)**

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2014	2013	2014	2013
	(in thousands, except per share data)			
Fee revenue	\$ 242,184	\$ 202,004	\$ 708,589	\$ 584,929
Reimbursed out-of-pocket engagement expenses	8,753	8,268	26,172	26,165
Total revenue	250,937	210,272	734,761	611,094
Compensation and benefits	162,228	139,788	476,294	400,859
General and administrative expenses	37,265	35,915	112,931	102,675
Reimbursed expenses	8,753	8,268	26,172	26,165
Cost of services	9,056	8,066	29,697	19,848
Depreciation and amortization	6,333	5,088	18,857	13,127
Restructuring charges, net		4,441	3,682	19,936
Total operating expenses	223,635	201,566	667,633	582,610
Operating income	27,302	8,706	67,128	28,484
Other income, net	1,132	3,296	7,751	3,808
Interest expense, net	(873)	(360)	(2,102)	(1,721)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	27,561	11,642	72,777	30,571
Equity in earnings of unconsolidated subsidiaries	470	593	1,492	1,567
Income tax provision	6,727	2,753	22,789	11,042
Net income	\$ 21,304	\$ 9,482	\$ 51,480	\$ 21,096
Earnings per common share:				
Basic	\$ 0.44	\$ 0.20	\$ 1.07	\$ 0.45
Diluted	\$ 0.43	\$ 0.20	\$ 1.05	\$ 0.44
Weighted-average common shares outstanding:				
Basic	48,341	47,367	48,041	47,149
Diluted	49,181	48,015	48,977	47,742

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

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KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2014	2013	2014	2013
	(in thousands)			
Net income	\$ 21,304	\$ 9,482	\$ 51,480	\$ 21,096
Other comprehensive income:				
Foreign currency translation adjustments	(9,726)	3,330	(8,384)	(42)
Unrealized gains (losses) on marketable securities, net of taxes	6	(27)	(27)	(10)
Comprehensive income	\$ 11,584	\$ 12,785	\$ 43,069	\$ 21,044

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

Table of Contents**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

	Nine Months Ended January 31, 2014 2013 (in thousands)	
Cash flows from operating activities:		
Net income	\$ 51,480	\$ 21,096
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	18,857	13,127
Stock-based compensation expense	8,819	8,820
Provision for doubtful accounts	5,744	4,818
Gain on cash surrender value of life insurance policies	(6,432)	(4,236)
Gain on marketable securities	(7,578)	(4,927)
Deferred income taxes	4,919	8,900
Change in other assets and liabilities, net of effects of acquisition:		
Deferred compensation	8,515	1,242
Receivables due from clients	(35,218)	(17,443)
Income tax and other receivables	82	(6,806)
Prepaid expenses and other assets	(1,110)	(1,035)
Investment in unconsolidated subsidiaries	(1,492)	(1,567)
Income taxes payable	7,394	(3,309)
Accounts payable and accrued liabilities	(16,716)	(22,461)
Other	(4,188)	1,576
Net cash provided by (used in) operating activities	33,076	(2,205)
Cash flows from investing activities:		
Purchase of property and equipment	(17,307)	(9,382)
Cash paid for acquisition, net of cash acquired		(112,064)
Purchase of marketable securities	(23,795)	(44,259)
Proceeds from sales/maturities of marketable securities	43,423	47,778
Change in restricted cash	2,861	7,222
Payment of contingent consideration from acquisition	(15,000)	
Premiums on company-owned life insurance policies	(1,443)	(1,450)
Dividends received from unconsolidated subsidiaries	1,950	1,897
Net cash used in investing activities	(9,311)	(110,258)
Cash flows from financing activities:		
Purchase of common stock	(2,026)	(2,673)
	7,373	1,343

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Proceeds from issuance of common stock upon exercise of employee stock options and in connection with an employee stock purchase plan		
Tax benefit from exercise of stock options	815	203
Net cash provided by (used in) financing activities	6,162	(1,127)
Effect of exchange rate changes on cash and cash equivalents	(6,209)	(180)
Net increase (decrease) in cash and cash equivalents	23,718	(113,770)
Cash and cash equivalents at beginning of period	224,066	282,005
Cash and cash equivalents at end of period	\$ 247,784	\$ 168,235

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

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KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014

1. Organization and Summary of Significant Accounting Policies

Nature of Business

Korn/Ferry International, a Delaware corporation (the Company), and its subsidiaries are engaged in the business of providing talent management solutions, including executive recruitment on a retained basis, recruitment process outsourcing and leadership & talent consulting services. The Company's worldwide network of 87 offices in 37 countries enables it to meet the needs of its clients in all industries.

Basis of Consolidation and Presentation

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended April 30, 2013 for the Company and its wholly and majority owned/controlled domestic and international subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The preparation of the consolidated financial statements conforms with United States (U.S.) generally accepted accounting principles (GAAP) and prevailing practice within the industry. The consolidated financial statements include all adjustments, consisting of normal recurring accruals and any other adjustments that management considers necessary for a fair presentation of the results for these periods. The results of operations for the interim period are not necessarily indicative of the results for the entire fiscal year.

Investments in affiliated companies, which are 50% or less owned and where the Company exercises significant influence over operations, are accounted for using the equity method.

The Company considers events or transactions that occur after the balance sheet date but before the consolidated financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosures.

Use of Estimates and Uncertainties

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates, and changes in estimates are reported in current operations as new information is learned or upon the amounts becoming fixed and determinable. The most significant areas that require management judgment are revenue recognition, restructuring, deferred compensation, annual performance related bonus, evaluation of the carrying value of receivables, marketable securities, goodwill and other intangible assets, fair value of contingent consideration, share-based payments and the recoverability of deferred income taxes.

Revenue Recognition

Substantially all professional fee revenue is derived from fees for professional services related to executive recruitment performed on a retained basis, recruitment for non-executive professionals, recruitment process outsourcing and leadership & talent consulting services. Fee revenue from executive recruitment activities and recruitment for non-executive professionals is generally one-third of the estimated first year cash compensation of the placed executive or non-executive professional, as applicable, plus a percentage of the fee to cover indirect expenses. The Company generally recognizes revenue on a straight-line basis over a three-month period, commencing upon client acceptance, as this is the period over which the recruitment services are performed. Fees earned in excess of the initial contract amount are recognized upon completion of the engagement, which reflect the difference between the final actual compensation of the placed executive and the estimate used for purposes of the previous billings. Since the initial contract fees are generally not contingent upon placement of a candidate, our assumptions primarily relate to establishing the period over which such service is performed. These assumptions determine the timing of revenue recognition and profitability for the reported period. Any revenue associated with services that are provided on a contingent basis is recognized once the contingency is fulfilled. In addition to recruitment for non-executive professionals, Futurestep provides recruitment process outsourcing (RPO) services and fee revenue is recognized as services are rendered. Fee revenue from Leadership & Talent Consulting (LTC) services is recognized as services are rendered for consulting engagements and other time-based services, measured by total hours

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

January 31, 2014

incurred to the total estimated hours at completion. It is possible that updated estimates for the consulting engagement may vary from initial estimates with such updates being recognized in the period of determination. Depending on the timing of billings and services rendered, the Company accrues or defers revenue as appropriate. LTC revenue is also derived from the sale of solution services, which includes revenue from licenses and from the sale of products. Revenue from licenses is recognized using a straight-line method over the term of the contract (generally 12 months). Products sold by the Company mainly consist of books and automated services covering a variety of topics including performance management, team effectiveness, and coaching and development. The Company recognizes revenue for its products when the product has been sold.

Allowance for Doubtful Accounts

An allowance is established for doubtful accounts by taking a charge to general and administrative expenses. The amount of the allowance is based on historical loss experience, assessment of the collectability of specific accounts, as well as expectations of future collections based upon trends and the type of work for which services are rendered. After the Company exhausts all collection efforts, the amount of the allowance is reduced for balances identified as uncollectible.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Restricted Cash

During the nine months ended January 31, 2014, the Company transferred the standby letters of credit associated with certain leases for premises from its prior senior secured credit agreement to its current senior unsecured revolving credit agreement and as a result the Company has no restricted cash balance at January 31, 2014 compared to \$2.9 million at April 30, 2013 (see Note 9 *Long-Term Debt*).

