KORN FERRY INTERNATIONAL
Form 10-Q
December 09, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended October 31, 2013

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 Organization)	**(I.R.S. Employer Identification Number)**

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 x 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 x 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	x	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 x

The number of shares outstanding of our common stock as of December 4, 2013 was 49,472,850 shares.

Table of Contents

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

Table of Contents

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Consolidated Financial Statements***

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	October 31, 2013 (unaudited)	April 30, 2013
	(in thousands, except per share data)	
ASSETS		
Cash and cash equivalents	$ 182,628	$ 224,066
Marketable securities	6,531	20,347
Receivables due from clients, net of allowance for doubtful accounts of $9,775 and $9,097, respectively	199,247	161,508
Income taxes and other receivables	6,675	8,944
Deferred income taxes	2,622	3,511
Prepaid expenses and other assets	31,097	28,724
Total current assets	428,800	447,100
Marketable securities, non-current	125,754	121,569
Property and equipment, net	52,651	53,628
Cash surrender value of company owned life insurance policies, net of loans	90,898	85,873
Deferred income taxes, net	60,552	63,203
Goodwill	259,071	257,293
Intangible assets, net	53,879	58,187
Investments and other assets	28,841	28,376
Total assets	$ 1,100,446	$ 1,115,229
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	$ 18,281	$ 19,460
Income taxes payable	9,251	5,502
Compensation and benefits payable	119,163	160,298
Other accrued liabilities	61,332	83,291
Total current liabilities	208,027	268,551
Deferred compensation and other retirement plans	167,792	159,706
Other liabilities	20,800	22,504
Total liabilities	396,619	450,761
Stockholders equity:		
Common stock: $0.01 par value, 150,000 shares authorized, 61,729 and 61,022 shares issued and 49,441 and 48,734 shares outstanding, respectively	439,377	431,508
Retained earnings	266,266	236,090
Accumulated other comprehensive loss, net	(1,322)	(2,631)
Stockholders equity	704,321	664,967
Less: notes receivable from stockholders	(494)	(499)

Total stockholders equity	703,827	664,468
Total liabilities and stockholders equity	$ 1,100,446	$ 1,115,229

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

1

Table of Contents

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2013	2012	2013	2012
	(in thousands, except per share data)			
Fee revenue	$ 237,968	$ 196,231	$ 466,405	$ 382,925
Reimbursed out-of-pocket engagement expenses	8,269	8,568	17,419	17,897
Total revenue	246,237	204,799	483,824	400,822
Compensation and benefits	161,296	133,035	314,066	261,071
General and administrative expenses	35,795	33,317	75,666	66,760
Reimbursed expenses	8,269	8,568	17,419	17,897
Cost of services	11,132	7,318	20,641	11,782
Depreciation and amortization	6,580	4,297	12,524	8,039
Restructuring charges, net		15,495	3,682	15,495
Total operating expenses	223,072	202,030	443,998	381,044
Operating income	23,165	2,769	39,826	19,778
Other income, net	4,352	1,529	6,619	512
Interest expense, net	(638)	(762)	(1,229)	(1,361)
Income before provision for income taxes and equity in earnings of unconsolidated subsidiaries	26,879	3,536	45,216	18,929
Equity in earnings of unconsolidated subsidiaries	557	344	1,022	974
Income tax provision	8,677	2,684	16,062	8,289
Net income	$ 18,759	$ 1,196	$ 30,176	$ 11,614
Earnings per common share:				
Basic	$ 0.39	$ 0.03	$ 0.63	$ 0.25
Diluted	$ 0.38	$ 0.03	$ 0.62	$ 0.24
Weighted-average common shares outstanding:				
Basic	48,118	47,269	47,892	47,040
Diluted	48,816	47,834	48,748	47,658

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

Table of Contents

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2013	2012	2013	2012
	(in thousands)			
Net income	$ 18,759	$ 1,196	$ 30,176	$ 11,614
Other comprehensive income:				
Foreign currency translation adjustments	4,368	6,487	1,342	(3,372)
Unrealized gains (losses) on marketable securities, net of taxes	24	(10)	(33)	17
Comprehensive income	$ 23,151	$ 7,673	$ 31,485	$ 8,259

