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

FORM 10-K

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

For the fiscal year ended April 30, 2002

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

Commission File Number 001-14505

KORN/FERRY INTERNATIONAL

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

95-2623879
(I.R.S. Employer
Identification Number)

1800 Century Park East, Suite 900
Los Angeles, California 90067
(Address of principal executive offices) (Zip code)

(310) 552-1834
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|--|---|
| Common Stock, par value \$0.01 per share | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:

None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The number of shares outstanding of our common stock as of July 26, 2002 was 37,860,871 shares. The aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant on July 26, 2002 (assuming that the Registrant's only affiliates are its officers, directors and 10% or greater stockholders) was approximately \$227,593,616, based upon the closing market price of \$6.18 on that date of a share of common stock as reported on the New York Stock Exchange.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2002 Annual Meeting of Stockholders scheduled to be held on September 24, 2002 are incorporated by reference into Part III of this Form 10-K.

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PART I.

Item 1. Business

Business Overview

Korn/Ferry International, or KFY, is the world's leading recruitment firm with the broadest global presence in the recruitment industry. Since 1969 when we opened our first office in Los Angeles, we have grown to 71 cities in 36 countries. In 1998, we extended our market reach into the middle-management recruitment market with the introduction of Futurestep, our technology based recruitment service. As of April 30, 2002, we have approximately 1,799 employees, including 443 executive recruitment and 81 Futurestep consultants who are primarily responsible for client services. Our clients include many of the world's largest and most prestigious public and private companies, middle-market and emerging growth companies, as well as governmental and not-for-profit organizations. We have established strong client loyalty; more than 81% of the executive recruitment assignments we performed in fiscal 2002 were on behalf of clients for whom we had conducted multiple assignments over the last three fiscal years.

We provide the following recruitment services:

Executive Recruitment: Executive recruitment, our core business, focuses on board level, chief executive and other senior executive positions for clients predominantly in the advanced technology, consumer goods, industrial, financial services, healthcare and professional services industries. The relationships that we develop through this business are valuable for introducing our other service offerings to clients.

Middle-Management Recruitment: Futurestep, our leading middle-management recruitment business, draws from Korn/Ferry's more than 30 years of industry experience to create customized recruitment strategies based on clients' individual workforce needs. In addition to middle management search, Futurestep offers project recruitment and integrated managed services. Futurestep combines solution-oriented service with today's leading technologies to deliver strong candidates and fast cycle times. At April 30, 2002, the Futurestep database contained approximately 1,161,000 recruitment candidates.

Industry Overview

We have historically operated in the executive search market and have aggressively used technology to expand our presence into middle-management search.

Executive Recruitment: The executive recruitment market concentrates on searches for positions with annual compensation of \$150,000 or more, which generally involve board level, chief executive and other senior executive positions. The industry is comprised of retained and contingency search firms. Retained firms typically charge a fee for their services equal to approximately one-third of the annual cash compensation for the position being filled and bill for their services in three installments, irrespective of whether a position has been filled. Contingency firms generally work on a non-exclusive basis and are compensated only upon successfully placing a recommended candidate.

Middle-Management Recruitment: The middle-management recruitment market focuses on searches for middle and lower management positions with annual compensation of \$75,000 to \$150,000. Firms in this market usually operate on a contingency basis. This market has undergone a fundamental transformation over the past two years towards a technology based environment. Technology and the Internet have made identifying, targeting and reaching potential candidates much quicker. This market also benefits from the efficiencies of maintaining large databases of qualified candidates, employing advanced assessment software, and reducing placement times. As a result, technology enabled on-line recruiting services are becoming more important.

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Other Human Capital Services: In addition to executive and middle-management recruitment, we provide management assessment and executive coaching services.

Industry Trends

There are and will be times, such as the present, when the recruitment industry is adversely affected by worldwide economic conditions. However, we believe that a number of favorable trends will contribute to the long-term growth of the recruitment industry:

One-Stop Shopping of Executive Human Capital Solutions—In choosing their recruitment and human resource service providers, companies are increasingly looking to those companies that can address a broad range of their recruitment needs. Clients are seeking trusted partners who understand their business and their unique organizational culture and who can manage their business on a global basis.

Increased Use of Advanced Technology—The emphasis of the recruitment business is shifting from candidate identification to candidate assessment and placement. The emphasis on assessment and placement is being driven by enhancements in technology as it has become easier to identify candidates in on-line and off-line databases. In addition, information technology and the Internet are creating efficient ways to manage the recruitment process and identify, recruit and assess candidates. At the same time, new barriers to entry into the executive recruitment industry are being created as investments in information technology become critical to serve clients' needs globally.

Increased Outsourcing of Recruitment Functions—Recent economic factors are requiring companies to focus on core competencies and to outsource recruitment functions to providers who can efficiently provide high quality recruitment services. A shortage of qualified management-level candidates has made identifying and recruiting exceptional candidates more difficult. Companies increasingly rely on experienced global executive recruitment firms to address their management recruitment needs. By hiring global executive recruitment firms, companies can expect to:

- Access a diverse and highly qualified field of candidates on an as-needed basis;
- Reduce the costs required to maintain and train a recruiting department in a rapidly changing industry;
- Benefit from the most updated industry and specific geographic market information;
- Access leading search technology software; and
- Maintain management focus on strategic business issues.

Globalization of Business—As the world markets continue to integrate into one global economy, more companies are required to supplement internal talent with experienced senior executives who can operate effectively in a global economy. The rapidly changing competitive environment increasingly challenges multinational and local companies to identify qualified executives with the right combination of skills, experience and cultural compatibility. Clients are increasingly turning only to those firms that have the necessary proven expertise and intimate knowledge of key industries and local markets that enable them to address their clients' global recruitment needs.

Other Industry Trends—In addition to the industry trends mentioned above, we believe the following trends will also contribute to the growth of the recruitment industry:

- Increasing demand for managers with broader qualifications;
- Increasing desire by candidates to more actively manage their careers;
- Aging baby-boom generation resulting in a smaller pool of available candidates; and
- Shortening executive management tenures and more frequent job changes.

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Growth Strategy

Our objective is to expand our position as the preeminent global recruitment firm. The principal elements of our strategy include:

Broadening our Product and Service Offerings

In addition to being the world's leading executive recruitment firm, we also offer clients middle management recruitment, project recruitment and integrated managed services through Futurestep, strategic management assessment services and executive coaching. We will continue to develop and add new products and services that our clients demand and that we feel are consistent with our brand positioning.

Global Account Management

In an effort to better coordinate global recruiting and to gain operational efficiencies, multinational clients will increasingly turn to strategic partners that can manage their recruitment needs on a centralized basis. This will require vendors with a global network of offices and technological support systems to manage multiple hires across geographical regions. In fiscal year 2002, we formally launched our global account management program which identifies account leaders for multinational clients, provides training and software support to manage these accounts, and develops guidelines and protocols to support cross-border assignments for these clients.

Expanding our Market Reach and Presence through Technology and Assessment Solutions

An advanced technology infrastructure has become a critical element of the recruitment business. In the executive recruitment market, we have invested approximately \$65.0 million over the past three fiscal years to develop a state-of-the-art technology infrastructure, including a worldwide network and our proprietary executive recruitment software. In June 2000, we introduced e-Korn/Ferry, our executive search Internet tool that allows executives to submit relevant employment information to us. We will continue to refine our technology, including our exclusive candidate assessment tools, in order to strengthen our relationships with our existing clients, attract new clients, expand into new markets and position ourselves to gain a competitive advantage in marketing complementary services.

Leveraging our Leadership and Brand Name in Executive Recruitment

We believe that there are significant opportunities to extend our market share and develop new client relationships by aggressively marketing our proven global recruitment expertise. Our leadership in executive recruitment enables us to grow our business by increasing the number of recruitment assignments we handle for existing clients in all areas of recruitment. We also believe that our strong relationships and well-recognized brand name will enable us to introduce new services to our existing clients and potential new clients and that our brand name will allow us to build communities of candidates to directly market services, such as career management, to executives and other candidates who are actively seeking to manage their careers.

Our Services and Organization

We address the global recruitment needs of our clients at all levels of management by offering the following services:

Executive Recruitment Services

Overview. Our executive recruitment services are typically used to fill executive-level positions, such as board of directors, chief executive officers, chief financial officers and other senior executive officers. Once we are retained by a client to conduct an assignment, we assemble a team comprised of consultants with geographic,

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industry and functional expertise. Our search consultants serve as management advisors and work closely with the client in identifying, assessing and placing a qualified candidate. In fiscal 2002, we performed over 5,200 executive recruitment assignments.

We use a search methodology that has been developed through many years of experience in conducting executive recruitment. We emphasize a close working relationship with the client and a comprehensive understanding of the client's business issues, strategy and culture, as well as an in-depth knowledge of the skills necessary to succeed within a client's organization. Initially, the search team consults with the client to better understand its history, culture, structure, expectations, challenges, future direction and operations. In these meetings, the team identifies the specific needs of the client and develops a profile of an ideal candidate for the position. Early in the process, the team also works with the client to develop the general parameters of a compensation package that will attract high quality candidates.

Once the position is defined, the research team identifies, through the use of our proprietary databases and a number of key technology-based information resources, companies that are in related industries facing similar challenges and issues with operating characteristics similar to those of the client. In addition, the team consults with its established network of resources, and our databases that contain profiles of over 2,300,000 executives, including those obtained through e-Korn/Ferry, to help identify individuals with the right backgrounds and personal abilities. These sources are a critical element in assessing the marketplace. The original list of candidates is carefully screened through phone interviews, video conferences or in-person meetings. The client is then presented with up to five qualified candidates to interview. We conduct reference checks throughout the process, sometimes with the assistance of an independent third party.

The finalist for the position will usually meet with the client for a second and possibly a third round of discussions. At this point, the compensation package for each will have been discussed in detail increasing the likelihood that offers will be accepted. Generally, the search consultants will participate in the negotiations until a final offer is made and accepted. Throughout the process, ongoing communication with the client is critical to keep client management apprised of progress.

Industry Specialization. Consultants in our five global markets and three regional specialty practice groups bring an in-depth understanding of the market conditions and strategic and management issues faced by clients within their specific industry. We plan to continue to expand our specialized expertise through internal development and strategic hiring in targeted growth areas.

Percentage of Fiscal 2002 Assignments by Industry Specialization

| | |
|------------------------------|-----|
| Global Markets: | |
| Financial Services | 20% |
| Industrial | 20% |
| Technology | 20% |
| Consumer | 19% |
| Life Sciences | 10% |
| Regional Specialties: | |
| Education/Not-for-profit | 5% |
| Healthcare Provider | 5% |
| General | 1% |

Functional Expertise. We have organized executive recruitment centers of functional expertise, made up of consultants who have extensive backgrounds in placing executives in certain functions, such as directors, chief executive officers and other senior executive and financial officers. Our board services practice, for example, was first established in 1972 to help clients assemble an effective, knowledgeable and cohesive board of directors to

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meet the growing demands for accountability and more effective board performance. The shortage of experienced directors, the tightening of governance policies and the desire on the part of companies to broaden the expertise of their board are raising the standards required to identify and recruit directors with the needed skills. We have established significant expertise in this area and have built a proprietary database with the names and backgrounds of all the Fortune 1000 directors, plus a significant number of middle-market and high-growth company board members, to help support board searches. Members of functional groups are located throughout our regions and across our specialty practice groups.

Percentage of Fiscal 2002 Assignments by Functional Expertise

| | |
|---|-----|
| Board Level/CEO/CFO/Senior Executive and General Management | 54% |
| Marketing and Sales | 20% |
| Manufacturing/Engineering/Research and Development/Technology | 8% |
| Finance and Control | 7% |
| Human Resources and Administration | 7% |
| Information Systems | 4% |

Organization

North America—We opened our first office in Los Angeles in 1969, and currently have 23 offices throughout the United States and Canada. The North America region has grown from \$154.9 million in revenue in fiscal 1998 to a high of \$343.1 million in fiscal 2001 and fell to \$204.0 million in fiscal 2002. In fiscal 2002, we handled over 2,100 assignments in this region, with an average of 241 consultants.

Europe—We opened our first European office in London in 1972 and currently have 22 offices throughout 17 countries in the region. The European region has grown from \$81.5 million in revenue in fiscal 1998 to a high of \$135.3 million in fiscal 2001 and fell to \$93.0 million in fiscal 2002. We handled over 1,800 assignments in fiscal 2002 in this region, with an average of 146 consultants.

Asia/Pacific—We opened our first Asia/Pacific office in Tokyo in 1973, and have built a 14-office network throughout ten countries in the region. The Asia/Pacific region has grown from \$34.4 million in revenue in fiscal 1998 to a high of \$54.0 million in fiscal 2001 and fell to \$38.9 million in fiscal 2002. We handled nearly 900 assignments in fiscal 2002 in this region, with an average of 62 consultants. The latest Economist Intelligence Unit report on Executive Search in Asia and Australia describes us as the leading executive search firm in the region.

South America—We opened our first South American office in Brazil in 1974. We expanded our practice to Mexico through the 1977 acquisition of a 49% interest in a company in Mexico City and currently conduct operations in Mexico through subsidiaries in which we hold a minority interest. As of April 30, 2002, we operated a network of seven offices in six countries covering the entire South America region and two offices in Mexico. The region, including Mexico, generated revenue of \$27.5 million in fiscal 2002 compared to \$30.1 million in fiscal 1998. This decrease includes the negative impact on fiscal 2002 revenue of translation into U.S. dollars compared to fiscal 1998 exchange rates, with the greatest impact in Brazil. We handled nearly 800 assignments in fiscal 2002 in this region, with an average of 39 consultants. On a constant dollar basis, our share of the operating results for our Mexico subsidiaries are included net in equity in earnings of unconsolidated subsidiaries on the consolidated statements of operations.

Client Base. Our clients are many of the world's largest and most prestigious public and private companies, including 35% of the Fortune 500 companies. In fiscal 2002, approximately 4.7% of our total revenue was derived from our top ten customers. We have established strong client loyalty; more than 81% of the executive recruitment assignments we performed in fiscal 2002 were on behalf of clients for whom we had conducted multiple assignments over the last three fiscal years.