Marketable Securities

The Company currently has investments in marketable securities and mutual funds which are classified as either trading securities or available-for-sale, based upon management's intent and ability to hold, sell or trade such securities. The classification of the investments in these marketable securities and mutual funds is assessed upon purchase and reassessed at each reporting period. These investments are recorded at fair value and are classified as marketable securities in the accompanying consolidated balance sheets. The investments that the Company may sell within the next twelve months are carried as current assets. Realized gains (losses) on marketable securities are determined by specific identification. Interest is recognized on an accrual basis, dividends are recorded as earned on the ex-dividend date. Interest and dividend income are recorded in the accompanying consolidated statements of income as a component of interest expense, net.

The Company invests in mutual funds (for which market prices are readily available), which are held in trust to satisfy obligations under the Company's deferred compensation plans (see Note 5 *Marketable Securities*), and are classified as trading securities. Such investments are based upon the employees' investment elections in their deemed accounts in the Executive Capital Accumulation Plan and similar plans in Asia Pacific and Canada (ECAP) from a pre-determined set of securities and the Company invests in marketable securities to mirror these elections. The changes in fair value in trading securities are recorded in the accompanying consolidated statements of income in other income, net.

The Company also invests cash in excess of its daily operating requirements and capital needs primarily in marketable fixed income (debt) securities in accordance with the Company's investment policy, which restricts the type of investments that can be made. The Company's investment portfolio includes corporate bonds and U. S. Treasury and agency securities. These marketable fixed income (debt) securities are classified as available-for-sale securities based on management's decision, at the date such securities are acquired, not to hold these securities to maturity or actively trade them. The Company carries these marketable debt securities at fair value based on the market prices for these marketable debt securities or similar debt securities whose prices are readily available. The changes in fair values, net of applicable taxes, are recorded as unrealized gains or losses as a component of comprehensive income. When, in the opinion of management, a decline in the fair value of an investment below its amortized cost is considered to be other-than-temporary, a credit loss is recorded in the statement of income as a component of other income, net; any amount in

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excess of the credit loss is recorded as unrealized gains or losses as a component of comprehensive income. Generally, the amount of the loss is the difference between the cost or amortized cost and its then current fair value; a credit loss is the difference between the discounted expected future cash flows to be collected from the debt security and the cost or amortized cost of the debt security. The determination of the other-than-temporary decline includes, in addition to other relevant factors, a presumption that if the market value is below cost by a significant amount for a period of time, a write-down may be necessary. During the three and nine months ended January 31, 2014 and 2013, no other-than-temporary impairment was recognized.

Business Acquisitions

Business acquisitions are accounted for under the acquisition method. The acquisition method requires the reporting entity to identify the acquirer, determine the acquisition date, recognize and measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired entity, and recognize and measure goodwill or a gain from the purchase. The acquiree's results are included in the Company's consolidated financial statements from the date of acquisition. Assets acquired and liabilities assumed are recorded at their fair values and the excess of the purchase price over the amounts assigned is recorded as goodwill, or if the fair value of the assets acquired exceeds the purchase price, a bargain purchase gain is recorded. Adjustments to fair value assessments are generally recorded to goodwill over the measurement period (not longer than twelve months). The acquisition method also requires that acquisition-related transaction and post-acquisition restructuring costs be charged to expense as committed, and requires the Company to recognize and measure certain assets and liabilities including those arising from contingencies and contingent consideration in a business combination. During the nine months ended January 31, 2014, the Company paid contingent consideration to the selling stockholders of PDI Ninth House (PDI) of \$15 million, as required under the merger agreement, as a result of the achievement of certain pre-determined goals associated with expense synergies.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of assets acquired. The goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, goodwill of the reporting unit would be considered impaired. To measure the amount of the impairment loss, the implied fair value of a reporting unit's goodwill is compared to the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying amount of a reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. For each of these tests, the fair value of each of the Company's reporting units is determined using a combination of valuation techniques, including a discounted cash flow methodology. To corroborate the discounted cash flow analysis performed at each reporting unit, a market approach is utilized using observable market data such as comparable companies in similar lines of business that are publicly traded or which are part of a public or private transaction (to the extent available). Results of the annual impairment test performed as of January 31, 2013, indicated that the fair value of each reporting unit exceeded its carrying amount. As a result, no impairment charge was recognized. The Company's annual

impairment test as of January 31, 2014 will be performed in the fourth quarter of fiscal 2014. There were no indicators of impairment as of January 31, 2014 and April 30, 2013.

Intangible assets primarily consist of customer lists, non-compete agreements, proprietary databases, intellectual property and trademarks and are recorded at their estimated fair value at the date of acquisition and are amortized in a pattern in which the asset is consumed if that pattern can be reliably determined, or using the straight-line method over their estimated useful lives which range from two to 24 years. For intangible assets subject to amortization, an impairment loss is recognized if the carrying amount of the intangible assets is not recoverable and exceeds fair value. The carrying amount of the intangible assets is considered not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from use of the asset. Intangible assets with indefinite lives are not amortized, but are reviewed annually for impairment or more frequently whenever events or changes in circumstances indicate that the fair value of the asset may be less than its carrying amount. As of January 31, 2014 and April 30, 2013, there were no indicators of impairment with respect to the Company's intangible assets.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

January 31, 2014

Compensation and Benefits Expense

Compensation and benefits expense in the accompanying consolidated statements of income consist of compensation and benefits paid to consultants (employees who originate business), executive officers and administrative and support personnel. The most significant portions of this expense are salaries and the amounts paid under the annual performance related bonus plan to employees. The portion of the expense applicable to salaries is comprised of amounts earned by employees during a reporting period. The portion of the expenses applicable to annual performance related bonuses refers to the Company's annual employee performance related bonus with respect to a fiscal year, the amount of which is communicated and paid to each eligible employee following the completion of the fiscal year.

Each quarter, management makes its best estimate of its annual performance related bonuses, which requires management to, among other things, project annual consultant productivity (as measured by engagement fees billed and collected by executive search consultants and revenue and other performance metrics for LTC and Futurestep consultants), Company performance including profitability, competitive forces and future economic conditions and their impact on the Company's results. At the end of each fiscal year, annual performance related bonuses take into account final individual consultant productivity, Company results including profitability, the achievement of strategic objectives, the results of individual performance appraisals, and the current economic landscape. Accordingly, each quarter the Company re-evaluates the assumptions used to estimate annual performance related bonus liability and adjusts the carrying amount of the liability recorded on the consolidated balance sheet and reports any changes in the estimate in current operations.

Because annual performance-based bonuses are communicated and paid only after the Company reports its full fiscal year results, actual performance-based bonus payments may differ from the prior year's estimate. Such changes in the bonus estimate historically have been immaterial and are recorded in current operations in the period in which they are determined. The performance related bonus expense was \$104.7 million and \$82.0 million for the nine months ended January 31, 2014 and 2013, respectively, which was reduced by a change in the previous years' estimate recorded in the first quarter of fiscal 2014 and 2013 of \$0.7 million and \$0.2 million, respectively. This resulted in net bonus expense of \$104.0 million and \$81.8 million in the nine months ended January 31, 2014 and 2013, respectively, included in compensation and benefits expense in the consolidated statements of income. During the three months ended January 31, 2014 and 2013, the performance related bonus expense was \$36.5 million and \$28.0 million, respectively, included in compensation and benefits expense. No change in estimate related to previous years estimates was recorded in the three months ended January 31, 2014 or 2013.

Other expenses included in compensation and benefits expense are due to changes in deferred compensation and pension plan liabilities, changes in cash surrender value (CSV) of company owned life insurance (COLI) contracts, amortization of stock compensation awards, payroll taxes and employee insurance benefits.