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)

	Six Months Ended October 31, 2013	Six Months Ended October 31, 2012
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 30,176	$ 11,614
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	12,524	8,039
Stock-based compensation expense	5,792	6,269
Provision for doubtful accounts	3,087	3,145
Gain on cash surrender value of life insurance policies	(4,587)	(2,178)
Gain on marketable securities	(6,369)	(1,129)
Deferred income taxes	3,949	5,174
Change in other assets and liabilities, net of effects of acquisition:		
Deferred compensation	7,372	(3,112)
Receivables due from clients	(40,826)	(23,004)
Income tax and other receivables	2,325	(1,774)
Prepaid expenses and other assets	(2,373)	(1,697)
Investment in unconsolidated subsidiaries	(1,022)	(974)
Income taxes payable	3,771	(3,634)
Accounts payable and accrued liabilities	(44,928)	(40,996)
Other	(4,498)	924
Net cash used in operating activities	(35,607)	(43,333)
Cash flows from investing activities:		
Purchase of property and equipment	(11,471)	(6,606)
Cash paid for acquisition, net of cash acquired		(34,437)
Purchase of marketable securities	(23,299)	(32,816)
Proceeds from sales/maturities of marketable securities	38,911	30,763
Change in restricted cash	2,861	
Payment of contingent consideration from acquisition	(15,000)	
Premiums on life insurance policies	(438)	(438)
Dividends received from unconsolidated subsidiaries	510	418
Net cash used in investing activities	(7,926)	(43,116)
Cash flows from financing activities:		
Purchase of common stock	(1,967)	(2,643)
Proceeds from issuance of common stock upon exercise of employee stock options and in connection with an employee stock purchase plan	3,854	1,019
Tax benefit from exercise of stock options	137	161
Net cash provided by (used in) financing activities	2,024	(1,463)
Effect of exchange rate changes on cash and cash equivalents	71	(1,177)
Net decrease in cash and cash equivalents	(41,438)	(89,089)

Cash and cash equivalents at beginning of period	224,066	282,005
Cash and cash equivalents at end of period	$ 182,628	$ 192,916

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

Table of Contents

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2013

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 are 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 are 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

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2013

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 six months ended October 31, 2013, 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 October 31, 2013 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 in 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

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2013

in the statement of income in other income, net; any amount in 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 six months ended October 31, 2013 and 2012, 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 consideration, 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 six months ended October 31, 2013, 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. There were no indicators of impairment as of October 31, 2013 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 October 31, 2013 and April 30, 2013, there were no indicators of impairment with respect to the Company s intangible assets.

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.

Table of Contents

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2013

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 $68.2 million and $54.0 million for the six months ended October 31, 2013 and 2012, 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 $67.5 million and $53.8 million in the six months ended October 31, 2013 and 2012, respectively, included in compensation and benefits expense in the consolidated statements of income. During the three months ended October 31, 2013 and 2012, the performance related bonus expense was $37.0 million and $27.4 million, respectively, included in compensation and benefits expense. No change in estimate related to previous years estimates was recorded in the three months ended October 31, 2013 or 2012.

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.

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

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2013

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 six months ended October 31, 2013 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, 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 both the three and six months ended October 31, 2013, 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 both the three and six months ended October 31, 2012, options to purchase 0.6 million shares were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

Table of Contents

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2013

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

	Three Months Ended October 31, 2013	Three Months Ended October 31, 2012	Six Months Ended October 31, 2013	Six Months Ended October 31, 2012
	(in thousands, except per share data)			
Net earnings attributable to common stockholders	$ 18,759	$ 1,196	$ 30,176	$ 11,614
Weighted-average common shares outstanding:				
Basic weighted-average number of common shares outstanding	48,118	47,269	47,892	47,040
Effect of dilutive securities:				
Restricted stock	484	397	643	442
Stock options	214	168	213	176
Diluted weighted-average number of common shares outstanding	48,816	47,834	48,748	47,658
Net earnings per common share:				
Basic earnings per share	$ 0.39	$ 0.03	$ 0.63	$ 0.25
Diluted earnings per share	$ 0.38	$ 0.03	$ 0.62	$ 0.24

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:

	October 31, 2013	April 30, 2013
	(in thousands)	
Foreign currency translation adjustments	$ 18,901	$ 17,559
Defined benefit pension adjustments, net of taxes	(20,236)	(20,236)
Unrealized gains on marketable securities, net of taxes	13	46
Accumulated other comprehensive loss, net	$ (1,322)	$ (2,631)

10

Table of Contents

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2013

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 October 31,		Six Months Ended October 31,	
	2013	2012	2013	2012
	(in thousands)			
Restricted stock	$ 2,727	$ 2,847	$ 5,547	$ 5,833
Stock options	105	226	245	436
Total stock-based compensation expense, pre-tax	2,832	3,073	5,792	6,269
Tax benefit from stock-based compensation expense	(865)	(1,581)	(2,057)	(2,745)
Total stock-based compensation expense, net of tax	$ 1,967	$ 1,492	$ 3,735	$ 3,524

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 six months ended October 31, 2013 and 2012.

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)

October 31, 2013

Stock Options

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

	Six Months Ended October 31, 2013			
	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	(315)	$ 12.53		
Forfeited/expired	(26)	$ 12.51		
Outstanding, October 31, 2013	759	$ 15.70	2.28	$ 6,145
Exercisable, October 31, 2013	685	$ 15.60	2.11	$ 5,616

As of October 31, 2013, there was $0.3 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 0.7 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 October 31,		Six Months Ended October 31,	
	2013	2012	2013	2012
	(in thousands)			
Total fair value of stock options vested	$ 75	$ 78	$ 877	$ 907
Total intrinsic value of stock options exercised	$ 705	$ 751	$ 2,369	$ 911

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 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 was determined by a third-party valuation using extensive market data that are 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.

Restricted stock activity during the six months ended October 31, 2013 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	589	$ 19.77
Vested	(492)	$ 14.35
Forfeited/expired	(197)	$ 16.92
Non-vested, October 31, 2013	1,710	$ 18.08

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2013

As of October 31, 2013, there were 0.3 million shares outstanding relating to market-based restricted stock units, with total unrecognized compensation totaling $3.1 million.

As of October 31, 2013, there was $23.0 million of total unrecognized compensation cost (including market-based restricted stock units) related to non-vested awards of restricted stock, which is expected to be recognized over a weighted-average period of 2.3 years. For restricted stock subject to graded vesting, the Company recognizes the total compensation cost on a straight-line basis over the service period for the entire award. During the three and six months ended October 31, 2013, shares of restricted stock of 1,025 and 101,399 totaling $0.1 million and $2.0 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 six months ended October 31, 2012, shares of restricted stock of 9,080 and 186,206 totaling $0.1 million and $2.6 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 six months ended October 31, 2013, the Company issued 126,244 shares and 315,123 shares of common stock, respectively, as a result of the exercise of stock options, with cash proceeds from the exercise of $2.0 million and $3.8 million, respectively. During the three and six months ended October 31, 2012, the Company issued 111,230 shares and 135,511 shares of common stock, respectively, as a result of the exercise of stock options, with cash proceeds from the exercise of $0.8 million and $1.0 million, respectively.

No shares were repurchased during the three and six months ended October 31, 2013 and 2012, other than to satisfy minimum tax withholding requirements upon the vesting of restricted stock as described above.

5. Marketable Securities

As of October 31, 2013, marketable securities consisted of the following:

	Trading (1)(2)	Available-for-Sale (2)(3) (in thousands)	Total
Mutual funds	$ 117,963	$	$ 117,963
Corporate bonds		14,322	14,322
Total	117,963	14,322	132,285
Less: current portion of marketable securities	(4,481)	(2,050)	(6,531)
Non-current marketable securities	$ 113,482	$ 12,272	$ 125,754

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

	Trading (1)(2)	Available-for-Sale (2)(3) (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 $119.3 million and $99.2 million as of October 31, 2013 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 October 31, 2013 and April 30, 2013, the Company had

Table of Contents

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2013

cash equivalents of $89.2 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 October 31, 2013, the Company had no restricted cash balance. As of October 31, 2013 and April 30, 2013, the Company had no investments classified as Level 3.