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Competition. We are the leading global executive recruitment firm. Other multinational executive recruitment firms include Heidrick & Struggles International, Inc., Spencer Stuart & Associates, Egon Zehnder International and Russell Reynolds Associates, Inc. Although these firms are our primary competitors, we also compete with smaller firms that specialize in specific regional, industry or functional searches. We believe our brand name, global network, prestigious client list, strong specialty practices and quality of service are recognized worldwide. We also believe that our equity-based compensation scheme distinguishes us from many of our competitors and is important for retaining consultants.

Middle-Management Recruitment Services

Overview. Futurestep offers clients a multi-tiered portfolio of services, ranging from middle-management search to project recruitment and integrated managed services. Each Futurestep solution benefits from the in-depth industry and functional-area expertise of our global consultant network, guaranteeing that clients work with people who understand their business and have the knowledge base to qualify candidates effectively.

Futurestep was the first company to combine traditional search expertise with the reach and speed of the Internet. Futurestep consultants, based in more than 20 countries, have instant access to the world's largest database of prescreened middle-management professionals. The global candidate pool complements our international presence and multi-channel sourcing strategy to ensure speed, efficiency and quality of service for clients worldwide.

Futurestep's middle-management search uses multiple sourcing channels, validated cultural assessments and a global database of more than one million prescreened professionals to offer a low overhead approach that accelerates the recruitment process and provides a diverse set of candidates matched toward specific cultural and strategic requirements.

For multiple recruiting projects, Futurestep consultants work with clients to analyze existing internal recruitment capabilities and develop a co-sourcing platform that emphasizes shared ownership of the recruitment process. Futurestep also offers managed services to clients seeking a fully integrated, single source for their recruitment needs.

Organization. We opened our first Futurestep office in Los Angeles in May 1998. In January 2000, we acquired the ESS business of PA Consulting with operations in Europe and Asia/Pacific. In fiscal 2002, we consolidated all of Futurestep's back office functions with Korn/Ferry and co-located Futurestep with Korn/Ferry offices in North America to streamline the business. At April 30, 2002, we had Futurestep operations in ten cities in North America, eighteen in Europe and seven in Asia/Pacific.

Competition. We believe that there is no competitor that currently competes directly with all of the services provided by Futurestep. Futurestep competes for assignments:

- generally, with contingency firms who do not have the same pricing structure or provide all of the same services and
- to a lesser extent in the technology based middle-management recruitment industry, with firms such as TMP Worldwide.

Although technology oriented companies may be drawn to the recruitment business by their ability to leverage their existing technology, their lack of a recognized brand name, experienced consultants and global footprint act as significant barriers to entry.

Strategic Management Assessment. We have expanded strategic management assessment beyond Europe to cover North and Latin America, Australia and Japan. This service focuses on helping corporate leadership evaluate the individual and collective performance of their management team. This service, which further

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extends the range of leadership capital solutions we offer to our clients, is a valuable tool for the chief executive, board of directors and other senior officers in pursuing organizational transformation and the alignment of senior management with the Company's strategic goals and internal values. This service responds to our clients' needs for a tool to address the challenges of changing company relationships and global restructuring and, for venture capital firms, to evaluate the leadership team in existing or prospective portfolio companies. The assessment process is performed by consultants with extensive experience in interviewing and evaluating senior executives and who understand local cultural differences and the relevant business and industry challenges. The assessment process is backed by a statistically validated and proprietary assessment instrument that was developed for us by leading assessment experts and is supported by a proprietary systems platform.

Technology

Our technology enhances the functionality, speed and quality of our human capital services. It also represents a long-term strategic initiative designed to create competitive advantages and sustained growth. We have evolved our technology capability through acquisition, purchase, and development of state-of-the-art components. Our technology is scalable and will accommodate future growth in our current services as well as the addition of new services.

In fiscal 2002, we consolidated our technology operations to support all business units via a common data center and global telecommunications infrastructure. This consolidation brought significant cost savings through the elimination of duplicate resources, as well as enhanced disaster recovery capabilities and scalable storage solutions. Our enterprise systems and global database are housed in the Qwest CyberCenter 24x7 secure hosting facility in Burbank, California.

Our professionals use our information technology infrastructure to:

- develop and manage company and candidate profiles;
- obtain information from and correspond with candidates;
- identify market needs and new business opportunities; and
- coordinate and implement marketing, communication, financial and administrative functions throughout our global operations.

The core component and driving force of our technology is e-Korn/Ferry, our worldwide *Executive Center* web site and global candidate management system. In fiscal 2002, the e-Korn/Ferry architecture was enhanced and expanded to support operational consolidation and to leverage our core technology across multiple business channels. We now support all of our major product lines on a common technology platform. Our multi-business technology platform not only enables us to develop new products for our diverse businesses, but positions us to share the benefits of our technology with our clients to complement our consulting based human capital services.

This multi-business architecture enabled us to rapidly partner with Yahoo! in fiscal 2002 to develop a co-branded Yahoo-Futurestep web site. In addition, in fiscal 2002, we delivered three new management assessment products under the e-Korn/Ferry architecture: an assessment tool using a proprietary and statistically validated model and a series of "best-in-class" success profiles; a web site where executives and candidates are individually invited to create a resume and take the on-line assessment tests; and a web-based application to manage objective setting, measurement and performance evaluation for managers and their staff.

Organization

Our executive recruitment business is managed on a geographic basis through four regions: North America, Europe, Asia/Pacific and South America. Our executive recruitment business in Mexico is operated through our equity investments, primarily Korn/Ferry S.A. de CV in Mexico City and Korn/Ferry Del Norte in Monterrey and

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is included in South America for management reporting. Futurestep is managed on a worldwide basis with operations in North America, Europe and Asia/Pacific.

Professional Staff and Employees

As of April 30, 2002, we had approximately 1,495 executive recruitment employees consisting of 443 consultants, 991 associates, researchers, administrative and support staff; and 61 corporate professionals. In addition, we had 14 consultants in our two unconsolidated Mexico offices. Futurestep had 304 employees at April 30, 2002 consisting of 81 consultants and 223 administrative and support staff. We have not been a party to a collective bargaining agreement and consider our relations with our employees to be good.

In executive search, senior associates, associates and researchers support the efforts of our consultants with candidate sourcing and identification, but do not generally lead an assignment. We have training and professional development programs and a high rate of internal promotions. Promotion to vice president is based on a variety of factors, including demonstrated superior execution and business development skills, the ability to identify solutions to complex issues, personal and professional ethics, a thorough understanding of the market, how to retain clients and develop repeat business, and the ability to help build effective teams. In addition, we have a program of recruiting experienced professionals into our firm.

The following table provides information relating to each of our business segments for fiscal 2002:

| | Revenue | Operating (Loss) | Pro forma Operating Profit (Loss)(1) | Number of Offices as of April 30, 2002 | Number of Consultants as of April 30, 2002 |
|-------------------------------|---------------|---------------------|---|---|--|
| | (in millions) | | | | |
| Executive Recruitment: | | | | | |
| North America | \$204.0 | \$ (10.7) | \$ 18.5 | 23 | 224 |
| Europe | 93.0 | (15.3) | (8.0) | 22 | 132 |
| Asia/Pacific | 38.9 | (1.5) | 0.4 | 14 | 62 |
| South America | 11.3 | (2.1) | (2.2) | 7 | 25 |
| Futurestep(2) | 45.3 | (37.8) | (15.4) | 19 | 81 |
| JobDirect | 1.4 | (38.2) | (5.8) | | |

(1) Pro forma operating profit (loss) excludes asset impairment and restructuring charges of \$93.2 million on a consolidated basis.

(2) Futurestep offices exclude 16 offices co-located with executive recruitment.

Mexico, with two offices and 14 consultants at April 30, 2002, reported revenue, operating profit and pro forma operating profit of \$16.2 million, \$6.1 million and \$6.1 million for fiscal 2002 excluded from the table above. Our less than 50% interest in the Mexico operations is accounted for under the equity method and included in the consolidated statement of operating results as equity in earnings of unconsolidated subsidiaries. See "Notes to the Consolidated Financial Statements, Note 10" for business segment and geographic area results for the past three fiscal years.

Risk Factors

The risks described below are the material risks facing our company. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operation. Our business, financial condition or results of operations could be materially adversely affected by any of these risks.

Competition in our industry could result in our losing market share and our charging lower prices for our service, which could reduce our revenue.

We compete for executive search business with numerous executive search firms and businesses that provide job placement services. Traditional executive search competitors include Heidrick & Struggles, Inc.,

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Spencer Stuart & Associates, Egon Zehnder International and Russell Reynolds Associates, Inc. In each of our markets, our competitors may possess greater resources, greater name recognition and longer operating histories than we do, which may give them an advantage in obtaining future clients and attracting qualified professionals in these markets. There are few barriers to entry into the executive search industry and new recruiting firms continue to enter the market. We believe the continuing development and increased availability of information technology will continue to attract new competitors. Increased competition may lead to pricing pressures that could negatively impact our business.

If we fail to attract and retain qualified and experienced consultants, our revenue could decline and our business could be harmed.

We compete with other executive search firms for qualified consultants. Consultants are paid salaries with the potential to earn performance-based bonuses. Any decrease in the quality of our reputation, reduction in our compensation levels or restructuring of our compensation system, whether as a result of insufficient revenue, a decline in the market price of the common stock or for any other reason, could impair our ability to retain existing or attract additional qualified consultants with the requisite experience, skills or established client relationships. In addition, many of our consultants hold shares of our common stock that will become freely tradable in February 2003 or earlier if we agree. Our failure to retain our most productive consultants or maintain the quality of service to which our clients are accustomed, and the ability of a departing consultant to move business to his or her new employer could result in a loss of clients and harm our business.

Economic conditions in the geographic regions and the industries from which we derive a significant portion of our revenue could undermine our future profitability.

Demand for our services is significantly affected by the general level of economic activity in the geographic regions and industries in which we operate. When economic activity slows, many companies hire fewer permanent employees. Therefore, a significant economic downturn, on a global basis, in North America, or in other regions or industries where our operations are heavily concentrated, such as the advanced technology and financial services industries could harm our business, results of operations and financial condition. Currently, the global financial markets, especially in the United States, continue to experience significant turmoil, negatively impacting our revenue and operating profits. In addition, in fiscal 2002, our total assignments included 20% related to the technology industry and 20% related to the financial services/investments industry, both of which have experienced volatility recently.

We face risks associated with political instability, legal requirements and currency fluctuations in our international operations.

We operate in 36 countries and generate nearly half our total revenue from operations outside of North America. There are certain risks inherent in transacting business worldwide, such as:

- changes in and compliance with applicable laws and regulatory requirements;
- tariffs and other trade barriers;
- difficulties in staffing and managing global operations;
- problems in collecting accounts receivable;
- political instability;
- fluctuations in currency exchange rates;
- repatriation controls; and
- potential adverse tax consequences.

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We have no hedging or similar foreign currency contracts, and therefore fluctuations in the value of foreign currencies could harm our global operations. We cannot assure you that one or more of these factors will not harm our business, financial condition or results of operations.

We are limited in our ability to recruit employees of our clients and we could lose those opportunities to our competition, which could harm our business.

Either by agreement with clients, or for client relations or marketing purposes, executive search firms sometimes refrain, for a specified period of time, from recruiting employees of a client when conducting searches on behalf of other clients. These off-limits agreements can generally remain in effect for up to two years following completion of an assignment. The duration and scope of the off-limits agreement, including whether it covers all operations of the client and its affiliates or only certain divisions of a client, generally are subject to negotiation or internal policies and may depend on factors such as the scope, size and complexity of the client's business, the length of the client relationship and the frequency with which the executive search firm has been engaged to perform executive searches for the client. Our inability to recruit employees of these clients may make it difficult for us to obtain search assignments from, or to fulfill search assignments for, other companies in that client's industry. We cannot assure you that off-limits agreements will not impede our growth or our ability to attract and serve new clients, or otherwise harm our business.

Our financial results may suffer if Futurestep does not become profitable.

Futurestep has incurred operating losses of \$100.1 million from inception through April 30, 2002. In addition, we believe Futurestep, primarily overseas, will continue to generate operating losses through at least the end of fiscal 2003. We cannot assure you that Futurestep's operating losses will not increase in the future. If Futurestep does not become profitable, our financial results may suffer. The success of Futurestep is dependent on the use of the Internet by candidates, our ability to attract candidates to Futurestep's website, the relationships that our executive recruitment consultants have with clients and client acceptance of Futurestep's recruitment services. If our executive recruitment consultants do not actively promote our technology-based services to our clients, the revenue growth and profitability of these services could be harmed.

If we are unable to retain our executive officers and key personnel, or to integrate new members of our senior management that are critical to our business, we may not be able to successfully manage our business in the future.

Our future success depends upon the continued service of our executive officers and other key management personnel. If we lose the services of one or more of our executives or key employees, or if one or more of them decides to join a competitor or otherwise compete directly or indirectly with us, we may not be able to successfully manage our business or achieve our business objectives.

We rely heavily on our information systems and if we lose that technology, or fail to further develop our technology, our business would be harmed.

Our success depends in large part upon our ability to store, retrieve, process and manage substantial amounts of information. To achieve our strategic objectives and to remain competitive, we must continue to develop and enhance our information systems. This may require the acquisition of equipment and software and the development, either internally or through independent consultants, of new proprietary software. If we are unable to design, develop, implement and utilize, in a cost-effective manner, information systems that provide the capabilities necessary for us to compete effectively, or any interruption or loss of our information processing capabilities, for any reason, could harm our business, results of operations and financial condition.

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If we are unable to maintain our professional reputation and brand name, our business will be harmed.

We depend on our overall reputation and brand name recognition to secure new engagements and hire qualified professionals. Our success also depends on the individual reputations of our professionals. We obtain a majority of our new engagements from existing clients or from referral by those clients. Any client who is dissatisfied with our work can adversely affect our ability to secure those new engagements.