Restructuring Charges, Net

The Company accounts for its restructuring charges as a liability when the obligations are incurred and records such charges at fair value. Changes in the estimates of the restructuring charges are recorded in the period the change is determined.

Stock-Based Compensation

The Company has employee compensation plans under which various types of stock-based instruments are granted. These instruments principally include stock options, restricted stock units, restricted stock and an Employee Stock Purchase Plan (ESPP). The Company recognizes compensation expense related to restricted stock units, restricted stock and the estimated fair value of stock options and stock purchases under the ESPP on a straight-line basis over the service period for the entire award.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

January 31, 2014

Recently Adopted Accounting Standards

In February 2013, the Financial Accounting Standards Board (FASB) issued updated guidance requiring entities to provide information about the amounts reclassified out of accumulated other comprehensive income (AOCI) by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. No changes were made to the current requirements for reporting net income or other comprehensive income in the financial statements. The guidance is effective for annual and interim reporting periods beginning after December 15, 2012. The Company adopted this guidance during the nine months ended January 31, 2014 and the adoption did not have an impact on the financial statements of the Company.

In July 2012, the FASB issued updated guidance on the periodic testing of indefinite-lived intangible assets for impairment. This guidance allows companies to assess qualitative factors to determine if it is more likely than not that the indefinite lived intangible asset might be impaired and whether it is necessary to perform a quantitative impairment test. This new guidance is effective for the Company beginning May 1, 2013, with early adoption permitted. The Company will perform its annual impairment test as of January 31, 2014 during the fourth quarter of fiscal 2014, and plans to perform a quantitative impairment test.

Recently Proposed Accounting Standards

In March 2013, the FASB issued guidance on releasing cumulative translation adjustments when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. In addition, these amendments provide guidance on the release of cumulative translation adjustments in partial sales of equity method investments and in step acquisitions. This new guidance is effective on a prospective basis for fiscal years and interim reporting periods beginning after December 15, 2013. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted and early adoption is permitted. The Company plans to adopt this guidance beginning May 1, 2014. The Company does not expect the adoption of this guidance to have a material impact on its financial condition or results of operations.

In June 2013, the FASB issued guidance on how a liability for an unrecognized tax benefit should be presented in the financial statements if the ultimate settlement of such liability will not result in a cash payment to the tax authority but will, rather, reduce a deferred tax asset for a net operating loss or tax credit carryforward. The FASB concluded that, when settlement in such manner is available under tax law, an unrecognized tax benefit should be presented as a reduction of the deferred tax asset associated with the net operating loss or tax credit carryforward. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2013. The Company will adopt the provisions of this new guidance beginning May 1, 2014, and does not expect the adoption of this guidance to have a material impact on its financial condition or results of operations.

2. Basic and Diluted Earnings Per Share

Basic earnings per common share was computed by dividing net earnings attributable to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings per common share was computed by dividing net earnings attributable to common stockholders by the weighted-average number of common shares outstanding plus dilutive common equivalent shares. Dilutive common equivalent shares include all in-the-money outstanding options or other contracts to issue common stock as if they were exercised or converted. During the three months ended January 31, 2014, all shares of outstanding options were included in the computation of diluted earnings per share. During the nine months ended January 31, 2014, options to purchase 0.1 million shares were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. During the three and nine months ended January 31, 2013, options to purchase 0.5 million shares and 0.6 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

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The following table summarizes basic and diluted earnings per share calculations:

	Three Months Ended January 31, 2014		Nine Months Ended January 31, 2014	
	2014	2013	2014	2013
	(in thousands, except per share data)			
Net earnings attributable to common stockholders	\$ 21,304	\$ 9,482	\$ 51,480	\$ 21,096
Weighted-average common shares outstanding:				
Basic weighted-average number of common shares outstanding	48,341	47,367	48,041	47,149
Effect of dilutive securities:				
Restricted stock	651	491	728	426
Stock options	189	157	208	167
Diluted weighted-average number of common shares outstanding	49,181	48,015	48,977	47,742
Net earnings per common share:				
Basic earnings per share	\$ 0.44	\$ 0.20	\$ 1.07	\$ 0.45
Diluted earnings per share	\$ 0.43	\$ 0.20	\$ 1.05	\$ 0.44

3. Comprehensive Income

Comprehensive income is comprised of net income and all changes to stockholders' equity, except those changes resulting from investments by stockholders (changes in paid in capital) and distributions to stockholders (dividends) and is reported in the accompanying consolidated statements of comprehensive income. Accumulated other comprehensive loss, net of taxes, is recorded as a component of stockholders' equity.

The components of accumulated other comprehensive loss were as follows:

**January 31, April 30,
2014 2013
(in thousands)**

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Foreign currency translation adjustments	\$ 9,175	\$ 17,559
Defined benefit pension adjustments, net of taxes	(20,236)	(20,236)
Unrealized gains on marketable securities, net of taxes	19	46
Accumulated other comprehensive loss, net	\$ (11,042)	\$ (2,631)

Table of Contents**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****January 31, 2014****4. Employee Stock Plans*****Stock-Based Compensation***

The following table summarizes the components of stock-based compensation expense recognized in the Company's consolidated statements of income for the periods indicated:

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2014	2013	2014	2013
	(in thousands)			
Restricted stock	\$ 2,931	\$ 2,297	\$ 8,478	\$ 8,130
Stock options	96	254	341	690
Total stock-based compensation expense, pre-tax	3,027	2,551	8,819	8,820
Tax benefit from stock-based compensation expense	(705)	(441)	(2,762)	(3,186)
Total stock-based compensation expense, net of tax	\$ 2,322	\$ 2,110	\$ 6,057	\$ 5,634

The Company uses the Black-Scholes option valuation model to estimate the grant date fair value of employee stock options. The expected volatility reflects consideration of the historical volatility in the Company's publicly traded stock during the period the option is granted. The Company believes historical volatility in these instruments is more indicative of expected future volatility than the implied volatility in the price of the Company's common stock. The expected life of each option is estimated using historical data. The risk-free interest rate is based on the U.S. Treasury zero-coupon issue with a remaining term approximating the expected term of the option. The Company uses historical data to estimate forfeiture rates applied to the gross amount of expense determined using the option valuation model. The Company did not grant stock options in the three and nine months ended January 31, 2014 and 2013.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options. The assumptions used in option valuation models are highly subjective, particularly the expected stock price volatility of the underlying stock.

Stock Incentive Plans

At the Company's 2012 Annual Meeting of Stockholders, held on September 27, 2012, the Company's stockholders approved an amendment and restatement to the Korn/Ferry International Amended and Restated 2008 Stock Incentive Plan (the 2012 amendment and restatement being the Second A&R 2008 Plan), which among other things, increased the current maximum number of shares that may be issued under the plan to 5,700,000 shares, subject to certain

changes in the Company's capital structure and other extraordinary events. The Second A&R 2008 Plan provides for the grant of awards to eligible participants, designated as either nonqualified or incentive stock options, restricted stock and restricted stock units, any of which may be performance-based or market-based, and incentive bonuses, which may be paid in cash or a combination thereof. Under the Second A&R 2008 Plan, the ability to issue full-value awards is limited by requiring full-value stock awards to count 1.91 times as much as stock options.

Table of Contents**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****January 31, 2014*****Stock Options***

Stock options transactions under the Company's Second A&R 2008 Plan, as amended to date, were as follows:

	Nine Months Ended January 31, 2014			
	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
	(in thousands, except per share data)			
Outstanding, April 30, 2013	1,100	\$ 14.72		
Exercised	(571)	\$ 13.42		
Forfeited/expired.	(46)	\$ 13.09		
Outstanding, January 31, 2014	483	\$ 16.39	2.37	\$ 3,410
Exercisable, January 31, 2014	413	\$ 16.35	2.15	\$ 2,937

As of January 31, 2014, there was \$0.2 million of total unrecognized compensation cost related to non-vested awards of stock options. That cost is expected to be recognized over a weighted-average period of 0.6 year. For stock option awards subject to graded vesting, the Company recognizes the total compensation cost on a straight-line basis over the service period for the entire award.