(3) These securities represent excess cash available for general corporate purposes invested, under our investment policy, with a professional money manager.

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

	October 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
	(in thousands)			
Corporate bonds	$ 14,297	$ 29	$ (4)	$ 14,322

	April 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
	(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.

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 October 31, 2013 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 October 31, 2013 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 October 31, 2013, available-for-sale marketable securities have remaining maturities ranging from seven months to 2.0 years. 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 October 31, 2013 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 October 31, 2013 and April 30, 2013, the Company s marketable securities classified as trading were $118.0 million (net of gross unrealized gains of $9.2 million and gross unrealized losses of $0.6 million) and $98.0 million (net of gross unrealized gains of $3.1 million and no gross unrealized losses), respectively.

Table of Contents

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2013

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 October 31,		Six Months Ended October 31,	
	2013	2012	2013	2012
	(in thousands)			
Amortization of actuarial loss	$ 779	$ 594	$ 1,559	$ 1,188
Interest cost	676	756	1,352	1,512
Net periodic benefit costs	$ 1,455	$ 1,350	$ 2,911	$ 2,700

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 $164.2 million and $159.2 million is offset by outstanding policy loans of $73.3 million in the accompanying consolidated balance sheets as of October 31, 2013 and April 30, 2013, respectively. The market value of the underlying COLI investments increased by $3.3 million and $4.6 million during the three and six months ended October 31, 2013, respectively, and is recorded as a decrease in compensation and benefits expense in the accompanying consolidated statement of income. During the three and six months ended October 31, 2012, the market value of the underlying COLI investments increased by $1.5 million and $2.2 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 six months ended October 31, 2013, of $2.5 million and $16.7 million, respectively. The Company made contributions to the ECAP during the three and six months ended October 31, 2012, of $1.8 million and $19.3 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 six months ended October 31, 2013, deferred compensation liability increased; therefore, the Company recognized an increase in compensation expense of $3.4 million and $5.0 million, respectively. During the three and six months ended October 31, 2012, deferred compensation liability increased; therefore, the Company recognized an increase in compensation expense of $1.5 million and $0.5 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 $4.4 million and $1.9 million in the three months ended October 31, 2013 and 2012, respectively, and $6.4 million and $1.1 million in the six months ended October 31, 2013 and 2012, respectively, recorded in other income, net on the consolidated statement of income.

15

Table of Contents

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2013

7. Restructuring Charges, Net

The Company continued the implementation of the fiscal 2013 restructuring plan during the six months ended October 31, 2013 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 six months ended October 31, 2013, 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 October 31, 2013 were as follows:

	Severance	Facilities (in thousands)	Total
Liability as of July 31, 2013	$ 2,706	$ 7,119	$ 9,825
Reductions for cash payments	(2,160)	(2,261)	(4,421)
Exchange rate fluctuations	38	129	167
Liability as of October 31, 2013	$ 584	$ 4,987	$ 5,571

Changes in the restructuring liability during the six months ended October 31, 2013 were as follows:

	Severance	Facilities (in thousands)	Total
Liability as of April 30, 2013	$ 4,819	$ 6,729	$ 11,548
Reductions for cash payments	(5,214)	(4,721)	(9,935)
Restructuring charges, net	823	2,859	3,682
Exchange rate fluctuations	156	120	276
Liability as of October 31, 2013	$ 584	$ 4,987	$ 5,571

As of October 31, 2013 and April 30, 2013, the restructuring liability is included in the current portion of other accrued liabilities on the consolidated balance sheets, except for $1.4 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 five years.

The restructuring liability by segment is summarized below:

	October 31, 2013		
	Severance	Facilities (in thousands)	Total
Executive Recruitment			
North America	$ 201	$ 435	$ 636
Europe, Middle East and Africa (EMEA)	19	693	712

Total Executive Recruitment	220	1,128	1,348
LTC	319	2,756	3,075
Futurestep		1,103	1,103
Corporate	45		45
Liability as of October 31, 2013	$ 584	$ 4,987	$ 5,571

Table of Contents

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2013

	April 30, 2013		
	Severance	Facilities (in thousands)	Total
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 transaction, integration 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)

October 31, 2013

Financial highlights by business segment are as follows:

	Three Months Ended October 31, 2013								
	Executive Recruitment								
	North America	EMEA	Asia Pacific	South America	Subtotal	LTC	Futurestep	Corporate	Consolidated
					(in thousands)				
Fee revenue	$ 75,183	$ 34,221	$ 21,722	$ 8,866	$ 139,992	$ 66,078	$ 31,898	$	$ 237,968
Total revenue	$ 78,734	$ 35,240	$ 22,340	$ 8,926	$ 145,240	$ 68,202	$ 32,795	$	$ 246,237
Net income									$ 18,759
Other income, net									(4,352)
Interest expense, net									638
Equity in earnings of unconsolidated subsidiaries									(557)
Income tax provision									8,677
Operating income (loss)	$ 15,530	$ 5,860	$ 4,472	$ 2,265	$ 28,127	$ 7,006	$ 2,539	$ (14,507)	$ 23,165
Depreciation and amortization	920	452	529	99	2,000	3,161	440	979	6,580
Other income (loss), net	321	48	75	7	451	45	(17)	3,873	4,352
Equity in earnings of unconsolidated subsidiaries	120				120			437	557
EBITDA	16,891	6,360	5,076	2,371	30,698	10,212	2,962	(9,218)	34,654
Separation costs								2,000	2,000
Adjusted EBITDA	$ 16,891	$ 6,360	$ 5,076	$ 2,371	$ 30,698	$ 10,212	$ 2,962	$ (7,218)	$ 36,654

	Three Months Ended October 31, 2012								
	Executive Recruitment								
	North America	EMEA	Asia Pacific	South America	Subtotal	LTC	Futurestep	Corporate	Consolidated
					(in thousands)				
Fee revenue	$ 69,441	$ 33,142	$ 18,338	$ 6,827	$ 127,748	$ 38,452	$ 30,031	$	$ 196,231
Total revenue	$ 73,237	$ 34,047	$ 18,794	$ 6,989	$ 133,067	$ 40,623	$ 31,109	$	$ 204,799
Net income									$ 1,196
Other income, net									(1,529)
Interest expense, net									762
Equity in earnings of unconsolidated subsidiaries									(344)

Income tax provision									2,684
Operating income (loss)	$ 9,017	$ (929)	$ 1,080	$ 1,217	$ 10,385	$ 6,252	$ 237	$ (14,105)	$ 2,769
Depreciation and amortization	1,221	590	406	78	2,295	1,006	320	676	4,297
Other income (loss), net	78	(234)	48		(108)	19	1	1,617	1,529
Equity in earnings of unconsolidated subsidiaries	(70)				(70)			414	344
EBITDA	10,246	(573)	1,534	1,295	12,502	7,277	558	(11,398)	8,939
Restructuring charges, net	5,436	4,752	613		10,801	677	3,086	931	15,495
Adjusted EBITDA	$ 15,682	$ 4,179	$ 2,147	$ 1,295	$ 23,303	$ 7,954	$ 3,644	$ (10,467)	$ 24,434

Table of Contents

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

October 31, 2013

	Six Months Ended October 31, 2013								
	Executive Recruitment								
	North America	EMEA	Asia Pacific	South America	Subtotal	LTC	Futurestep	Corporate	Consolidated
					(in thousands)				
Fee revenue	$ 149,330	$ 68,598	$ 42,850	$ 15,869	$ 276,647	$ 126,140	$ 63,618	$	$ 466,405
Total revenue	$ 156,845	$ 70,697	$ 44,267	$ 15,962	$ 287,771	$ 130,284	$ 65,769	$	$ 483,824
Net income									$ 30,176
Other income, net									(6,619)
Interest expense, net									1,229
Equity in earnings of unconsolidated subsidiaries									(1,022)
Income tax provision									16,062
Operating income (loss)	$ 31,854	$ 11,820	$ 8,972	$ 3,761	$ 56,407	$ 11,341	$ 5,084	$ (33,006)	$ 39,826
Depreciation and amortization	1,883	887	835	173	3,778	6,058	848	1,840	12,524
Other income, net	448	282	92	10	832	53	548	5,186	6,619
Equity in earnings of unconsolidated subsidiaries	222				222			800	1,022