If any factor hurts our reputation, including poor performance, we may experience difficulties in competing successfully for both new engagements and qualified consultants. Failing to maintain our professional reputation and brand name could seriously harm our business.

We are subject to potential legal liability from both clients and employers, and our insurance coverage may not cover all of our potential liability.

We are exposed to potential claims with respect to the executive search process. A client could assert a claim for matters such as breach of an off-limits agreement or recommending a candidate who subsequently proves to be unsuitable for the position filled. Further, the current employer of a candidate whom we place could file a claim against us alleging interference with an employment contract. In addition, a candidate could assert an action against us for failure to maintain the confidentiality of the candidate's employment search or for alleged discrimination or other violations of employment law by one of our clients. We cannot assure you that our insurance will cover all claims or that our insurance coverage will continue to be available at economically feasible rates.

Certain of our historical statements were audited by Arthur Andersen LLP, and your ability to rely on those statements and recover from them may be limited.

On April 11, 2002, our board of directors, upon recommendation of the audit committee, dismissed Arthur Andersen LLP as our independent auditors and appointed Ernst & Young LLP as our new independent auditors. Ernst & Young LLP has audited our financial statements for the fiscal year ended April 30, 2002 but not any prior fiscal year. We have restated our financial statements for the fiscal years ended April 30, 2000 and 2001 relating to the consolidation of our Mexico subsidiaries. The statements for those fiscal years were audited by Arthur Andersen LLP, and we have not been able to have their reports for those fiscal years reissued. In addition, we will not be able to obtain the written consent of Arthur Andersen LLP for any registration statement we may file as required by Section 7 of the Securities Act. Accordingly, investors will not be able to sue Arthur Andersen LLP pursuant to Section 11(a)(4) of the Securities Act relating to those registration statements and therefore may have their recovery limited as a result of the lack of consent. The ability of investors to recover from Arthur Andersen LLP may also be limited as a result of their financial condition or other matters relating to the various civil and criminal lawsuits relating to them.

Our stock price could fluctuate significantly.

The market price of our common stock has fluctuated in the past and is likely to fluctuate in the future. Significant fluctuation in the market price of our common stock can occur for a number of reasons, including:

- changes in economic conditions;
- fluctuations in our financial performance;
- changes in our capital structure and liquidity;
- the expiration of employee lock-up agreements in February 2003 or earlier if we agree;
- changes in management or key consultants; and
- industry developments.

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In addition, the securities markets have experienced significant price and volume fluctuations that are independent of the operating performance of individual companies. These market fluctuations could also materially and adversely affect the market price of our common stock. Past stock price performance is not an indication of future performance.

Item 2. Properties

Our corporate office is located in Los Angeles, California. We lease all 85 of our executive recruitment and Futurestep offices located in North America, Europe, Asia/Pacific and South America. As of April 30, 2002, we leased an aggregate of approximately 812,000 square feet of office space. The leases generally are for terms of one to ten years and contain customary terms and conditions. We believe that our facilities are adequate for our current needs and we do not anticipate any difficulty replacing such facilities or locating additional facilities to accommodate any future growth.

Item 3. Legal Proceedings

From time to time, we are involved in litigation both as plaintiff and defendant, relating to claims arising out of our operations. As of the date of this report, we are not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on our business, financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the last quarter of fiscal 2002.

Executive Officers as of April 30, 2002

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|------------------|------------|---|
| Paul C. Reilly | 48 | Chairman of the Board and Chief Executive Officer |
| Gary D. Burnison | 41 | Chief Financial Officer, Treasurer and Executive Vice President |
| Gary C. Hourihan | 53 | Executive Vice President—President Global Management Assessment |
| James E. Boone | 54 | President of the Americas |
| Robert H. McNabb | 55 | Chief Executive Officer for Futurestep |

Our executive officers serve at the discretion of our Board of Directors. There is no family relationship between any executive officer or director. The following information sets forth the business experience for at least the past five years for each of our executive officers as of April 30, 2002.

Paul C. Reilly has been Chief Executive Officer and President since June 2001. Prior to joining Korn/Ferry International, Mr. Reilly was at KPMG International, where he was Chief Executive Officer. Mr. Reilly joined KPMG International in 1987.

Gary D. Burnison has been Executive Vice President, Chief Financial Officer and Treasurer since March 2002 and is a member of our Global Operating Committee. Prior to joining Korn/Ferry International, Mr. Burnison was Principal and Chief Financial Officer of Guidance Solutions, a privately held consulting firm, from 1999 to 2001. Prior to that, Mr. Burnison served as Senior Vice President, Strategic Planning, Treasurer and Corporate Development and a member of the board of directors of Jefferies and Company, an investment bank and brokerage firm, from 1995 to 1999. Mr. Burnison began his career at KPMG Peat Marwick, where he was a partner.

Gary C. Hourihan is a Corporate Executive Vice President and President of Management Assessment, for Korn/Ferry International, responsible for overseeing global operations and strategy for our Management Assessment business. Mr. Hourihan is also a member of our Global Operating Committee and was our Executive

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Vice President—Organizational Development from January 1999 to December 2001. Prior to joining Korn/Ferry International, he was the co-founder, Chairman, and Chief Executive Officer of SCA Consulting, L.L.C., one of the leading executive compensation consulting firms in the United States, where he was employed from November 1984 until joining Korn/Ferry International.

James E. Boone is President of the Americas and Chairman of the Global Operating Committee. Prior to joining Korn/Ferry International in 1995, Mr. Boone was a senior partner and executive committee member of a leading international executive search firm.

Robert H. McNabb was elected Chief Executive Officer for Futurestep in July 2002 and is a member of our Global Operating Committee. Prior to becoming the Chief Executive Officer for Futurestep, he was President of the Futurestep Americas and Asia/Pacific regions since December 2001. Prior to joining Futurestep, he was the President and Chief Executive Officer of Corestaff from 1998 to 2001 and President and Chief Operating Officer at Republic Industries in 1997.

PART II.**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters****Common Stock**

Our common stock is listed on the New York Stock Exchange under the symbol "KFY." The following table sets forth the high and low sales price per share of the common stock for the periods indicated, as reported on the New York Stock Exchange:

| | <u>High</u> | <u>Low</u> |
|--|-------------|------------|
| <u>Fiscal Year Ended April 30, 2002</u> | | |
| First Quarter | \$ 23.99 | \$ 14.90 |
| Second Quarter | \$ 15.79 | \$ 6.66 |
| Third Quarter | \$ 11.40 | \$ 6.90 |
| Fourth Quarter | \$ 11.40 | \$ 5.80 |
| <u>Fiscal Year Ended April 30, 2001</u> | | |
| First Quarter | \$ 36.63 | \$ 21.13 |
| Second Quarter | \$ 40.44 | \$ 29.69 |
| Third Quarter | \$ 38.00 | \$ 16.25 |
| Fourth Quarter | \$ 20.60 | \$ 14.90 |
| <u>Fiscal Year Ended April 30, 2000</u> | | |
| First Quarter | \$ 17.00 | \$ 11.75 |
| Second Quarter | \$ 25.25 | \$ 12.50 |
| Third Quarter | \$ 39.00 | \$ 20.75 |
| Fourth Quarter | \$ 44.13 | \$ 21.38 |

On July 26, 2002 the last reported sales price on the New York Stock Exchange for the common stock was \$6.18 per share and there were approximately 2,800 beneficial holders of the common stock.

Dividends

We have not paid any dividends since April 30, 1996 and do not intend to pay any cash dividends in the foreseeable future, but instead intend to retain future earnings to finance our operations and growth of the business. Future dividend policy will depend on our earnings, capital requirements, financial condition and other factors considered relevant by our board of directors. Our credit facility also contains provisions that may limit our ability to pay dividends.

Recent Sales of Unregistered Securities

We issued securities convertible into or exercisable for approximately 4.9 million shares of common stock in June 2002 to purchasers affiliated with Friedman, Fleischer & Lowe. These issuances were exempt pursuant to Regulation D under the Securities Act.

We issued 105,672 shares of common stock in April 2002 to three individuals in France in connection with the acquisition of an executive recruitment firm in that country, which closed in fiscal 1999. These issuances were exempt pursuant to Regulation S under the Securities Act.

We issued 5,120 shares of common stock in June 2001 to an individual in Switzerland in connection with the acquisition of an executive recruitment firm in that country, which closed in fiscal 1999. This issuance was exempt pursuant to Regulation S under the Securities Act.

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We issued 10,076 shares of common stock in June 2001 to four individuals in Australia in connection with the acquisition of the Australian business of Amrop International, which closed in fiscal 2000. These issuances were exempt pursuant to Regulation S under the Securities Act.

Item 6. *Selected Financial Data*

The following selected financial data are qualified by reference to, and should be read together with, our “Audited Consolidated Financial Statements and Related Notes” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this Form 10-K report. The selected statement of operations data set forth below for the fiscal years ended April 30, 2002, 2001 and 2000 and the selected balance sheet data as of April 30, 2002 and 2001 are derived from our consolidated financial statements, audited by Ernst & Young LLP in 2002 and Arthur Andersen LLP in prior years, appearing elsewhere in this Form 10-K report. The selected statement of operations data set forth below for the fiscal years ended April 30, 1999 and 1998 and the balance sheet data as of April 30, 2000, 1999 and 1998 are derived from consolidated financial statements and notes thereto, audited by Arthur Andersen LLP, which are not included in this Form 10-K report. However, data for the years ended and as of April 30, 2001, 2000, 1999 and 1998 have been restated to reflect the operating results of our Mexico subsidiaries under the equity method. Ernst & Young LLP has applied certain procedures to the restatement adjustments for fiscal 2001 and 2000 as described in their report on the 2002 consolidated financial statements. Ernst & Young LLP has not performed any procedures with respect to the data and restatement adjustments for fiscal 1999 and 1998.

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| | Fiscal Year Ended April 30, | | | | |
|---|--|-------------|-------------|-------------|-------------|
| | 2002 | 2001 | 2000 | 1999 | 1998 |
| | | Restated(3) | Restated(3) | Restated(3) | Restated(3) |
| | (in thousands, except per share amounts) | | | | |
| Selected Statement of Operations Data: | | | | | |
| Revenue | \$ 393,891 | \$ 636,298 | \$ 487,562 | \$ 344,265 | \$ 290,659 |
| Compensation and benefits | 273,994 | 383,277 | 295,307 | 223,788 | 194,504 |
| General and administrative expenses | 132,327 | 197,948 | 143,344 | 92,027 | 85,663 |
| Goodwill and asset impairment and restructuring charges(1) | 93,203 | | | | |
| Non-recurring charges(2) | | | | 89,202 | |
| Operating profit (loss) | (105,633) | 55,073 | 48,911 | (60,752) | 10,492 |
| Interest and other income (expense) | (6,087) | (3,278) | 2,328 | (275) | (1,394) |
| (Benefit from) provision for income taxes | (12,328) | 22,443 | 21,938 | 6,928 | 4,897 |
| Equity in earnings of unconsolidated subsidiaries | 1,141 | 1,661 | 1,510 | 1,529 | 1,043 |
| Net income (loss) | \$ (98,251) | \$ 31,013 | \$ 30,811 | \$ (66,426) | \$ 5,244 |
| Net income (loss) per share: | | | | | |
| Basic | \$ (2.62) | \$ 0.83 | \$ 0.85 | \$ (2.37) | \$ 0.24 |
| Diluted | (2.62) | 0.81 | 0.82 | (2.37) | 0.23 |
| Weighted average common shares outstanding: | | | | | |
| Basic | 37,547 | 37,266 | 36,086 | 28,086 | 21,885 |
| Diluted | 37,547 | 38,478 | 37,680 | 28,086 | 23,839 |
| Other Data: | | | | | |
| Revenue by business segment: | | | | | |
| Executive recruitment: | | | | | |
| North America | \$ 203,986 | \$ 343,095 | \$ 271,313 | \$ 185,525 | \$ 154,903 |
| Europe | 92,972 | 135,278 | 112,045 | 101,515 | 81,543 |
| Asia/Pacific | 38,936 | 53,977 | 48,603 | 35,024 | 34,411 |
| South America | 11,350 | 17,183 | 17,307 | 17,863 | 19,802 |
| Futurestep | 45,261 | 82,082 | 38,294 | 4,338 | |
| JobDirect | 1,386 | 4,683 | | | |
| Number of offices (at period end) | 85 | 103 | 102 | 69 | 69 |
| Number of consultants (at period end) | 524 | 663 | 583 | 414 | 384 |
| Number of assignments | 7,682 | 11,291 | 8,636 | 6,347 | 5,493 |
| Selected Balance Sheet Data: | | | | | |
| Cash and cash equivalents | \$ 66,128 | \$ 85,661 | \$ 83,653 | 111,739 | 29,313 |
| Marketable securities, current | | 16,397 | 59,978 | 21,839 | |
| Working capital | 25,610 | 51,211 | 78,470 | 112,927 | 23,188 |
| Total assets | 377,574 | 496,102 | 472,178 | 301,311 | 173,679 |
| Total long-term debt | 1,634 | 11,842 | 16,915 | 2,360 | 6,151 |
| Total shareholders' equity and mandatorily redeemable stock | 179,297 | 270,166 | 231,224 | 172,686 | 58,754 |

(1) In response to deteriorating economic conditions encountered in the first fiscal quarter of 2002, we developed a series of restructuring initiatives to address the cost structure and to reposition us to gain market share and take full advantage of any economic upturn. In the fourth fiscal quarter, we further streamlined European operations and identified an additional investment that was permanently impaired. As a result, we recognized asset impairment and restructuring charges of \$93.2 million in fiscal 2002 comprised of (a) goodwill impairment for JobDirect of \$28.9 million and for North America executive recruitment of \$14.0 million, (b) other asset impairments of \$15.1 million, (c) a severance restructuring charge of \$19.1 million, and (d) a facilities restructuring charge of \$16.1 million.