Additional information pertaining to stock options:

	Three Months Ended		Nine Months Ended	
	January 31, 2014	January 31, 2013	January 31, 2014	January 31, 2013
	(in thousands)			
Total fair value of stock options vested	\$ 40	\$ 20	\$ 917	\$ 927
Total intrinsic value of stock options exercised	\$ 2,805	\$ 210	\$ 5,174	\$ 1,121

Restricted Stock

The Company grants time-based restricted stock awards to executive officers and other senior employees generally vesting over a three to four year period. Employees may receive restricted stock annually in conjunction with the Company's performance review as well as upon commencement of employment. Time-based restricted stock awards are granted at a price equal to fair value, which is determined based on the closing price of the Company's common stock on the grant date. The Company recognizes compensation expense for time-based restricted stock awards on a straight-line basis over the vesting period.

The Company also grants market-based and performance-based restricted stock units to executive officers and other senior employees. The market-based units vest after three years depending upon the Company's total stockholder return over the three-year performance period relative to other companies in its selected peer group. The fair value of these market-based restricted stock units are determined by a third-party valuation using extensive market data that is based on historical Company and peer group information. The Company recognizes compensation expense for market-based restricted stock units on a straight-line basis over the vesting period.

Performance-based restricted stock units vest after three years depending upon the Company meeting certain objectives that are set at the time the restricted stock unit is issued. Performance-based restricted stock units are granted at a price equal to the fair value, which is determined based on the closing price of the Company's common stock on the grant date. The Company recognizes compensation expense for performance-based restricted stock units on a straight-line basis over the vesting period. At the end of each reporting period, the Company estimates the number of restricted stock units expected to vest, based on the probability that certain performance objectives will be met, exceeded, or fall below target levels, and takes into account when calculating the expense for the period.

Table of Contents**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****January 31, 2014**

Restricted stock activity during the nine months ended January 31, 2014 is summarized below:

	Shares	Weighted- Average Grant Date Fair Value
	(in thousands, except per share data)	
Non-vested, April 30, 2013	1,810	\$ 16.38
Granted	806	\$ 21.30
Vested	(506)	\$ 14.38
Forfeited/expired.	(202)	\$ 17.14
Non-vested, January 31, 2014	1,908	\$ 18.91

As of January 31, 2014, there were 0.3 million shares and 0.2 million shares outstanding relating to market-based and performance-based restricted stock units, respectively, with total unrecognized compensation totaling \$2.6 million and \$4.8 million, respectively.

As of January 31, 2014, there was \$25.4 million of total unrecognized compensation cost (including market-based and performance-based restricted stock units) related to non-vested awards of restricted stock, which is expected to be recognized over a weighted-average period of 2.5 years. During the three and nine months ended January 31, 2014, shares of restricted stock of 2,308 and 103,707 totaling \$0.1 million and \$2.1 million, respectively, were repurchased by the Company, at the option of the employee, to pay for taxes related to vesting of restricted stock. During the three and nine months ended January 31, 2013, shares of restricted stock of 2,065 and 188,271 totaling \$0.1 million and \$2.7 million, respectively, were repurchased by the Company, at the option of the employee, to pay for taxes related to vesting of restricted stock.

Common Stock

During the three and nine months ended January 31, 2014, the Company issued 255,732 shares and 570,855 shares of common stock, respectively, as a result of the exercise of stock options, with cash proceeds from the exercise of \$3.6 million and \$7.4 million, respectively. During the three and nine months ended January 31, 2013, the Company issued 35,083 shares and 170,594 shares of common stock, respectively, as a result of the exercise of stock options, with cash proceeds from the exercise of \$0.3 million and \$1.3 million, respectively.

No shares were repurchased during the three and nine months ended January 31, 2014 and 2013, other than to satisfy minimum tax withholding requirements upon the vesting of restricted stock as described above.

Table of Contents**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****January 31, 2014****5. Marketable Securities**

As of January 31, 2014, marketable securities consisted of the following:

	Trading (1)(2)	Available-for- Sale (2) (in thousands)	Total
Mutual funds	\$ 115,123	\$	\$ 115,123
Corporate bonds		14,297	14,297
Total	115,123	14,297	129,420
Less: current portion of marketable securities	(4,310)	(2,027)	(6,337)
Non-current marketable securities	\$ 110,813	\$ 12,270	\$ 123,083

As of April 30, 2013, marketable securities consisted of the following:

	Trading (1)(2)	Available-for- Sale (2) (in thousands)	Total
Mutual funds	\$ 98,001	\$	\$ 98,001
Corporate bonds		42,111	42,111
U.S. Treasury and agency securities		1,804	1,804
Total	98,001	43,915	141,916
Less: current portion of marketable securities	(4,537)	(15,810)	(20,347)
Non-current marketable securities	\$ 93,464	\$ 28,105	\$ 121,569

- (1) These investments are held in trust for settlement of the Company's vested and unvested obligations of \$116.4 million and \$99.2 million as of January 31, 2014 and April 30, 2013, respectively, under the ECAP (see Note 6 *Deferred Compensation and Retirement Plans*).

- (2) The Company's financial assets measured at fair value on a recurring basis include trading securities classified as Level 1 and available-for-sale securities classified as Level 2. As of January 31, 2014 and April 30, 2013, the Company had cash equivalents of \$129.2 million and \$93.6 million, respectively, classified as Level 1. As of April 30, 2013, the Company had restricted cash of \$2.9 million, classified as Level 1. As of January 31, 2014, the Company had no restricted cash balance. As of January 31, 2014 and April 30, 2013, the Company had no investments classified as Level 3.

The amortized cost and fair values of marketable securities classified as available-for-sale investments were as follows:

	January 31, 2014			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	
(in thousands)				
Corporate bonds	\$ 14,262	\$ 35	\$	\$ 14,297
	April 30, 2013			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	
(in thousands)				
Corporate bonds	\$ 42,033	\$ 92	\$ (14)	\$ 42,111
U.S. Treasury and agency securities	1,802	2		1,804
Total	\$ 43,835	\$ 94	\$ (14)	\$ 43,915

- (1) There are no marketable securities that have been in a continuous unrealized loss position for 12 months or more.

Table of Contents**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****January 31, 2014**

Investments in marketable securities classified as available-for-sale securities are made based on the Company's investment policy, which restricts the types of investments that can be made. As of January 31, 2014 and April 30, 2013, the Company's investments associated with cash equivalents, consist of money market funds for which market prices are readily available and as of April 30, 2013 includes restricted cash. As of January 31, 2014 and April 30, 2013, marketable securities classified as available-for-sale consist of corporate bonds and as of April 30, 2013 also includes U.S. Treasury and agency securities, all for which market prices for similar assets are readily available. As of January 31, 2014, available-for-sale marketable securities have remaining maturities ranging from four months to 1.8 years. During the nine months ended January 31, 2014 and 2013, the Company received \$33.3 million and \$34.9 million, respectively in proceeds from sales/maturities of available-for-sale marketable securities. Investments in marketable securities classified as trading are based upon investment selections the employee elects from a pre-determined set of securities in the ECAP and the Company invests in marketable securities to mirror these elections. As of January 31, 2014 and April 30, 2013, the Company's investments in marketable securities classified as trading consist of mutual funds for which market prices are readily available.

As of January 31, 2014 and April 30, 2013, the Company's marketable securities classified as trading were \$115.1 million (net of gross unrealized gains of \$8.0 million and gross unrealized losses of \$0.9 million) and \$98.0 million (net of gross unrealized gains of \$3.1 million and no gross unrealized losses), respectively.

6. Deferred Compensation and Retirement Plans

The Company has several deferred compensation and retirement plans for eligible consultants and vice-presidents that provide defined benefits to participants based on the deferral of current compensation or contributions made by the Company subject to vesting and retirement or termination provisions. In June 2003, the Company amended the deferred compensation plans, with the exception of the ECAP and international retirement plans, so as not to allow new participants or the purchase of additional deferral units by existing participants.