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- (2) In fiscal 1999, we recognized a non-recurring compensation and benefits expense of \$89.2 million, at the completion of the initial public offering, comprised of (a) \$49.3 million representing the difference between the issuance price of the shares issued by us in the period beginning twelve months before the initial filing date of the Registration Statement relating to the initial public offering and the fair market value of the shares at the date of grant, (b) \$25.7 million from the completion of the redemption by us of certain shares of our capital stock, primarily the payment of additional redemption amounts to certain shareholders under the terms of a 1994 stock redemption agreement, and (c) \$4.3 million from the payment of existing obligations to former holders of phantom units and stock appreciation rights. We also recognized non-recurring charges of \$7.3 million related to costs, primarily severance and benefits expense, incurred to achieve operating efficiencies in fiscal 1999 and \$2.6 million related to the resignation of the former President and Chief Executive Officer.
- (3) As further described in notes 1 and 14 to the consolidated financial statements, we have restated our previously reported results to account for our investment in our Mexico subsidiaries under the equity method of accounting. The restatement from the consolidation method to the equity method reduced revenue and expenses in each fiscal year, but had no impact on net income, earnings per share or total shareholders' equity.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Statements

This Annual Report on Form 10-K 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", "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, portability of client relationships, local political or economic developments in or affecting countries where we have operations, ability to manage growth, restrictions imposed by off-limits agreements, competition, risks related to the growth and results of Futurestep, reliance on information processing systems, and employment liability risk. Readers are urged to consider these factors carefully in evaluating the forward-looking statements. The forward-looking statements included in this Annual Report are made only as of the date of this Annual Report 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 included in this annual report on Form 10-K.

Overview

We are the world's leading recruitment firm with the broadest global presence in the recruitment industry. Our services include executive recruitment, middle-management recruitment (through Futurestep), strategic management assessment and executive coaching. We have approximately 443 executive recruitment consultants and 81 Futurestep consultants based in nearly 90 offices across 36 countries. Our clients are many of the world's largest and most prestigious public and private companies, middle-market and emerging growth companies as well as government and not-for-profit organizations. Over half of the executive recruitment searches we performed in fiscal 2002 were for board level, chief executive and other senior executive positions and our 3,908 clients included approximately 35% of the Fortune 500 companies. We have established strong client loyalty;

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more than 81% of the executive recruitment assignments we performed in fiscal 2002 were on behalf of clients for whom we had conducted multiple assignments over the last three fiscal years.

Based on deteriorating economic conditions in late fiscal 2001, we began developing a series of restructuring initiatives in the quarter ended July 31, 2001, to address our cost structure and to reposition the enterprise to gain market share and take full advantage of the eventual economic recovery. Our immediate goals were to reduce losses, preserve our top producers and maintain our high standards of client service.

In August 2001, we announced these business realignment initiatives designed to reduce expenses in response to the current economic environment and to reposition our company to take advantage of the increase in the demand for recruitment services when the economy improves. These initiatives resulted in a total charge against earnings in the first six months of fiscal 2002 of approximately \$84 million. The charge reflects costs associated with a decision to reduce the workforce by approximately 25%, or over 600 employees; consolidate all back-office functions for Futurestep and Korn/Ferry; exit the college recruitment market and write-down related assets and goodwill.

In April 2002, we implemented additional business realignment initiatives to further downsize our operations in Europe, resulting in severance and facilities related charges for Futurestep and executive recruitment of \$4.9 million. In addition, we recognized a one-time non-cash charge of \$4.0 million to write-off a non-strategic investment that we believe is permanently impaired.

In June 2002, we announced that we would account for our ownership interests in our Mexico subsidiaries, which have been part of Korn/Ferry since 1977, under the equity method and restate our prior years results. Previously, we had consolidated the Mexico subsidiaries operating results with a deduction for the other shareholders' interest after tax. While we believe that the consolidation method reflects the way these subsidiaries are managed and operate, the equity method best reflects our less than 50% voting interest in the common stock of these entities. There is no impact on earnings, EPS, shareholders' equity or net cash flow as a result of this restatement; however, revenue and expenses will be reduced.

Critical Accounting Policies

The following discussion and analysis of our financial condition and operating results are based on our consolidated financial statements. Preparation of this Annual Report on Form 10-K requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates and assumptions. In preparing our financial statements and accounting for the underlying transactions and balances, we apply our accounting policies as disclosed in our Notes to Consolidated Financial Statements. We consider the policies discussed below as critical to an understanding of our financial statements because their application places the most significant demands on management's judgment. Specific risks for these critical accounting policies are described in the following paragraphs. Senior management has discussed the development and selection of the critical accounting estimates with the Audit Committee of the Board of Directors.

Revenue Recognition. Management is required to establish policies and procedures to ensure that revenue is only recorded for valid engagements, that the revenue from each engagement is recorded over the period of performance and related costs are matched against this revenue. We provide recruitment services on a retained basis. Since the search is not contingent upon placement of a candidate, our assumptions are mainly related to establishing the period over which the service is performed. These assumptions determine the timing of revenue recognition and profitability for the period reported. If these assumptions do not accurately reflect the period over which revenue is earned, revenue and profit could be over or understated.

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Deferred Compensation. Deferred compensation requires assumptions regarding participant data and the discount rate that can significantly impact the liability on our balance sheet and the related cost in our statement of operations. Management engages an actuary to review these assumptions to ensure that they reflect the population and economics of our deferred compensation plans in all material respects. The actuarial assumptions we use may differ from actual results due to changing market conditions, or changes in the participant population. These differences could have a significant impact on our costs and liability.

Carrying Values. Valuations are required under U.S. generally accepted accounting principles to determine the carrying value of various assets. Our most significant assets that require management to prepare or obtain valuations are goodwill and deferred income taxes. Management must identify whether events have occurred that may impact the carrying value of these assets and make assumptions regarding future events, such as profitability. Differences between the assumptions used to prepare these valuations and actual results could materially impact the carrying amount of these assets and net earnings.

Results of Operations

The following table summarizes the results of our operations with Mexico on an equity basis for each of the past three fiscal years as a percentage of revenue:

| | Fiscal Year Ended April 30, | | |
|--|-----------------------------|-------|-------|
| | 2002 | 2001* | 2000* |
| Revenue | 100% | 100% | 100% |
| Compensation and benefits | 70 | 60 | 61 |
| General and administrative expenses | 34 | 31 | 29 |
| Asset impairment and restructuring charges | 24 | | |
| Operating profit (loss) | (27) | 9 | 10 |
| Net income (loss) | (25) | 5 | 6 |

* Restated with Mexico reported on the equity method.

Excluding the impairment and restructuring charges in fiscal 2002 and, for comparability (under Statement of Financial Accounting Standards (“SFAS”) No. 142 “Goodwill and Other Intangible Assets”), goodwill amortization in fiscal 2001 and 2000, operating profit (loss) as a percentage of revenue is (3%), 11%, and 11% for the fiscal years ended April 30, 2002, 2001 and 2000, respectively. On this same basis, net income (loss) as a percentage of revenue is (4%), 7%, and 7% for the fiscal years ended April 30, 2002, 2001 and 2000, respectively.

The continued weakness in the global economy has resulted in decreases in revenue in all of our business lines and geographic regions in fiscal 2002. This decline follows a 10 year period of double digit growth.

Executive recruitment revenue and operating profit (loss), excluding asset impairment and restructuring charges, declined in all geographic regions in fiscal 2002 compared to each of the last two fiscal years. The decline is due primarily to the slowdown of the United States economy that contributed to a decline of \$139 million or 41% in executive recruitment revenue in North America for fiscal 2002 compared to fiscal 2001.

The decline in Futurestep revenue of 45% for the fiscal year ended 2002 compared to fiscal 2001 reflects a decline in all geographic regions that is attributed to the weakness in the global economy. Futurestep operations in North America experienced the largest decline compared to the prior year primarily due to a decline in the number of engagements.

The following tables summarize the results of our operations by business segment for each of the past three fiscal years with Mexico on an equity basis. As a result of our change in accounting for our Mexico operations,

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we have renamed our Latin America segment South America. The South America business segment excludes Mexico revenue of \$16,179, \$17,479 and \$13,181 and operating profit of \$6,139, \$7,834, and \$5,894 in fiscal 2002, 2001 and 2000, respectively.

| | Fiscal Year Ended April 30, (dollars in thousands) | | | | | |
|-------------------------------|---|-------------|-------------------|-------------|-------------------|-------------|
| | 2002 | | 2001 | | 2000 | |
| | Dollars | % | Dollars | % | Dollars | % |
| | | | Restated | | Restated | |
| Revenue | | | | | | |
| Executive recruitment: | | | | | | |
| North America | \$ 203,986 | 52% | \$ 343,095 | 54% | \$ 271,313 | 56% |
| Europe | 92,972 | 24 | 135,278 | 21 | 112,045 | 23 |
| Asia/Pacific | 38,936 | 10 | 53,977 | 9 | 48,603 | 10 |
| South America | 11,350 | 3 | 17,183 | 3 | 17,307 | 4 |
| Futurestep | 45,261 | 12 | 82,082 | 13 | 38,294 | 8 |
| JobDirect | 1,386 | | 4,683 | 1 | | |
| Total revenue | \$ 393,891 | 100% | \$ 636,298 | 100% | \$ 487,562 | 100% |

| | Pro forma Fiscal Year Ended April 30, (dollars in thousands) | | | | | |
|--|---|-------------|------------------|------------|------------------|------------|
| | 2002 | | 2001 | | 2000 | |
| | Dollars | Margin | Dollars | Margin | Dollars | Margin |
| | | | Restated | | Restated | |
| Operating profit (loss) before asset impairment and restructuring charges | | | | | | |
| Executive recruitment: | | | | | | |
| North America | \$ 18,503 | 9% | \$ 70,833 | 21% | \$ 53,673 | 20% |
| Europe | (7,990) | (9) | 21,826 | 16 | 13,850 | 12 |
| Asia/Pacific | 393 | 1 | 6,918 | 13 | 5,468 | 11 |
| South America | (2,154) | (19) | 672 | 4 | 1,798 | 10 |
| Futurestep | (15,351) | (34) | (23,982) | (29) | (23,216) | (61) |
| JobDirect | (5,831) | | (9,668) | | | |
| Pro forma total operating profit (loss) | \$ (12,430) | (3)% | \$ 66,599 | 11% | \$ 51,573 | 11% |

The following table summarizes the asset impairment and restructuring charges in fiscal 2002 and the goodwill amortization in fiscal 2001 and 2000 excluded from the table immediately above.

| | Fiscal Year Ended April 30, | | |
|-------------------------------|-----------------------------|------------------|-----------------|
| | 2002 | 2001 | 2000 |
| | (dollars in thousands) | | |
| Executive recruitment: | | | |
| North America | \$ 29,249 | \$ 5,753 | \$ 890 |
| Europe | 7,350 | 1,866 | 816 |
| Asia/Pacific | 1,846 | 286 | 294 |
| South America | | | |
| Futurestep | 22,422 | 2,040 | 662 |
| JobDirect | 32,336 | 1,581 | |
| Total | \$ 93,203 | \$ 11,526 | \$ 2,662 |

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Operating profit (loss) based on reported results follows:

| | Fiscal Year Ended April 30, (dollars in thousands) | | | | | |
|--------------------------------------|---|--------------|------------------|-----------|------------------|------------|
| | 2002 | | 2001 | | 2000 | |
| | Dollars | Margin | Dollars | Margin | Dollars | Margin |
| | | | Restated | | Restated | |
| Operating profit (loss) | | | | | | |
| Executive recruitment: | | | | | | |
| North America | \$ (10,746) | (5)% | \$ 65,080 | 19% | \$ 52,783 | 20% |
| Europe | (15,339) | (17) | 19,960 | 15 | 13,034 | 12 |
| Asia/Pacific | (1,453) | (4) | 6,632 | 12 | 5,174 | 11 |
| South America | (2,154) | (19) | 672 | 4 | 1,798 | 10 |
| Futurestep | (37,774) | | (26,022) | | (23,878) | |
| JobDirect | (38,167) | | (11,249) | | | |
| Total operating profit (loss) | \$ (105,633) | (27)% | \$ 55,073 | 9% | \$ 48,911 | 10% |

The following table illustrates the impact of the change in the presentation of the operating results of our Mexico subsidiaries in fiscal 2002 from the consolidation method to the equity method on revenue and operating profit for fiscal 2001 and 2000:

| | Fiscal Year Ended April 30, (dollars in thousands) | | | | | |
|--------------------------|---|-----------|------------|------------------------|-----------|------------|
| | 2001 | | | 2000 | | |
| | Previously Reported(1) | Decrease | Restated | Previously Reported(1) | Decrease | Restated |
| Revenue: | | | | | | |
| South America | \$ 34,662 | \$ 17,479 | \$ 17,183 | \$ 30,488 | \$ 13,181 | \$ 17,307 |
| Total revenue | \$ 653,777 | \$ 17,479 | \$ 636,298 | \$ 500,743 | \$ 13,181 | \$ 487,562 |
| Operating Profit: | | | | | | |
| South America | \$ 8,506 | \$ 7,834 | \$ 672 | \$ 7,692 | \$ 5,894 | \$ 1,798 |
| Total operating profit | \$ 62,907 | \$ 7,834 | \$ 55,073 | \$ 54,805 | \$ 5,894 | \$ 48,911 |

(1) South America was previously referred to as Latin America.

There was no impact on net income or EPS as a result of this change in presentation.

In the following comparative analysis, all percentages are calculated based on dollars in thousands.

Fiscal 2002 Compared to Fiscal 2001

Revenue

Revenue decreased \$242.4 million, or 38%, to \$393.9 million for fiscal 2002 from \$636.3 million for fiscal 2001. The decrease in revenue was primarily the result of a decrease in demand reflecting weakness in the global economy throughout fiscal 2002 compared to the prior year.

Executive Recruitment—All geographic regions reported lower revenue in fiscal 2002 compared to the prior year. North America experienced the largest decline in revenue of \$139.1 million or 41% to \$204.0 million in fiscal 2002, due primarily to a decrease in demand while average fees remained constant. Europe reported revenue of \$93.0 million, a decline of \$42.3 million, or 31%, compared to the prior year driven primarily by a decrease in the number of engagements while average fees increased slightly.

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Futurestep—Revenue decreased \$36.8 million, or 45%, to \$45.3 million in fiscal 2002 from \$82.1 million in fiscal 2001 across all geographic regions. Of the total decrease in revenue, North America declined \$16.5 million or 62%, Europe declined \$15.6 million, or 34%, and Asia/Pacific declined \$4.7 million, or 46%.

JobDirect—In fiscal 2002, we decided to reduce our investment in the college recruitment market in the first quarter and ultimately exit this market in the third quarter. JobDirect reported revenue of \$1.4 million through December 31, 2001, the close of business, compared to \$4.7 million in fiscal 2001. In fiscal 2002, we recognized impairment charges of \$30.3 million and a restructuring charge of \$2.0 million related to the wind down of JobDirect operations.

Compensation and Benefits

Compensation and benefits expense decreased \$109.3 million, or 29%, to \$274.0 million in fiscal 2002 from \$383.3 million in fiscal 2001. Executive recruitment compensation and benefits costs decreased \$87.6 million in the current fiscal year compared to the prior fiscal year. This decrease reflects a 30% reduction in our workforce in the last half of fiscal 2002 and a 57% decrease in executive recruitment bonus expense due primarily to a decline in revenue related to the slow down in the global economy during this period. Executive recruitment compensation and benefits expense as a percentage of revenue increased to 68% in fiscal 2002 from 59% in fiscal 2001 due primarily to the decrease in executive recruitment bonuses offset by the larger percentage decrease in revenue. Futurestep compensation and benefits expense declined \$18.6 million, or 34%, to \$35.3 million in fiscal 2002 compared to the prior year reflecting a 42% decrease in employees for the last half of the current year, largely in the United States.

General and Administrative Expenses

General and administrative expenses decreased \$65.6 million, or 33%, to \$132.3 million in fiscal 2002 from \$197.9 million in fiscal 2001. Excluding goodwill amortization in fiscal 2001 of \$11.5 million, general and administrative expenses declined \$54.1 million, or 29%, in fiscal 2002. In executive recruitment, general and administrative expenses decreased \$23.2 million, or 18%, excluding goodwill amortization of \$7.9 million in fiscal 2001, due primarily to reduced facilities costs resulting from the restructuring initiatives implemented in August 2001. On this same basis, Futurestep general and administrative expenses decreased \$26.9 million, or 51%, mainly due to reduced office costs, professional fees and advertising expenses that are also primarily related to the fiscal 2002 restructuring. As a percentage of revenue, general and administrative expenses in executive recruitment, increased to 30% in fiscal 2002 from 23% in fiscal 2001 excluding goodwill amortization. Futurestep general and administrative expenses as a percentage of revenue decreased to 56% in fiscal 2002 from 64% in the prior year, excluding goodwill amortization, primarily due to the larger percentage decrease in these expenses compared to revenue.

Operating Profit

Operating profit decreased \$160.7 million in the current fiscal year, to a loss of \$105.6 million from a profit of \$55.1 million in the prior fiscal year. Excluding the impairment and restructuring charges in fiscal 2002 of \$93.2 million and goodwill amortization of \$11.5 million in fiscal 2001, operating profit decreased \$79.0 million to a loss of \$12.4 million in fiscal 2002. Executive recruitment operating profit, on this same basis, decreased to \$8.8 million or 2.5% of revenue from \$100.2 million or 18.2% of revenue in fiscal 2001. This decrease was driven primarily by the decrease in revenue partially offset by a decline in general and administrative expense and compensation and benefits expense. Operating profit declined in each region within executive recruitment with the largest dollar decreases in North America and Europe and margin decreases in Europe and South America.

Futurestep operating losses, excluding asset impairment and restructuring charges and goodwill amortization, improved by \$8.6 million or 36% reflecting the reduced compensation and benefits costs and

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general and administrative expenses discussed above. The operating margin however, declined to 34% in fiscal 2002 from 29% in fiscal 2001 reflecting the larger percentage decrease in revenue compared to costs.

Interest Income and Other Income, Net

Interest income and other income, net includes interest income of \$2.4 million and \$4.4 million for fiscal 2002 and 2001, respectively. The decrease in interest income of \$2.0 million is due primarily to lower average cash and marketable securities balances compared to the prior year. The increase in other income is due primarily to a decrease in losses on the disposal of property to \$0.1 million in fiscal 2002 compared to \$0.7 million in fiscal 2001.

Interest Expense

Interest expense increased \$1.1 million in the current fiscal year, to \$8.5 million from \$7.4 million in the prior fiscal year, primarily due to an increase in average borrowings under the line of credit and an increase in the effective interest rate in fiscal 2002.

(Benefit From) Provision for Income Taxes

The benefit from income taxes was \$12.3 million in fiscal 2002 compared to a provision of \$22.4 million in fiscal 2001. The effective tax rate was 11% and 43% for fiscal 2002 and 2001, respectively.

Equity in Earnings of Unconsolidated Subsidiaries

Equity in earnings of unconsolidated subsidiaries ("equity in earnings") is comprised of our less than 50% shareholder interest in our Mexico subsidiaries. In fiscal 2002, we restated our prior years operating results to account for our investment in our Mexico subsidiaries under the equity method instead of the consolidation method. Under the equity method, we report our interest in the earnings or loss of the Mexico subsidiaries as a one line adjustment to net income. Previously, we reported all of the revenue and expenses of these subsidiaries offset by a one line adjustment for the other shareholders' interests. The decrease in equity in earnings of \$0.6 million to \$1.1 million in fiscal 2002 from \$1.7 million in fiscal 2001 is due primarily to lower revenue in fiscal 2002.

Fiscal 2001 Compared to Fiscal 2000

Revenue

Revenue increased \$148.7 million, or 31%, to \$636.3 million for fiscal 2001 from \$487.6 million for fiscal 2000. The increase in revenue was primarily the result of a 12% increase in the number of executive recruitment engagements, a 12% increase in the average fee per executive recruitment engagement, executive recruitment acquisitions in fiscal 2000, an increase in revenue from Futurestep of \$43.8 million compared to the prior year and revenue of \$4.7 million from JobDirect in the current year.

Executive Recruitment—In North America, revenue increased \$71.8 million, or 26%, to \$343.1 million in fiscal 2001 from \$271.3 million in fiscal 2000. In Europe, revenue increased \$23.3 million, or 21%, to \$135.3 million in fiscal 2001 from \$112.0 million in the prior fiscal year. Excluding the negative effects of foreign currency translation into U.S. dollars, European revenue increased approximately 34% on a constant dollar basis. Revenue growth in North America and Europe, on a constant dollar basis, was primarily due to an increase in the number of engagements and the average fee per engagement. In North America and Europe, revenue from fiscal 2001 acquisitions accounted for approximately one-third of the percent increase in revenue in North America and two-thirds of the percent increase in revenue in Europe. The increase in revenue in Asia/Pacific of \$5.4 million, or 11%, to \$54.0 million in fiscal 2001 compared to \$48.6 million in fiscal 2000 was due primarily to an increase in the average fee which more than offset a decline in the number of engagements. In South America, revenue remained relatively constant.

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Futurestep—Revenue increased \$43.8 million to \$82.1 million in fiscal 2001 from \$38.3 million in fiscal 2000. The increase in revenue is primarily driven by the international expansion of Futurestep in late fiscal 2000. Of the total increase in revenue, Europe contributed \$29.8 million or 68% and Asia/Pacific contributed \$8.1 million, or 19%.

JobDirect—Revenue of \$4.7 million reflects annual subscription fees from over 400 corporate clients at April 30, 2001. As of April 30, 2001, over 1.4 million students had registered on the database and over 400 college career offices were using their service. JobDirect charges corporate clients an annual fee, payable monthly based on the estimated number of students the client expects to interview.

Compensation and Benefits

Compensation and benefits expense increased \$88.0 million, or 30%, to \$383.3 million in fiscal 2001 from \$295.3 million in fiscal 2000, primarily due to an increase in the number of executive recruitment consultants, an increase of \$30.6 million related primarily to the international expansion of Futurestep in late fiscal 2000 and \$6.4 million from the acquisition of JobDirect in the current fiscal year. Executive recruitment compensation and benefits costs increased \$50.9 million in fiscal 2001 compared to the prior fiscal year. This increase reflects a 29% increase in the average number of consultants for fiscal 2001 over fiscal 2000 and a 10% reduction in our workforce in the last half of fiscal 2001 due primarily to a decline in revenue related to the slow down in the United States economy during this period. On a comparable basis, excluding Futurestep and JobDirect, compensation and benefits expense as a percentage of revenue decreased to 59% in fiscal 2001 from 61% in fiscal 2000 due primarily to a decrease in executive recruitment bonuses as a percentage of revenue.

General and Administrative Expenses

General and administrative expenses increased \$54.6 million, or 38%, including JobDirect expenses of \$9.5 million in fiscal 2001 to \$197.9 million from \$143.3 million in fiscal 2000. In executive recruitment, general and administrative expenses increased \$29.8 million, or 29%, due primarily to additional costs related to an increase in our leased premises resulting from acquisitions in North America and Europe. Futurestep general and administrative expenses increased \$15.3 million, or 39%, mainly due to office costs and professional fees primarily related to the international expansion in late fiscal 2000. As a percentage of revenue, general and administrative expenses, excluding Futurestep and JobDirect related expenses, increased to 24% in fiscal 2001 from 23% in fiscal 2000 reflecting these additional costs.

Operating Profit

Operating profit increased \$6.2 million in fiscal 2001 to \$55.1 million, or 8.7% of revenue, from \$48.9 million, or 10.0% of revenue, in the prior fiscal year. Excluding the Futurestep losses of \$26.0 million and JobDirect losses of \$11.2 million in fiscal 2001 and Futurestep losses of \$23.9 million in fiscal 2000, operating profit for the current fiscal year increased \$19.5 million, or 27% to \$92.3 million compared to \$72.8 million in the prior fiscal year. On this same basis, operating profit was 17% and 16% as a percentage of revenue for the fiscal years ended 2001 and 2000, respectively. The increased margin is driven primarily by our operations in Europe and Asia/Pacific and reflects the increase in revenue and a decline in general and administrative expense as a percentage of revenue relative to the prior fiscal year and a decline in compensation and benefits expense as a percentage of revenue in Europe compared to the prior fiscal year. The percentage of operating profit contributed by each region within executive recruitment remained relatively constant in fiscal 2001 compared to the last fiscal year.

Interest Income and Other Income, Net

Interest income and other income, net includes interest income of \$4.4 million and \$6.5 million for fiscal 2001 and 2000, respectively. The decrease in interest income of \$2.1 million is due primarily to lower average

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cash and marketable securities balances compared to the prior year. The decrease in other income is due to losses on the disposal of property of \$0.7 million in fiscal 2001.

Interest Expense

Interest expense increased \$3.0 million in the current fiscal year, to \$7.4 million from \$4.4 million in the prior fiscal year, primarily due to borrowings under the line of credit associated with acquisitions during the first quarter of fiscal 2001 and to an increase in notes payable to shareholders resulting from acquisitions in the fourth quarter of fiscal 2000.

Provision for Income Taxes

The provision for income taxes increased \$0.5 million to \$22.4 million in fiscal 2001 from \$21.9 million in fiscal 2000. The effective tax rate was 43% for both fiscal 2001 and 2000.

Equity in Earnings of Unconsolidated Subsidiaries

Equity in earnings of unconsolidated subsidiaries ("equity in earnings") is comprised of our less than 50% interest in our Mexico subsidiaries. Equity in earnings increased \$0.2 million, or 10%, to \$1.7 million in fiscal 2001 from \$1.5 million in the prior year.

Liquidity and Capital Resources

In June 2002, we closed a \$50.0 million private placement comprised of \$40.0 million of convertible 7.5% subordinated notes and \$10.0 million of convertible 7.5% preferred stock with Friedman, Fleischer & Lowe, a San Francisco based private equity firm. The securities are convertible into shares of Korn/Ferry stock at \$10.25 per share which if converted would represent approximately 4.9 million shares or 11.4% of our outstanding common stock. Additionally, we issued warrants to purchase 272,727 common shares with an exercise price of \$12.00 per share.

In the first half of fiscal 2002, we were in default under our credit agreement with Bank of America. In March 2002, we reached an agreement to amend our credit facility from \$100.0 million to \$45.0 million, to waive prior defaults, to secure it by certain assets and to amend our financial covenants to make compliance more achievable going forward. The financial covenants include a minimum fixed charge coverage ratio, a maximum leverage ratio, a quick ratio and other customary events of default. The amended agreement required payment of a fee of \$1.0 million at inception. We paid additional fees of \$0.5 million in June 2002 and the remaining fees of \$1.0 million were waived upon completion of the private placement. As of April 30, 2002 and 2001, we had \$39.0 million and no outstanding borrowings under the credit facility, respectively. Outstanding credit facility borrowings bear interest at Prime plus 3.75% under the amended agreement. In June 2002, the outstanding borrowings under the facility were repaid and the credit facility commitment, which matures in November 2002, was reduced from \$45.0 million to \$31.2 million.

We believe that cash on hand, proceeds from the private placement in June 2002 and funds from operations will be sufficient to meet our anticipated working capital, capital expenditures and general corporate requirements for the foreseeable future.

The following table sets forth our obligations and commitments to make future payments under contracts and other commitments. In addition to the amounts set forth below, we have contingent commitments under certain employment agreements that are payable only upon termination of employment.

| Contractual Obligations | Payments Due by Period | | | | |
|-------------------------|------------------------|-----------|-----------|-----------|------------|
| | Total | 2003 | 2004-2005 | 2006-2007 | After 2007 |
| Lease Commitments | \$ 100,041 | \$ 23,313 | \$ 36,671 | \$ 22,881 | \$ 17,176 |
| Long term debt | \$ 14,452 | \$ 12,818 | \$ 1,634 | | |

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The following table presents selected financial information as of the end of the past three fiscal years:

| | As of April 30, | | |
|---|-----------------|----------------------------|-----------|
| | 2002 | 2001 | 2000 |
| | | Restated (in thousands) | Restated |
| Cash and cash equivalents | \$ 66,128 | \$ 85,661 | \$ 83,653 |
| Working capital | 25,610 | 51,211 | 78,470 |
| Total long-term debt, net of current maturities | 1,634 | 11,842 | 16,916 |

The decrease in working capital of \$25.6 million, or 50%, in fiscal 2002 compared to the prior fiscal year is due primarily to the decrease in cash discussed below. Changes in other current assets, primarily a decrease in marketable securities of \$16.4 million and accounts receivable of \$34.6 million, were offset by changes in other current liabilities, primarily an increase in borrowings on our credit line of \$39.0 million offset by a decrease in compensation and benefits of \$61.6 million. The decrease in working capital of \$27.3 million, or 35%, in fiscal 2001 compared to fiscal 2000 is due primarily to a decrease in marketable securities.