The components of net periodic benefit costs are as follows:

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2014	2013	2014	2013
	(in thousands)			
Amortization of actuarial loss	\$ 780	\$ 594	\$ 2,339	\$ 1,782
Interest cost	675	756	2,027	2,268
Net periodic benefit costs	\$ 1,455	\$ 1,350	\$ 4,366	\$ 4,050

The Company purchased COLI contracts insuring employees eligible to participate in the deferred compensation and pension plans as a means of funding benefits under such plans. The gross CSV of these contracts of \$167.0 million and \$159.2 million is offset by outstanding policy loans of \$73.3 million in the accompanying consolidated balance sheets as of January 31, 2014 and April 30, 2013, respectively. The market value of the underlying COLI investments increased by \$1.8 million and \$6.4 million during the three and nine months ended January 31, 2014, respectively, and is recorded as a decrease in compensation and benefits expense in the accompanying consolidated statement of income. During the three and nine months ended January 31, 2013, the market value of the underlying COLI investments increased by \$2.0 million and \$4.2 million, respectively, and is recorded as a decrease in compensation and benefits expense in the accompanying consolidated statement of income.

The Company has an ECAP, which is intended to provide certain employees an opportunity to defer salary and/or bonus on a pre-tax basis or make an after-tax contribution. The Company made contributions to the ECAP during the three and nine months ended January 31, 2014, of \$0.4 million and \$17.1 million, respectively. The Company made contributions to the ECAP during the three and nine months ended January 31, 2013, of \$0.7 million and \$20.0 million, respectively. As these contributions vest, the amounts are recorded as a liability in deferred compensation and other retirement plans on the accompanying balance sheet and compensation and benefits on the accompanying consolidated statement of income. Certain key management may also receive Company ECAP contributions upon commencement of employment. Participants generally vest in Company contributions over a four year period. The ECAP is accounted for whereby the changes in the fair value of the vested amounts owed to the participants are adjusted with a corresponding charge (or credit) to compensation and benefits costs. During the three and nine months ended January 31, 2014, deferred compensation liability increased;

Table of Contents**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****January 31, 2014**

therefore, the Company recognized an increase in compensation expense of \$1.1 million and \$6.1 million, respectively. During the three and nine months ended January 31, 2013, deferred compensation liability increased; therefore, the Company recognized an increase in compensation expense of \$2.9 million and \$3.4 million, respectively.

Offsetting these changes in compensation and benefits expense was an increase in the fair value of marketable securities classified as trading (held in trust to satisfy obligations under certain deferred compensation liabilities) of \$1.2 million and \$7.6 million in the three and nine months ended January 31, 2014, respectively, and \$3.8 million and \$4.9 million in the three and nine months ended January 31, 2013, respectively, recorded in other income, net on the consolidated statement of income.

7. Restructuring Charges, Net

The Company continued the implementation of the fiscal 2013 restructuring plan during the nine months ended January 31, 2014 in order to integrate PDI by consolidating and eliminating certain redundant office space around the world and by continuing to consolidate certain overhead functions. This resulted in restructuring charges of \$3.7 million against operations in the nine months ended January 31, 2014, of which \$0.8 million relates to severance and \$2.9 million relates to consolidation of premises.

Changes in the restructuring liability during the three months ended January 31, 2014 were as follows:

	Severance	Facilities	Total
	(in thousands)		
Liability as of October 31, 2013	\$ 584	\$ 4,987	\$ 5,571
Reductions for cash payments	(617)	(1,186)	(1,803)
Exchange rate fluctuations	83	(106)	(23)
Liability as of January 31, 2014	\$ 50	\$ 3,695	\$ 3,745

Changes in the restructuring liability during the nine months ended January 31, 2014 were as follows:

	Severance	Facilities	Total
	(in thousands)		
Liability as of April 30, 2013	\$ 4,819	\$ 6,729	\$ 11,548
Reductions for cash payments	(5,831)	(5,907)	(11,738)
Restructuring charges, net	823	2,859	3,682

Exchange rate fluctuations	239	14	253
Liability as of January 31, 2014	\$ 50	\$ 3,695	\$ 3,745

As of January 31, 2014 and April 30, 2013, the restructuring liability is included in the current portion of other accrued liabilities on the consolidated balance sheets, except for \$1.0 million and \$2.4 million, respectively, of facilities costs which primarily relate to commitments under operating leases, net of sublease income, which are included in other long-term liabilities and will be paid over the next four years.

The restructuring liability by segment is summarized below:

	January 31, 2014		
	Severance	Facilities	Total
	(in thousands)		
Executive Recruitment			
North America	\$ 5	\$ 315	\$ 320
Europe, Middle East and Africa (EMEA)		589	589
Total Executive Recruitment	5	904	909
LTC	45	2,043	2,088
Futurestep		748	748
Liability as of January 31, 2014	\$ 50	\$ 3,695	\$ 3,745

Table of Contents**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****January 31, 2014**

	April 30, 2013		
	Severance	Facilities	Total
	(in thousands)		
Executive Recruitment			
North America	\$ 918	\$ 659	\$ 1,577
EMEA	678	856	1,534
Asia Pacific		69	69
Total Executive Recruitment	1,596	1,584	3,180
LTC	2,497	3,956	6,453
Futurestep	277	1,189	1,466
Corporate	449		449
Liability as of April 30, 2013	\$ 4,819	\$ 6,729	\$ 11,548

8. Business Segments

The Company currently operates in three global businesses: Executive Recruitment, LTC and Futurestep. The Executive Recruitment segment focuses on recruiting Board of Director and C-level positions, in addition to research-based interviewing and onboarding solutions, for clients predominantly in the consumer, financial services, industrial, life sciences/healthcare and technology industries. LTC provides a comprehensive blend of leadership and talent management solutions including both consulting services and product offerings. Service and product offerings in this segment include: Leadership Strategy, Board, CEO and Top Team Effectiveness, Succession Planning, Assessment, Leadership and Employee Development, Diversity and Inclusion as well as a rich library of online learning modules. Futurestep is a global industry leader in high impact enterprise-wide consulting and recruitment solutions. Its portfolio of services includes RPO, talent acquisition and management consulting services, project-based recruitment, non-executive and other professional recruitment. The Executive Recruitment business segment is managed by geographic regional leaders and LTC's and Futurestep's worldwide operations are managed by their respective Chief Executive Officers. The Executive Recruitment geographic regional leaders and the Chief Executive Officers of LTC and Futurestep report directly to the Chief Executive Officer of the Company. The Company also operates a Corporate segment to record global expenses of the Company.

The Company evaluates performance and allocates resources based on the Company's chief operating decision maker's (CODM) review of (1) fee revenue and (2) earnings before interest, taxes, depreciation and amortization (EBITDA), which is further adjusted to exclude restructuring charges (net of recoveries) and/or integration/acquisition and certain separation costs (Adjusted EBITDA). The accounting policies for the reportable segments are the same as those described in the summary of significant accounting policies, except that unusual or infrequent items are excluded from Adjusted EBITDA.