Cash used in operating activities was \$59.5 million in fiscal 2002 due primarily to the payment of fiscal 2001 bonuses in fiscal 2002. Cash provided by operating activities was \$63.8 million and \$73.1 million for fiscal 2001 and 2000, respectively, due primarily to operating income.

Cash used in investing activities was \$2.5 million, \$55.7 million and \$107.3 million for fiscal years ended April 30, 2002, 2001 and 2000, respectively. In fiscal 2002, cash used in investing activities was comprised of cash of \$16.4 million received from the sale of marketable securities offset by capital expenditures of \$8.5 million and premiums on company owned life insurance policies ("COLI") of \$9.5 million. The COLI premiums were funded through borrowings under these life insurance policies of \$11.7 million in fiscal 2002. In fiscal 2001, cash used in investing activities included \$44.5 million for business acquisitions and \$12.6 million for the purchase of equity investments in Jungle Interactive and Webhire compared to \$42.9 million for business acquisitions in fiscal 2000. Net sales of marketable securities were \$61.1 million in fiscal 2001 compared to purchases of \$31.1 million in fiscal 2000.

Capital expenditures totaled approximately \$8.5 million, \$33.9 million and \$22.8 million for fiscal 2002, 2001 and 2000, respectively. These expenditures consisted primarily of systems hardware and software costs, upgrades to information systems and leasehold improvements. The decrease in fiscal 2002 of \$25.4 million compared to fiscal 2001 reflects reduced spending in line with our cost saving initiatives. The \$11.1 million increase in capital expenditures in fiscal 2001 over fiscal year 2000, primarily relates to increased fixed asset spending at Futurestep to support its worldwide infrastructure and to the installation of a new financial system in Europe.

Cash provided by (used in) financing activities was \$44.1 million, (\$2.3) million and \$8.7 million in fiscal 2002, 2001 and 2000, respectively. In fiscal 2002, we had net borrowings of \$39.0 million on our credit facility and borrowings of \$11.7 million on our COLI policies, primarily for the related premiums, compared to net payments on the credit facility of \$1.4 million and borrowings against COLI policies of \$3.5 million in fiscal 2001. In the fiscal year 2001, we also made payments of \$14.2 million on shareholder acquisition notes and received proceeds from the issuance of common stock of \$10.3 million, including proceeds from stock options exercised of \$5.9 million. During fiscal 2000, we borrowed \$3.3 million under COLI contracts and received proceeds from the issuance of common stock of \$8.4 million, including proceeds from stock options exercised of \$6.1 million, offset by \$1.5 million paid to repurchase common stock and make payments on the related notes.

Total outstanding borrowings under COLI policies were \$59.9 million, \$47.9 million and \$44.9 million as of April 30, 2002, 2001 and 2000, respectively. Generally, we borrow under our COLI policies to pay premiums. Such borrowings do not require principal payments, bear interest at primarily variable rates and are secured by

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the cash surrender value of the life insurance policies of \$112.9 million and \$102.3 million at April 30, 2002 and 2001, respectively. At April 30, 2002, the net cash value of these policies was \$53.0 million of which \$44.2 million is held in trust limiting our borrowing ability to premiums on these policies.

Quarterly Results

The following table sets forth certain unaudited statement of operations data for the quarters in fiscal 2001 and 2002. The unaudited quarterly information has been prepared on the same basis as the annual financial statements and, in management's opinion, includes all adjustments necessary to present fairly the information for the quarters presented. Results for the previous fiscal quarter are not necessarily indicative of results for the full fiscal year or for any future fiscal quarter.

| | Quarters Ended (in thousands, except per share amounts) | | | | | | | |
|-----------------------------|--|------------|------------|------------|--------------------|------------|-----------|-----------|
| | Fiscal 2001 (2)(4) | | | | Fiscal 2002 (1)(4) | | | |
| | July 31 | Oct. 31 | Jan. 31 | April 30 | July 31 | Oct. 31 | Jan. 31 | April 30 |
| | Restated | Restated | Restated | Restated | Restated | Restated | Restated | |
| Revenue | \$ 169,518 | \$ 168,934 | \$ 152,633 | \$ 145,213 | \$ 109,537 | \$ 104,489 | \$ 89,771 | \$ 90,094 |
| South America | 4,731 | 4,814 | 3,644 | 3,994 | 3,071 | 2,920 | 2,327 | 3,032 |
| Operating profit (loss) | 16,361 | 11,031 | 12,779 | 14,902 | (54,584) | (36,596) | (3,772) | (10,681) |
| South America | 68 | 61 | (384) | 927 | (446) | (382) | (1,428) | 102 |
| Net income (loss)(3) | 10,007 | 6,108 | 6,903 | 7,995 | (46,859) | (30,867) | (7,253) | (13,272) |
| Net income (loss) per share | | | | | | | | |
| Basic | 0.27 | 0.16 | 0.18 | 0.21 | (1.25) | (0.82) | (0.19) | (0.35) |
| Diluted | 0.26 | 0.16 | 0.18 | 0.21 | (1.25) | (0.82) | (0.19) | (0.35) |

- (1) We recognized goodwill impairment, asset impairment and restructuring charges of \$49,428, \$34,839, 0, and \$8,936 in the fiscal quarters of 2002 comprised of (a) \$42,926 representing the asset impairment charge related to goodwill, (b) \$15,053 for the impairment of other assets, primarily property and equipment and other investments, (c) \$19,102 of severance restructuring costs, and (d) \$16,122 of facilities restructuring costs.
- (2) Fiscal 2001 quarterly results include goodwill amortization of \$2,552, \$3,087, \$2,992 and \$2,895.
- (3) Net income, excluding goodwill amortization in fiscal 2001 would have been \$12,559, \$9,195, \$9,895 and \$10,890. Net loss, excluding asset impairment and restructuring charges in fiscal 2002 would have been \$2,616, \$1,536, \$7,253 and \$4,336.
- (4) As further described in notes 1 and 14 to the consolidated financial statements, we have restated our previously reported results to account for our investment in our Mexico subsidiaries under the equity method. The restatement from the consolidation method to the equity method reduced revenue and expenses in each fiscal year, but had no impact on net income, earnings per share or total shareholders' equity.

Euro Conversion

As of January 1, 1999, several member countries of the European Union established fixed conversion rates among their existing local currencies and adopted the Euro as their new common legal currency. The Euro traded on currency exchanges and the legacy currencies remained legal tender in the participating countries for a transition period which expired January 1, 2002.

At January 1, 2002, the participating countries introduced Euro notes and coins and withdrew all legacy currencies. Our information technology systems allow for the recording of transactions in the Euro. Our conversion to the Euro was successful and did not have a material impact on our business or financial condition to date.

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Recently Issued Accounting Standards

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. We do not believe that the adoption of this statement will have a significant impact on our financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This statement establishes a number of rules which govern accounting for the impairment of long-lived assets, eliminates inconsistencies from having two accounting models for long-lived assets to be disposed of by sale and expands the definition of a discontinued operation to a component of an entity for which identifiable cash flows exist. The statement is effective for fiscal years beginning after December 15, 2001. We do not believe that the adoption of this statement will have a significant impact on our financial position or results of operations.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

As a result of its global operating activities, we are exposed to certain market risks, including foreign currency exchange fluctuations, fluctuations in interest rates and variability in interest rate spread relationships. We manage our exposure to these risks in the normal course of our business as described below. We have not utilized financial instruments for trading or other speculative purposes nor do we trade in derivative financial instruments.

Foreign Currency Risk

Generally, financial results of our foreign subsidiaries are measured in their local currencies. Assets and liabilities are translated into U.S. dollars at the rates of exchange in effect at the end of each year and revenue and expenses are translated at average rates of exchange during the year. Resulting translation adjustments are reported as a component of comprehensive income.

Financial results of foreign subsidiaries in countries with highly inflationary economies are measured in U.S. dollars. The financial statements of these subsidiaries are translated using a combination of current and historical rates of exchange and any translation adjustments are included in determining net income.

Historically, we have not realized any significant translation gains or losses on transactions involving U.S. dollars and other currencies. This is primarily due to natural hedges of revenue and expenses in the functional currencies of the countries in which our offices are located and investment of excess cash balances in U.S. dollar denominated accounts. In fiscal 2002, 2001 and 2000, we recognized foreign currency (gains) losses, after income taxes, of (\$0.2) million, \$0.6 million and \$1.7 million, respectively, primarily related to our Europe operations. Realization of translation gains or losses due to the translation of intercompany payables denominated in U.S. dollars is mitigated through the timing of repayment of these intercompany borrowings.

Interest Rate Risk

We primarily manage our exposure to fluctuations in interest rates through our regular financing activities that generally are short term and provide for variable market rates. As of April 30, 2002, we had an outstanding balance of \$39.0 million on our revolving line of credit bearing interest at Prime plus 3.75%, \$59.9 million of borrowings against the cash surrender value of COLI contracts bearing interest primarily at variable rates payable at least annually and \$14.4 million of notes payable, of which \$14.2 million is due to shareholders resulting from business acquisitions in fiscal 2000 and 2001, at rates ranging from 5.2% to 7.0%, of which \$12.7 million matures in fiscal 2003 and \$1.5 million matures in fiscal 2004. Currently, we have all of our investments in interest bearing money market accounts at market rates.

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Item 8. *Financial Statements and Supplementary Data*

See Consolidated Financial Statements beginning on page F-1 of this Annual Report on Form 10-K.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Report on Form 8-K. Current report event dated April 11, 2002 reported a change in certifying accountants from Arthur Andersen LLP to Ernst & Young LLP is incorporated herein by reference.

PART III.

Item 10. *Directors and Executive Officers of the Registrant*

The information required by this Item will be included under the captions “The Board of Directors,” “Nominees for Director—Class 2003,” “Nominees for Director—Class 2004,” “Nominees for Directors—Class 2005” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our fiscal 2002 Proxy Statement, and is incorporated herein by reference. See also “Executive Officers of the Registrant” in Part I of this report.

Item 11. *Executive Compensation*

The information required by this Item will be included under the captions “Executive Compensation—Summary Compensation Table,” “Executive Compensation—Option Grant Table,” “Executive Compensation—Aggregated Option Exercises and Year-end Option Values” and “Employment Agreements” in our fiscal 2002 Proxy Statement, and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management*

The information required by this Item will be included under the caption “Security Ownership of Certain Beneficial Owners and Management” in our fiscal 2002 Proxy Statement, and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions*

The information required by this Item will be included under the caption “Certain Relationships and Related Transactions” in our fiscal 2002 Proxy Statement, and is incorporated herein by reference.

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PART IV.

Item 14. *Exhibits, Financial Statement Schedules and Reports on Form 8-K*

(a) THE FOLLOWING DOCUMENTS ARE FILED AS A PART OF THIS REPORT.

| | <u>Page</u> |
|---|-------------|
| 1. Index to Financial Statements: See Consolidated Financial Statements included as part of this Form 10-K | F-1 |
| 2. Financial Statement Schedules: Schedule II—Valuation and Qualifying Accounts | F-31 |
| 3. Exhibits: | |

| <u>Exhibit Number</u> | <u>Description of Exhibit</u> |
|---------------------------|--|
| 3.1 | Certificate of Incorporation of the Company, filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, dated December 15, 1999, and incorporated herein by reference. |
| 3.2 | Certificate of Designations of 7.5% Convertible Preferred Stock, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, dated June 18, 2002, and incorporated herein by reference. |
| 3.3 | Amended and Restated Bylaws of the Company. |
| 4.1 | Form of Common Stock Certificate of the Company, filed as Exhibit 4.1 to the Company's Registration Statement on Form S-3 (No. 333-49286), and incorporated herein by reference. |
| 4.2 | Form of 7.5% Convertible Subordinated Note Due 2010, filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, dated June 18, 2002, and incorporated herein by reference. |
| 4.3 | Form of Stock Purchase Warrant, filed as Exhibit 4.2 to the Company's Current Report on Form 8-K, dated June 18, 2002, and incorporated herein by reference. |
| 4.4 | Subordination Agreement, dated as of June 13, 2002, made by Korn/Ferry International, a Delaware corporation, Friedman Fleischer & Lowe Capital Partners, L.P., a Delaware limited partnership, and FFL Executive Partners, L.P., a Delaware limited partnership in favor of Bank of America, N.A., filed as Exhibit 4.3 to the Company's Current Report on Form 8-K, dated June 18, 2002, and incorporated herein by reference. |
| 10.1* | Form of Indemnification Agreement between the Company and some of its executive officers and directors, filed as Exhibit 10.1 to the Company's Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999, and incorporated herein by reference. |
| 10.2* | Form of U.S. and International Worldwide Executive Benefit Retirement Plan, filed as Exhibit 10.3 to the Company's Registration Statement of Form S-1 (No. 333-61697), effective February 10, 1999, and incorporated herein by reference. |
| 10.3* | Form of U.S. and International Worldwide Executive Benefit Life Insurance Plan, filed as Exhibit 10.4 to the Company's Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999, and incorporated herein by reference. |
| 10.4* | Worldwide Executive Benefit Disability Plan (in the form of Long-Term Disability Insurance Policy), filed as Exhibit 10.5 to the Company's Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999, and incorporated herein by reference. |
| 10.5* | Form of U.S. and International Enhanced Executive Benefit and Wealth Accumulation Plan, filed as Exhibit 10.6 to the Company's Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999, and incorporated herein by reference. |

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| <u>Exhibit Number</u> | <u>Description of Exhibit</u> |
|-----------------------|---|
| 10.6* | Form of U.S. and International Senior Executive Incentive Plan, filed as Exhibit 10.7 to the Company's Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999, and incorporated herein by reference. |
| 10.7* | Executive Salary Continuation Plan, filed as Exhibit 10.8 to the Company's Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999, and incorporated herein by reference. |
| 10.8* | Form of Amended and Restated Stock Repurchase Agreement, filed as Exhibit 10.10 to the Company's Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999, and incorporated herein by reference. |
| 10.9* | Form of Standard Employment Agreement, filed as Exhibit 10.11 to the Company's Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999, and incorporated herein by reference. |
| 10.10* | Form of U.S. and Foreign Executive Participation Program, filed as Exhibit 10.27 to the Company's Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999, and incorporated herein by reference. |
| 10.11* | Employment Agreement between the Company and Paul C. Reilly, dated May 24, 2001, filed as Exhibit 10.14 to the Company's Annual Report on Form 10-K, dated July 30, 2001, and incorporated herein by reference. |
| 10.12* | Amendment to Employment Agreement between the Company and Paul C. Reilly, dated December 1, 2001, filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, dated December 17, 2001, and incorporated herein by reference. |
| 10.13* | Letter from the Company to Paul C. Reilly, dated June 6, 2001, filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, dated December 17, 2001, and incorporated herein by reference. |
| 10.14* | Employment Agreement between the Company and Windle B. Priem, dated June 30, 2001, filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, dated September 14, 2001, and incorporated herein by reference. |
| 10.15* | Employment Agreement between the Company and Gary C. Hourihan effective March 6, 2000, filed as Exhibit 10.22 to the Company's Annual Report on Form 10-K, dated July 31, 2000 and incorporated herein by reference. |
| 10.16* | Korn/Ferry International Special Severance Pay Policy, dated January 1, 2000, filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, dated March 19, 2001 and incorporated herein by reference. |
| 10.17 | Loan Agreement, dated as of October 31, 2000, among Korn/Ferry International, the lenders thereto and Bank of America, N.A. as administrative agent, filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, dated December 14, 2000, and incorporated herein by reference. |
| 10.18 | Amendment No. 1 to Loan Agreement, dated January 30, 2001, filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q, dated March 19, 2001, and incorporated herein by reference. |
| 10.19 | Amendment No. 2 to Loan Agreement, dated April 29, 2001, filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, dated December 17, 2001, and incorporated herein by reference. |
| 10.20 | Amendment No. 3 to Loan Agreement, dated March 7, 2002, filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, dated March 18, 2002, and incorporated herein by reference. |
| 10.21 | Amendment No. 4 to Loan Agreement, dated March 29, 2002, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, dated June 18, 2002, and incorporated herein by reference. |

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| <u>Exhibit Number</u> | <u>Description of Exhibit</u> |
|---------------------------|---|
| 10.22 | Amendment No. 5 to Loan Agreement, dated June 13, 2002, filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, dated June 18, 2002, and incorporated herein by reference. |
| 10.23* | Performance Award Plan filed as Exhibit 10.2 to the Company's Registration Statement on Form S-1 (No. 333-61697), effective February 10, 1999, and incorporated herein by reference. |
| 10.24* | Amendments to Performance Award Plan, filed as Exhibit 10.4 on the Company's Annual Report on Form 10-K, dated July 30, 2001, and incorporated herein by reference. |
| 10.25* | Amendments to Performance Award Plan. |
| 10.26 | Investor Rights Agreement, dated as of June 13, 2002, by and among Korn/Ferry International, a Delaware corporation, Friedman Fleischer & Lowe Capital Partners, L.P., a Delaware limited partnership, and FFL Executive Partners, L.P., a Delaware limited partnership filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 18, 2002, and incorporated herein by reference. |
| 16.1 | Letter of Arthur Andersen LLP to the Securities and Exchange Commission, dated April 12, 2002, regarding change in certifying accountant filed as Exhibit 16.1 to the Company's Current Report on Form 8-K dated April 11, 2002, and incorporated herein by reference. |
| 21.1 | Subsidiaries of Korn/Ferry International. |
| 23.1 | Consent of Independent Auditors. |
| 24.1 | Power of Attorney (contained on signature page). |

* Management contract, compensatory plan or arrangement.

(b) REPORTS ON FORM 8-K.

Current report event dated April 11, 2002 (Item 4 and Item 7) was filed with the SEC on April 15, 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KORN/FERRY INTERNATIONAL

By: /s/ GARY D. BURNISON

**Gary D. Burnison
Chief Financial Officer, Treasurer and
Executive Vice President**

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned officers and directors of the Registrant hereby constitutes and appoints Peter L. Dunn and Gary D. Burnison, and each of them, as lawful attorney-in-fact and agent for each of the undersigned (with full power of substitution and resubstitution, for and in the name, place and stead of each of the undersigned officers and directors), to sign and file with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, any and all amendments, supplements and exhibits to this report and any and all other documents in connection therewith, hereby granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done in order to effectuate the same as fully and to all intents and purposes as each of the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or any of their substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Signatures</u> | <u>Title</u> | <u>Date</u> |
|--|--|---------------|
| <u> /s/ PAUL C. REILLY</u> Paul C. Reilly | Chairman of the Board and Chief Executive Officer | July 26, 2002 |
| <u> /s/ GARY D. BURNISON</u> Gary D. Burnison | Chief Financial Officer, Treasurer And Executive Vice President (Principal Financial Officer) | July 26, 2002 |
| <u> /s/ CATHERINE M. BURGAN</u> Catherine M. Burgan | Vice President, Corporate Controller (Principal Accounting Officer) | July 26, 2002 |
| <u> James E. Barlett</u> | Director | |
| <u> /s/ FRANK V. CAHOUET</u> Frank V. Cahouet | Director | July 26, 2002 |
| <u> /s/ SPENCER C. FLEISCHER</u> Spencer C. Fleischer | Director | July 26, 2002 |

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| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|--------------|---------------|
| <hr/> <i>/s/</i> SAKIE FUKUSHIMA <hr/> Sakie Fukushima | Director | July 26, 2002 |
| <hr/> Patti S. Hart | Director | |
| <i>/s/</i> DAVID L. LOWE <hr/> David L. Lowe | Director | July 26, 2002 |
| <i>/s/</i> CHARLES D. MILLER <hr/> Charles D. Miller | Director | July 26, 2002 |
| <i>/s/</i> EDWARD D. MILLER <hr/> Edward D. Miller | Director | July 26, 2002 |
| <i>/s/</i> WINDLE B. PRIEM <hr/> Windle B. Priem | Director | July 26, 2002 |
| <hr/> Gerhard Schulmeyer | Director | |
| <hr/> Mark Thompson | Director | |

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REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors
Korn/Ferry International

We have audited the accompanying consolidated balance sheet of KORN/FERRY INTERNATIONAL AND SUBSIDIARIES (the "Company"), as of April 30, 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. Our audit also included the financial statement schedule for the year ended April 30, 2002 included in the index at Item 14(a). The consolidated financial statements of the Company as of April 30, 2001, and for the two years then ended were audited by other auditors whose report dated June 11, 2001, expressed an unqualified opinion on those statements prior to the restatement described in Notes 1 and 14. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KORN/FERRY INTERNATIONAL AND SUBSIDIARIES as of April 30, 2002 and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 1 and 2 to the financial statements, in fiscal 2002 the Company changed its method of accounting for goodwill and ceased amortization of goodwill effective as of the beginning of the year.

As discussed above, the consolidated financial statements of the Company as of April 30, 2001, and for the two years then ended were audited by other auditors. As described in Notes 1 and 14, these consolidated financial statements have been restated to reflect the Company's investment in its Mexico subsidiaries on the equity method of accounting. Previously, these subsidiaries were included in the consolidated financial statements as consolidated subsidiaries. We performed the following procedures with respect to the adjustments that were applied to restate the disclosures reflected in Note 14 with respect to fiscal 2001 and fiscal 2000. We (i) agreed the adjustment amounts for Mexico subsidiaries to the Company's consolidating financial statements obtained from management and (ii) tested the mathematical accuracy in computing the restated consolidated financial statement amounts reflected in Note 14. Based on these procedures, we believe such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the fiscal 2001 and fiscal 2000 consolidated financial statements of the Company other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the fiscal 2001 and fiscal 2000 consolidated financial statements taken as a whole.

/s/ ERNST & YOUNG LLP

Los Angeles, California
June 20, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Korn/Ferry International:

We have audited the accompanying consolidated balance sheets of KORN/FERRY INTERNATIONAL AND SUBSIDIARIES (the "Company"), a Delaware corporation, as of April 30, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended April 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KORN/FERRY INTERNATIONAL AND SUBSIDIARIES as of April 30, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended April 30, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

Los Angeles, California
June 11, 2001

THIS IS A COPY OF AN ACCOUNTANTS' REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP. THIS REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP. THE FINANCIAL STATEMENTS REFERRED TO IN THIS REPORT HAVE BEEN RESTATED SUBSEQUENT TO THE DATE OF THE REPORT TO ACCOUNT FOR KORN/FERRY INTERNATIONAL'S INVESTMENT IN ITS MEXICO SUBSIDIARIES UNDER THE EQUITY METHOD INSTEAD OF THE CONSOLIDATION METHOD. (SEE NOTES 1 AND 14).

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Korn/Ferry International:

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of Korn/Ferry International and Subsidiaries (the "Company") included in this Form 10-K report and have issued our report thereon dated June 11, 2001. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule II—Korn/Ferry International and Subsidiaries Valuation and Qualifying Accounts is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

Los Angeles, California
June 11, 2001

THIS IS A COPY OF AN ACCOUNTANTS' REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP. THIS REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP. THE FINANCIAL STATEMENTS REFERRED TO IN THIS REPORT HAVE BEEN RESTATED SUBSEQUENT TO THE DATE OF THE REPORT TO ACCOUNT FOR KORN/FERRY INTERNATIONAL'S INVESTMENT IN ITS MEXICO SUBSIDIARIES UNDER THE EQUITY METHOD INSTEAD OF THE CONSOLIDATION METHOD. (SEE NOTES 1 AND 14).

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

| | April 30, | |
|---|-------------------|-------------------|
| | 2002 | 2001 |
| | | Restated* |
| ASSETS | | |
| Cash and cash equivalents | \$ 66,128 | \$ 85,661 |
| Marketable securities | | 16,397 |
| Receivables due from clients, net of allowance for doubtful accounts of \$7,767 and \$12,937 | 54,960 | 89,562 |
| Income tax and other receivables | 30,140 | 11,046 |
| Deferred income taxes | 10,336 | 8,821 |
| Prepaid expenses | 10,331 | 9,818 |
| | <u>171,895</u> | <u>221,305</u> |
| Property and equipment, net | 40,248 | 54,456 |
| Cash surrender value of company owned life insurance policies, net of loans | 53,048 | 54,361 |
| Investment in unconsolidated subsidiaries | 2,172 | 1,403 |
| Deferred income taxes | 21,794 | 24,942 |
| Goodwill, net of accumulated amortization of \$15,101 and \$17,718 | 85,346 | 126,006 |
| Other intangibles, net of accumulated amortization of \$4,103 and \$3,154 | 396 | 2,060 |
| Marketable securities, other investments and other assets | 2,675 | 11,569 |
| | <u>\$ 377,574</u> | <u>\$ 496,102</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Notes payable and current maturities of long-term debt | \$ 12,818 | \$ 11,832 |
| Borrowings under credit facility | 39,000 | |
| Accounts payable | 8,319 | 12,944 |
| Income taxes payable | 332 | 2,720 |
| Compensation and benefits | 48,774 | 110,404 |
| Other accrued liabilities | 37,042 | 32,194 |
| | <u>146,285</u> | <u>170,094</u> |
| Deferred compensation and other retirement plans | 44,806 | 41,522 |
| Long-term debt | 1,634 | 11,842 |
| Other | 5,552 | 2,478 |
| | <u>198,277</u> | <u>225,936</u> |
| Shareholders' equity: | | |
| Common stock, \$0.01 par value, 150,000 shares authorized, 38,587 and 38,082 shares issued and 37,869 and 37,516 shares outstanding | 301,488 | 296,069 |
| Retained earnings (deficit) | (102,853) | (4,602) |
| Unearned restricted stock compensation | (2,988) | |
| Accumulated other comprehensive loss | (14,101) | (16,598) |
| | <u>181,546</u> | <u>274,869</u> |
| Less: Notes receivable from shareholders | (2,249) | (4,703) |
| | <u>179,297</u> | <u>270,166</u> |
| Total liabilities and shareholders' equity | \$ 377,574 | \$ 496,102 |

* The restatement to account for the operating results of our less than 50% interest in subsidiaries in Mexico under the equity method instead of the consolidation method had no impact on shareholders' equity. (See Notes 1 and 14).

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

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

| | Fiscal Year Ended April 30, | | |
|---|-----------------------------|------------|------------|
| | 2002 | 2001 | 2000 |
| | | Restated* | Restated* |
| Revenue | \$ 393,891 | \$ 636,298 | \$ 487,562 |
| Compensation and benefits | 273,994 | 383,277 | 295,307 |
| General and administrative expenses | 132,327 | 197,948 | 143,344 |
| Asset impairment and restructuring charges | 50,277 | | |
| Goodwill impairment charges | 42,926 | | |
| Interest income and other income, net | 2,434 | 4,122 | 6,748 |
| Interest expense | 8,521 | 7,400 | 4,420 |
| | (111,720) | 51,795 | 51,239 |
| Income (loss) before provision for income taxes and equity in earnings of unconsolidated subsidiaries | | | |
| (Benefit from) provision for income taxes | (12,328) | 22,443 | 21,938 |
| Equity in earnings of unconsolidated subsidiaries | 1,141 | 1,661 | 1,510 |
| | (98,251) | 31,013 | 30,811 |
| Net income (loss) | \$ | \$ | \$ |
| Basic earnings (loss) per common share | (2.62) | 0.83 | 0.85 |
| Basic weighted average common shares outstanding | 37,547 | 37,266 | 36,086 |
| | (2.62) | 0.81 | 0.82 |
| Diluted earnings (loss) per common share | \$ | \$ | \$ |
| Diluted weighted average common shares outstanding | 37,547 | 38,478 | 37,680 |

* The restatement to account for the operating results of our less than 50% interest in subsidiaries in Mexico under the equity method instead of the consolidation method reduced revenue and expenses, but had no impact on net income or earnings per share in either 2001 or 2000. (See Notes 1 and 14).