Table of Contents**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****January 31, 2014**

Financial highlights by business segment are as follows:

	Three Months Ended January 31, 2014								Consolidated
	North America	EMEA	Asia Pacific	South America	Subtotal	LTC	Futurestep	Corporate	
	Executive Recruitment								
	(in thousands)								
Fee revenue	\$ 77,208	\$ 39,144	\$ 20,213	\$ 7,477	\$ 144,042	\$ 62,217	\$ 35,925	\$	\$ 242,184
Total revenue	\$ 80,926	\$ 40,381	\$ 20,820	\$ 7,560	\$ 149,687	\$ 64,282	\$ 36,968	\$	\$ 250,937
Net income									\$ 21,304
Other income, net									(1,132)
Interest expense, net									873
Equity in earnings of unconsolidated subsidiaries									(470)
Income tax provision									6,727
Operating income (loss)	\$ 19,919	\$ 6,649	\$ 3,922	\$ 1,132	\$ 31,622	\$ 5,651	\$ 3,925	\$ (13,896)	\$ 27,302
Depreciation and amortization	849	452	267	52	1,620	3,272	437	1,004	6,333
Other income, net	81	121	52		254	92	28	758	1,132
Equity in earnings of unconsolidated subsidiaries	36				36			434	470
EBITDA	20,885	7,222	4,241	1,184	33,532	9,015	4,390	(11,700)	35,237
Adjusted EBITDA	\$ 20,885	\$ 7,222	\$ 4,241	\$ 1,184	\$ 33,532	\$ 9,015	\$ 4,390	\$ (11,700)	\$ 35,237

	Three Months Ended January 31, 2013								Consolidated
	North America	EMEA	Asia Pacific	South America	Subtotal	LTC	Futurestep	Corporate	
	Executive Recruitment								
	(in thousands)								
Fee revenue	\$ 71,259	\$ 33,600	\$ 18,301	\$ 7,334	\$ 130,494	\$ 41,155	\$ 30,355	\$	\$ 202,004

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Total revenue	\$ 74,992	\$ 34,491	\$ 18,816	\$ 7,382	\$ 135,681	\$ 43,008	\$ 31,583	\$	\$ 210,272
Net income									\$ 9,482
Other income, net									(3,296)
Interest expense, net									360
Equity in earnings of unconsolidated subsidiaries									(593)
Income tax provision									2,753
Operating income (loss)	\$ 14,637	\$ 4,177	\$ 1,913	\$ 920	\$ 21,647	\$ (2,798)	\$ 3,722	\$ (13,865)	\$ 8,706
Depreciation and amortization	1,183	605	368	91	2,247	1,764	324	753	5,088
Other income (loss), net	158	123	63	(19)	325	37	5	2,929	3,296
Equity in earnings of unconsolidated subsidiaries	148				148			445	593
EBITDA	16,126	4,905	2,344	992	24,367	(997)	4,051	(9,738)	17,683
Restructuring charges, net						4,441			4,441
Separation costs		516			516				516
Integration/acquisition costs								2,515	2,515
Adjusted EBITDA	\$ 16,126	\$ 5,421	\$ 2,344	\$ 992	\$ 24,883	\$ 3,444	\$ 4,051	\$ (7,223)	\$ 25,155

Table of Contents**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****January 31, 2014****Nine Months Ended January 31, 2014****Executive Recruitment**

	North America	EMEA	Asia Pacific	South America	Subtotal	LTC	Futurestep	Corporate	Consolidated
	(in thousands)								
Fee revenue	\$ 226,538	\$ 107,742	\$ 63,063	\$ 23,346	\$ 420,689	\$ 188,357	\$ 99,543	\$	\$ 708,589
Total revenue	\$ 237,771	\$ 111,078	\$ 65,087	\$ 23,522	\$ 437,458	\$ 194,566	\$ 102,737	\$	\$ 734,761
Net income									\$ 51,480
Other income, net									(7,751)
Interest expense, net									2,102
Equity in earnings of unconsolidated subsidiaries									(1,492)
Income tax provision									22,789
Operating income (loss)	\$ 51,773	\$ 18,469	\$ 12,894	\$ 4,893	\$ 88,029	\$ 16,992	\$ 9,009	\$ (46,902)	\$ 67,128
Depreciation and amortization	2,732	1,339	1,102	225	5,398	9,330	1,285	2,844	18,857
Other income, net	529	403	144	10	1,086	145	576	5,944	7,751
Equity in earnings of unconsolidated subsidiaries	258				258			1,234	1,492
EBITDA	55,292	20,211	14,140	5,128	94,771	26,467	10,870	(36,880)	95,228
Restructuring charges, net	816	460	60		1,336	1,149	1,134	63	3,682
Separation costs								4,500	4,500
Integration costs								394	394
Adjusted EBITDA	\$ 56,108	\$ 20,671	\$ 14,200	\$ 5,128	\$ 96,107	\$ 27,616	\$ 12,004	\$ (31,923)	\$ 103,804

Nine Months Ended January 31, 2013**Executive Recruitment**

	North America	EMEA	Asia Pacific	South America	Subtotal	LTC	Futurestep	Corporate	Consolidated
	(in thousands)								
Fee revenue	\$ 212,806	\$ 96,565	\$ 54,022	\$ 22,295	\$ 385,688	\$ 107,999	\$ 91,242	\$	\$ 584,929

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Total revenue	\$ 224,456	\$ 99,408	\$ 55,483	\$ 22,622	\$ 401,969	\$ 113,475	\$ 95,650	\$	\$ 611,094
Net income									\$ 21,096
Other income, net									(3,808)
Interest expense, net									1,721
Equity in earnings of unconsolidated subsidiaries									(1,567)
Income tax provision									11,042
Operating income (loss)	\$ 41,728	\$ 5,036	\$ 3,491	\$ 4,226	\$ 54,481	\$ 7,716	\$ 7,141	\$ (40,854)	\$ 28,484
Depreciation and amortization	3,610	1,751	1,137	250	6,748	3,387	940	2,052	13,127
Other income (loss), net	232	(85)	147	(19)	275	71	15	3,447	3,808
Equity in earnings of unconsolidated subsidiaries	305				305			1,262	1,567
EBITDA	45,875	6,702	4,775	4,457	61,809	11,174	8,096	(34,093)	46,986
Restructuring charges, net	5,436	4,752	613		10,801	5,118	3,086	931	19,936
Separation costs		516			516				516
Integration/acquisition costs								2,515	2,515
Adjusted EBITDA	\$ 51,311	\$ 11,970	\$ 5,388	\$ 4,457	\$ 73,126	\$ 16,292	\$ 11,182	\$ (30,647)	\$ 69,953

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KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

January 31, 2014

9. Long-Term Debt

As of January 31, 2014 and April 30, 2013, the Company had no borrowings under its long-term debt arrangements. At January 31, 2014 and April 30, 2013, there was \$2.8 million and \$2.7 million of standby letters of credit, respectively, issued under its long-term debt arrangements. As of April 30, 2013, under its previous senior secured credit agreement, the Company was required to maintain \$2.9 million in restricted cash to provide collateral for the standby letters of credit that were outstanding. During the nine months ended January 31, 2014, the Company transferred the standby letters of credit from its previous senior secured credit agreement to its current senior unsecured revolving credit agreement and since there is no restricted cash requirement under the Company's current arrangement, the Company has no restricted cash balance as of January 31, 2014. The Company has a total of \$0.2 million of standby letters of credits with other financial institutions as of January 31, 2014.

10. Commitments and Contingencies

During the nine months ended January 31, 2014, in connection with an employment dispute, the Company recorded expenses in the amount of \$4.5 million in compensation and benefits expense. The Company settled the liability and as of January 31, 2014 carries no liability regarding this matter.

11. Acquisitions

During the three months ended January 31, 2014, adjustments to the preliminary purchase price allocation relating to the PDI acquisition, resulted in a \$0.1 million increase in net assets acquired and a decrease in goodwill of \$0.1 million. During the nine months ended January 31, 2014, adjustments to the preliminary purchase price allocation relating to the PDI acquisition, resulted in an increase in the purchase price and goodwill of \$0.2 million.

During the nine months ended January 31, 2014, the Company paid contingent consideration to the selling stockholders of PDI of \$15 million, as required under the merger agreement, as a result of the achievement of certain pre-determined goals associated with expense synergies.

12. Supplemental Balance Sheet Information

Other accrued liabilities included deferred revenue of \$36.1 million and \$33.8 million as of January 31, 2014 and April 30, 2013, respectively, primarily as a result of LTC billings in advance of services rendered.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Forward-looking Statements**

This Quarterly Report on Form 10-Q may contain certain statements that we believe are, or may be considered to be, forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally can be identified by use of statements that include phrases such as believe, expect, anticipate, intend, plan, foresee, may, will, likely, estimates, potential, continue or other similar words or phrases. Similarly, statements that describe our objectives, plans or goals also are forward-looking statements. All of these forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from those contemplated by the relevant forward-looking statement. The principal risk factors that could cause actual performance and future actions to differ materially from the forward-looking statements include, but are not limited to, dependence on attracting and retaining qualified and experienced consultants, maintaining our brand name and professional reputation, potential legal liability and regulatory developments, portability of client relationships, global and local political or economic developments in or affecting countries where we have operations, currency fluctuations in our international operations, risks related to growth, restrictions imposed by off-limits agreements, competition, reliance on information processing systems, cyber security vulnerabilities, limited protection of our intellectual property, our ability to enhance and develop new technology, our ability to successfully recover from a disaster or business continuity problems, employment liability risk, an impairment in the carrying value of goodwill and other intangible assets, deferred tax assets that we may not be able to use, our ability to develop new products and services, changes in our accounting estimates and assumptions, alignment of our cost structure, risks related to the integration of recently acquired businesses, seasonality and the matters disclosed under the heading Risk Factors in the Company's Exchange Act reports, including Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2013 (Form 10-K). Readers are urged to consider these factors carefully in evaluating the forward-looking statements. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this Quarterly Report on Form 10-Q and we undertake no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.

The following presentation of management's discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q.

Executive Summary

Korn/Ferry International (referred to herein as the Company, Korn/Ferry, or in the first person notations we, our, and us) is a premier global provider of talent management solutions that helps clients design strategies to assist clients in building and attracting their talent. We are a premier provider of executive recruitment, leadership and talent consulting and talent acquisition solutions with the broadest global presence in the recruitment industry. Our services include Executive Recruitment, consulting and solutions services through Leadership & Talent Consulting (LTC) and recruitment for non-executive professionals and recruitment process outsourcing (RPO) through Futurestep. Approximately 75% of the executive recruitment searches we performed in fiscal 2013 were for board level, chief executive and other senior executive and general management positions. Our 5,228 clients in fiscal 2013 included many of the world's largest and most prestigious public and private companies, including approximately 42% of the FORTUNE 500, middle market and emerging growth companies, as well as government and nonprofit organizations. We have built strong client loyalty, with 81% of assignments performed during fiscal 2013 having been on behalf of clients for whom we had conducted assignments in the previous three fiscal years.

In an effort to maintain our long-term strategy of being a leading provider of talent management solutions, our strategic focus for fiscal 2014 centers upon enhancing the integration of our multi-service strategy. We plan to continue to address areas of increasing client demand including LTC and RPO. We further plan to explore new products and services, continue to pursue a disciplined acquisition strategy, enhance our technology and processes and aggressively leverage our brand through thought leadership and intellectual capital projects as a means of delivering world-class service to our clients.

During fiscal 2013, nearly 88% of our top 50 clients utilized at least two of our service lines. During fiscal 2013, we completed the acquisitions of Minneapolis-based PDI Ninth House (PDI), a leading, globally-recognized provider of leadership assessment and development solutions, and Global Novations, LLC, (Global Novations) a leading provider of

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diversity and inclusion and leadership development solutions, which are collectively referred to herein as the prior year acquisitions. As a result, in fiscal 2013, we implemented a restructuring plan focused on realizing the planned synergies associated with the prior year acquisitions. We continued to implement this plan during the first half of fiscal 2014 and in connection with the plan, recorded restructuring charges of \$3.7 million during the nine months ended January 31, 2014, of which \$2.9 million was for facility costs in order to integrate PDI by consolidating and eliminating redundant office space around the world and severance costs of \$0.8 million to consolidate certain overhead functions.

The Company currently operates in three global business segments: Executive Recruitment, LTC and Futurestep. See Note 8 *Business Segments*, in the Notes to our Consolidated Financial Statements for discussion of the Company's global business segments. The Company evaluates performance and allocates resources based on the chief operating decision maker's review of (1) fee revenue and (2) earnings before interest, taxes, depreciation and amortization (EBITDA), which is further adjusted to exclude restructuring charges (net of recoveries), and/or integration/acquisition and separation costs (Adjusted EBITDA). EBITDA and Adjusted EBITDA are non-GAAP financial measures. They have limitations as analytical tools, should not be viewed as substitutes for financial information determined in accordance with GAAP, and should not be considered in isolation or as substitutes for analysis of the Company's results as reported under GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Management believes the presentation of these non-GAAP financial measures provides meaningful supplemental information regarding Korn/Ferry's performance by excluding certain charges and other items that may not be indicative of Korn/Ferry's ongoing operating results. The use of these non-GAAP financial measures facilitates comparisons to Korn/Ferry's historical performance. Korn/Ferry includes these non-GAAP financial measures because management believes they are useful to investors in allowing for greater transparency with respect to supplemental information used by management in its evaluation of Korn/Ferry's ongoing operations and financial and operational decision-making. The accounting policies for the reportable segments are the same as those described in the summary of significant accounting policies in the accompanying consolidated financial statements, except that the above noted items are excluded from Adjusted EBITDA.

Fee revenue increased \$40.2 million, or 20% (12% increase in fee revenue when adjusting for the PDI acquisition), in the three months ended January 31, 2014 to \$242.2 million compared to \$202.0 million in the year-ago quarter, with increases in fee revenue in all regions of Executive Recruitment, and Futurestep, and LTC. During the three months ended January 31, 2014, we recorded operating income of \$27.3 million with Executive Recruitment, LTC, and Futurestep segments contributing \$31.6 million, \$5.7 million, and \$3.9 million, respectively, offset by corporate expenses of \$13.9 million. Net income during the three months ended January 31, 2014 and 2013 was \$21.3 million and \$9.5 million, respectively. Adjusted EBITDA increased \$10.0 million in the three months ended January 31, 2014 to \$35.2 million from \$25.2 million during the three months ended January 31, 2013, with Executive Recruitment, LTC, and Futurestep segments contributing \$33.6 million, \$8.9 million, and \$4.4 million, respectively, offset by corporate expenses of \$11.7 million.

Our cash, cash equivalents and marketable securities increased \$11.2 million, or 3%, to \$377.2 million at January 31, 2014 compared to \$366.0 million at April 30, 2013, mainly due to cash provided by operating activities, partially offset by bonuses earned in fiscal 2013 and paid during the first quarter of fiscal 2014 and \$15.0 million in contingent consideration paid to selling stockholders of PDI. As of January 31, 2014, we held marketable securities to settle obligations under the ECAP with a cost value of \$108.0 million and a fair value of \$115.1 million. Our vested and unvested obligations for which these assets were held in trust totaled \$116.4 million as of January 31, 2014. Our working capital increased by \$66.2 million to \$244.7 million in the nine months ended January 31, 2014. We believe that cash on hand and funds from operations will be sufficient to meet our anticipated working capital, capital expenditures and general corporate requirements in the next twelve months. We had no long-term debt or any outstanding borrowings under our credit facility at January 31, 2014 or April 30, 2013. As of April 30, 2013, under

our previous senior secured credit agreement we were required to maintain \$2.9 million in restricted cash to provide collateral for the standby letters of credit that were outstanding. There is no restricted cash requirement under our current senior unsecured revolving credit agreement and, as a result, the Company had no restricted cash balance as of January 31, 2014. As of January 31, 2014 and April 30, 2013, there was \$2.8 million and \$2.7 million of standby letters of credit, respectively, issued under our long-term debt arrangements. We have a total of \$0.2 million of standby letters of credits with other financial institutions as of January 31, 2014.

Table of Contents**Results of Operations**

The following table summarizes the results of our operations as a percentage of fee revenue:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2014	2013	2014	2013
Fee revenue	100.0%	100.0%	100.0%	100.0%
Reimbursed out-of-pocket engagement expenses	3.6	4.1	3.7	4.5
Total revenue	103.6	104.1	103.7	104.5
Compensation and benefits	67.0	69.2	67.2	68.5
General and administrative expenses	15.4	17.8	15.9	17.6
Reimbursed expenses	3.6	4.1	3.7	4.5
Cost of services	3.7	4.0	4.2	3.4
Depreciation and amortization	2.6	2.5	2.7	2.2
Restructuring charges, net		2.2	0.5	3.4
Operating income	11.3	4.3	9.5	4.9
Net income	8.8%	4.7%	7.3%	3.6%

The following tables summarize the results of our operations by business segment:

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2014		2013		2014		2013	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%
(dollars in thousands)								
Fee revenue								
Executive recruitment:								
North America	\$ 77,208	31.9%	\$ 71,259	35.3%	\$ 226,538	32.0%	\$ 212,806	36.4%
EMEA	39,144	16.2	33,600	16.6	107,742	15.2	96,565	16.5
Asia Pacific	20,213	8.3	18,301	9.1	63,063	8.9	54,022	9.2
South America.	7,477	3.1	7,334	3.6	23,346	3.3	22,295	3.8
Total executive recruitment	144,042	59.5	130,494	64.6	420,689	59.4	385,688	65.9
LTC	62,217	25.7	41,155	20.4	188,357	26.6	107,999	18.5
Futurestep	35,925	14.8	30,355	15.0	99,543	14.0	91,242	15.6
Total fee revenue	242,184	100.0%	202,004	100.0%	708,589	100.0%	584,929	100.0%
	8,753		8,268		26,172		26,165	

Reimbursed
out-of-pocket
engagement expenses

Total revenue \$ 250,937 \$ 210,272 \$ 734,761 \$ 611,094

		Three Months Ended January 31,		Nine Months Ended January 31,					
		2014		2013		2014		2013	
		Dollars	Margin (1)	Dollars	Margin (1)	Dollars	Margin (1)	Dollars	Margin (1)
		(dollars in thousands)							

Operating Income

**Executive
recruitment:**

North America	\$ 19,919	25.8%	\$ 14,637	20.5%	\$ 51,773	22.9%	\$ 41,728	19.6%
EMEA	6,649	17.0	4,177	12.4	18,469	17.1	5,036	5.2
Asia Pacific	3,922	19.4	1,913	10.5	12,894	20.4	3,491	6.5
South America.	1,132	15.1	920	12.5	4,893	21.0	4,226	19.0

**Total executive
recruitment**

	31,622	22.0	21,647	16.6	88,029	20.9	54,481	14.1
LTC	5,651	9.1	(2,798)	(6.8)	16,992	9.0	7,716	7.1
Futurestep	3,925	10.9	3,722	12.3	9,009	9.1	7,141	7.8
Corporate	(13,896)		(13,865)		(46,902)		(40,854)	

Total operating

income	\$ 27,302	11.3%	\$ 8,706	4.3%	\$ 67,128	9.5%	\$ 28,484	4.9%
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(1) Margin calculated as a percentage of fee revenue by business segment.

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Three Months Ended January 31, 2014									
Executive Recruitment									
	North America	EMEA	Asia Pacific	South America	Subtotal	LTC	Futurestep	Corporate	Consolidated
	(in thousands)								
Revenue	\$ 77,208	\$ 39,144	\$ 20,213	\$ 7,477	\$ 144,042	\$ 62,217	\$ 35,925	\$	\$ 242,184
Total revenue	\$ 80,926	\$ 40,381	\$ 20,820	\$ 7,560	\$ 149,687	\$ 64,282	\$ 36,968	\$	\$ 250,937
Net income									\$ 21,304
Other income, net									(1,132)
Interest expense, net									873
Equity in earnings of unconsolidated subsidiaries									(470)
Income tax provision									6,727
Operating income (loss)	\$ 19,919	\$ 6,649	\$ 3,922	\$ 1,132	\$ 31,622	\$ 5,651	\$ 3,925	\$ (13,896)	\$ 27,302
Depreciation and amortization	849	452	267	52	1,620	3,272	437	1,004	6,333
Other income, net	81	121	52		254	92	28	758	1,132
Equity in earnings of unconsolidated subsidiaries	36				36			434	470
EBITDA	20,885	7,222	4,241	1,184	33,532	9,015	4,390	(11,700)	35,237
Adjusted EBITDA	\$ 20,885	\$ 7,222	\$ 4,241	\$ 1,184	\$ 33,532	\$ 9,015	\$ 4,390	\$ (11,700)	\$ 35,237
Adjusted EBITDA	27.1%	18.4%	21.0%	15.8%	23.3%	14.5%	12.2%		14.5%

Three Months Ended January 31, 2013									
Executive Recruitment									
	North America	EMEA	Asia Pacific	South America	Subtotal	LTC	Futurestep	Corporate	Consolidated
	(in thousands)								
Revenue	\$ 71,259	\$ 33,600	\$ 18,301	\$ 7,334	\$ 130,494	\$ 41,155	\$ 30,355	\$	\$ 202,004
Total revenue	\$ 74,992	\$ 34,491	\$ 18,816	\$ 7,382	\$ 135,681	\$ 43,008	\$ 31,583	\$	\$ 210,272
Net income									\$ 9,482
Other income, net									(3,296)
Interest expense, net									360
Equity in earnings of unconsolidated subsidiaries									(593)
Income tax provision									2,753
Operating income (loss)	\$ 14,637	\$ 4,177	\$ 1,913	\$ 920	\$ 21,647	\$ (2,798)	\$ 3,722	\$ (13,865)	\$ 8,706
	1,183	605	368	91	2,247	1,764	324	753	5,088

depreciation and amortization									
Other income (loss), net	158	123	63	(19)	325	37	5	2,929	3,296
Equity in earnings of unconsolidated subsidiaries	148				148			445	593
EBITDA	16,126	4,905	2,344	992	24,367	(997)	4,051	(9,738)	17,683
Restructuring charges, net						4,441			4,441
Separation costs		516			516				516
Integration/acquisition costs								2,515	2,515
Adjusted EBITDA	\$ 16,126	\$ 5,421	\$ 2,344	\$ 992	\$ 24,883	\$ 3,444	\$ 4,051	\$ (7,223)	\$ 25,155
Adjusted EBITDA	22.6%	16.1%	12.8%	13.5%	19.1%	8.4%	13.3%		12.5%

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Nine Months Ended January 31, 2014									
Executive Recruitment									
	North America	EMEA	Asia Pacific	South America	Subtotal	LTC	Futurestep	Corporate	Consolidated
	(in thousands)								
Revenue	\$ 226,538	\$ 107,742	\$ 63,063	\$ 23,346	\$ 420,689	\$ 188,357	\$ 99,543	\$	\$ 708,538
Operating revenue	\$ 237,771	\$ 111,078	\$ 65,087	\$ 23,522	\$ 437,458	\$ 194,566	\$ 102,737	\$	\$ 734,783
Operating income									\$ 51,488
Operating income, net									(7,750)
Interest expense, net									2,100
Change in earnings of consolidated subsidiaries									(1,400)
Income tax provision									22,738
Operating income (loss)	\$ 51,773	\$ 18,469	\$ 12,894	\$ 4,893	\$ 88,029	\$ 16,992	\$ 9,009	\$ (46,902)	\$ 67,121
Depreciation and amortization	2,732	1,339	1,102	225	5,398	9,330	1,285	2,844	18,875
Operating income, net	529	403	144	10	1,086	145	576	5,944	7,750
Change in earnings of consolidated subsidiaries	258				258			1,234	1,492
Adjusted EBITDA	55,292	20,211	14,140	5,128	94,771	26,467	10,870	(36,880)	95,298
Restructuring charges, net	816	460	60		1,336	1,149	1,134	63	3,648
Integration costs								4,500	4,500
Integration costs								394	394
Adjusted EBITDA	\$ 56,108	\$ 20,671	\$ 14,200	\$ 5,128	\$ 96,107	\$ 27,616	\$ 12,004	\$ (31,923)	\$ 103,875
Adjusted EBITDA	24.8%	19.2%	22.5%	22.0%	22.8%	14.7%	12.1%		14.4%

Nine Months Ended January 31, 2013									
Executive Recruitment									
	North America	EMEA	Asia Pacific	South America	Subtotal	LTC	Futurestep	Corporate	Consolidated
	(in thousands)								
Revenue									