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

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KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)

| | Common Stock | Retained Earnings (Deficit) | Unearned Restricted Stock Compensation | Accumulated Other Comprehensive Income (Loss) | Shareholders' Equity | Comprehensive Income (Loss) |
|---|-----------------|-----------------------------------|---|--|-------------------------|--------------------------------|
| Balance as of April 30, 1999* | \$253,021 | \$ (66,426) | | \$ (2,360) | \$ 184,235 | |
| Purchase of stock | (964) | | | | (964) | |
| Issuance of stock | 31,220 | | | | 31,220 | |
| Comprehensive Income: | | | | | | |
| Net income | | 30,811 | | | 30,811 | \$ 30,811 |
| Foreign currency translation adjustments | | | | (4,940) | (4,940) | (4,940) |
| Comprehensive income | | | | | | \$ 25,871 |
| Balance as of April 30, 2000* | 283,277 | (35,615) | | (7,300) | 240,362 | |
| Purchase of stock | (118) | | | | (118) | |
| Issuance of stock | 12,910 | | | | 12,910 | |
| Comprehensive Income: | | | | | | |
| Net income | | 31,013 | | | 31,013 | \$ 31,013 |
| Foreign currency translation adjustments | | | | (6,336) | (6,336) | (6,336) |
| Unrealized loss on investment, net of tax benefit of \$2,145 | | | | (2,962) | (2,962) | (2,962) |
| Comprehensive income | | | | | | \$ 21,715 |
| Balance as of April 30, 2001* | 296,069 | (4,602) | | (16,598) | 274,869 | |
| Purchase of stock | (376) | | | | (376) | |
| Issuance of stock | 1,655 | | | | 1,655 | |
| Issuance of restricted stock | 4,923 | | \$ (4,921) | | 2 | |
| Forfeiture of restricted stock | (783) | | 783 | | | |
| Amortization of unearned restricted stock compensation | | | 1,150 | | 1,150 | |
| Comprehensive loss: | | | | | | |
| Net loss | | (98,251) | | | (98,251) | \$ (98,251) |
| Foreign currency translation adjustments | | | | (465) | (465) | (465) |
| Reclassification adjustment for losses realized on investment, net of tax benefit of \$2,145 | | | | 2,962 | 2,962 | 2,962 |
| Comprehensive loss | | | | | | \$ (95,754) |
| Balance as of April 30, 2002 | \$301,488 | \$ (102,853) | \$ (2,988) | \$ (14,101) | \$ 181,546 | |

* The restatement to account for the operating results of our less than 50% interest in subsidiaries in Mexico under the equity method instead of the consolidation method had no impact on shareholders' equity. (See Notes 1 and 14).

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

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Fiscal Year Ended April 30, | | |
|--|-----------------------------|------------------|------------------|
| | 2002 | 2001 | 2000 |
| | | Restated* | Restated* |
| Cash from operating activities: | | | |
| Net income (loss) | \$ (98,251) | \$ 31,013 | \$ 30,811 |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: | | | |
| Depreciation | 16,533 | 14,712 | 9,912 |
| Amortization of goodwill | | 11,526 | 2,662 |
| Amortization of other intangible assets | 949 | 637 | 696 |
| Amortization of note payable discount | 467 | 724 | 269 |
| Loss on disposition of property and equipment | 63 | 651 | |
| Unrealized loss on marketable securities | 946 | | |
| Provision for doubtful accounts | 10,853 | 22,581 | 11,858 |
| Cash surrender value (gains) losses and benefits in excess of premiums paid | (806) | 2,270 | (1,371) |
| Deferred income tax provision (benefit) | 1,003 | (4,220) | (1,463) |
| Tax benefit from exercise of stock options | 188 | 2,779 | 2,837 |
| Asset impairment charges | 57,730 | | |
| Restructuring charges, including \$12,578 of liabilities | 14,844 | | |
| Restricted stock compensation | 1,152 | | |
| Change in other assets and liabilities, net of acquisitions: | | | |
| Deferred compensation | 3,284 | 4,039 | 5,400 |
| Receivables | 5,160 | (14,893) | (53,647) |
| Prepaid expenses | (147) | (2,458) | (1,625) |
| Investment in unconsolidated subsidiaries | (769) | 726 | (676) |
| Income taxes | (3,903) | 2,298 | (3,779) |
| Accounts payable and accrued liabilities | (70,249) | (9,056) | 71,075 |
| Other | 1,434 | 519 | 123 |
| | <u>(59,519)</u> | <u>63,848</u> | <u>73,082</u> |
| Cash from investing activities: | | | |
| Purchase of property and equipment | (8,539) | (33,854) | (22,755) |
| Purchase of marketable securities | | (16,397) | (31,050) |
| Sale of marketable securities | 16,397 | 61,107 | |
| Business acquisitions, net of cash acquired | (834) | (44,488) | (42,882) |
| Premiums on life insurance, net of benefits received | (9,543) | (9,485) | (10,611) |
| Purchase of investments | | (12,570) | |
| | <u>(2,519)</u> | <u>(55,687)</u> | <u>(107,298)</u> |
| Cash from financing activities: | | | |
| Net borrowings (repayments) on credit line | 39,000 | (1,365) | |
| Payment of shareholder acquisition notes | (9,449) | (14,200) | (1,555) |
| Net borrowings under life insurance policies | 11,662 | 3,486 | 3,324 |
| Purchase of common stock and payment of related notes | (532) | (533) | (1,527) |
| Issuance of common stock and receipts on shareholders' notes | 3,462 | 10,287 | 8,427 |
| | <u>44,143</u> | <u>(2,325)</u> | <u>8,669</u> |
| Effect of foreign currency exchange rate changes on cash flows | (1,638) | (3,828) | (2,539) |
| Net increase (decrease) in cash and cash equivalents | (19,533) | 2,008 | (28,086) |
| Cash and cash equivalents at beginning of the year | 85,661 | 83,653 | 111,739 |
| Cash and cash equivalents at end of the year | <u>\$ 66,128</u> | <u>\$ 85,661</u> | <u>\$ 83,653</u> |

* The restatement to account for the operating results of our less than 50% interest in subsidiaries in Mexico under the equity method instead of the consolidation method had no impact on net income or shareholders' equity. (See Notes 1 and 14).

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

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2002
(dollars in thousands, except per share amounts)

1. Organization and Summary of Significant Accounting Policies

Nature of Business

Korn/Ferry International, a Delaware corporation, and its subsidiaries are engaged in the business of providing executive recruitment, technology enhanced middle-management recruitment, through Futurestep, and consulting and related services globally on a retained basis.

Basis of Consolidation and Accounting for Investments

The consolidated financial statements include the accounts of Korn/Ferry International ("KFY") and all of its wholly and majority owned domestic and international subsidiaries. All material intercompany accounts and transactions have been eliminated.

In prior years, the Company consolidated the accounts of its subsidiaries in Mexico, in which KFY believes it has effective control but owns less than 50% of the shareholder voting interest. While the Company believes that this presentation reflected the way in which these subsidiaries are managed and operate, the legal structure of these entities requires the use of the equity method of accounting under accounting principles generally accepted in the United States. This legal structure was established in 1977, which at that time, limited foreign investment. Accordingly, the accompanying consolidated financial statements for all periods reflect the operations of the Mexico subsidiaries under the equity method of accounting. The restatement to properly apply the equity method of accounting for the Mexico subsidiaries had no impact on net income, EPS or cash flow but did reduce previously reported revenue and expenses. See Notes 14 and 15 (unaudited) for a comparison of the restated results to the previously reported results.

Investments in companies in which KFY does not have a controlling interest, or an ownership and voting interest so large as to exert significant influence, are accounted for at market value if the investment is publicly traded and there are no resale restrictions greater than one year, or if the investment is not publicly traded, then the investment is accounted for at cost. Dividends and other distributions of earnings from both market-value and cost-method investments are included in income when declared. Unrealized gains and losses on investments accounted for at market value are reported net of tax as a component of accumulated other comprehensive income (loss) until the investment is sold or an unrealized loss is no longer temporary, at which time the realized or recognized gain or loss is included in income or expense.

In fiscal 2002, due to certain restructuring activities taken by the Company, the extended decline in the stock market and other factors, the Company believed that the loss in value related to a publicly traded investment was no longer temporary and reclassified a loss of \$2,962, net of a tax benefit of \$2,145, on this investment that was included in other comprehensive income (loss) at April 30, 2001 to net income (loss) in fiscal 2002. This loss is included in the asset impairment charge of \$6,264 related to this investment that was recognized in the first fiscal quarter of 2002 (see Note 4). The Company recognized an additional unrealized holding loss on this investment of \$946 in fiscal 2002, included in other income.

Basis of Presentation

The accounting and reporting policies of the Company conform with accounting practices generally accepted in the United States and prevailing practice within the industry.

Critical Accounting Policies and Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
April 30, 2002
(dollars in thousands, except per share amounts)

amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. As a result, actual results could differ from these estimates. The most significant areas that require management judgment are revenue recognition (discussed below), deferred compensation (see Note 6) and deferred income taxes (see Note 7).

Revenue Recognition

Substantially all professional fee revenue is derived from fees for professional services related to executive recruitment, middle-management recruitment, consulting and related services performed on a retained basis. Fee revenue is generally one-third of the estimated first year compensation plus a percentage of the fee to cover indirect expenses. Fee revenue is recognized as earned. The Company generally bills clients in three monthly installments. Fees earned in excess of the initial contract amount are billed at completion of the engagement.

Goodwill and Other Intangibles

Goodwill represents the excess of the acquisition cost over the net assets acquired in business combinations. Other intangibles arising from business acquisitions include contractual obligations contingent upon future performance that are amortized on a straight-line basis over the contractual period.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". In conjunction with these new accounting standards the FASB has issued "Transition Provisions for New Business Combination Accounting Rules" ("Provisions") that allow non-calendar year-end companies to cease amortization of goodwill and adopt the new impairment approach as of the beginning of their fiscal year that starts during either 2001 or 2002. The Company elected to implement SFAS No. 141 and 142 in the first quarter of fiscal 2002.

The Provisions provide for a six month period from the date of implementation of SFAS No. 142 to record impairment under the new method. The impairment charge, if any, would be recorded as a cumulative effect of a change in accounting principle. The Company completed their impairment analysis in the second fiscal quarter of 2002. The fair value exceeded the book value of each reporting unit as of May 1, 2001 and, accordingly, there was no impairment charge as a result of the implementation of the new standard. The impact on net income and earnings per share for the twelve months ended April 30, 2001 as if SFAS No. 142 had been implemented as of the beginning of fiscal 2001 is disclosed in Note 2.

Under SFAS No. 142, the Company is required to assess whether goodwill is impaired at least annually using a two-step process. This assessment was made as of April 30, 2002, and no impairment was indicated.

The Company re-evaluates other intangibles based on undiscounted operating cash flows whenever significant events or changes occur which might impair recovery of recorded costs, and writes down the recorded costs of the assets to fair value (based on discounted cash flows or market values) when recorded costs, prior to impairment, are higher. The Company has not recorded any charges against income for impairment based on these evaluations. Prior to the implementation of SFAS No. 142, goodwill was assessed for impairment in the same manner.

The asset impairment charges recognized in fiscal 2002 are unrelated to the implementation of SFAS No. 142. See Note 4.

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Translation of Foreign Currencies

Generally, financial results of the Company's foreign subsidiaries are measured in their local currencies. Assets and liabilities are translated into U.S. dollars at the rates of exchange in effect at the end of each year and revenue and expenses are translated at average rates of exchange during the year. Resulting translation adjustments are reported as a component of comprehensive income (loss).

Gains and losses from foreign currency transactions of these subsidiaries and the translation of the financial results of subsidiaries operating in highly inflationary economies are included in general and administrative expenses. Net foreign currency transaction and translation (gains) losses, on an after tax basis, included in net income (loss), were \$(246), \$646 and \$1,708 in fiscal 2002, 2001 and 2000, respectively.

Cash Flows

Cash equivalents consist of highly liquid investments with maturities of three months or less at the date of purchase.

Net cash from operating activities includes cash payments for interest of \$8,324, \$7,401 and \$3,591 in fiscal 2002, 2001 and 2000, respectively. Cash payments for income taxes, net of refunds, amounted to \$7,908, \$24,222, and \$24,594 in fiscal 2002, 2001 and 2000, respectively.

Marketable Securities

Management determines the appropriate classification of its investments in marketable securities at the time of purchase and reevaluates this classification at each balance sheet date. At April 30, 2002, we had no investments in marketable securities and at April 30, 2001, we had short term municipal securities of \$13,450, municipal auction preferred of \$2,000 and certificates of deposit of \$947.

The certificates of deposit as of April 30, 2001 were purchased to serve as collateral for the letters of credit issued under the Company's former line of credit. The maturity dates of the certificates of deposit correspond with the expiration dates of the letters of credit. The final certificate of deposit maturity date under this arrangement was March 2002.

Fair Value of Financial Instruments

The carrying amount of cash, cash equivalents and accounts receivable approximates fair value due to the short maturity of these instruments. Notes payable and long-term debt bear interest at rates that approximate the current market interest rates for similar instruments and, accordingly the carrying value approximates fair value. The fair value of notes receivable from shareholders based on discounting the estimated future cash flows using a current market rate approximates the carrying value.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to significant concentrations of credit risk consist principally of receivables due from clients. Concentrations of credit risk with respect to receivables are limited due to the Company's large number of customers and their dispersion across many different industries and countries worldwide.

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Cash Surrender Value of Life Insurance

The change in the cash surrender value (“CSV”) of company owned life insurance (“COLI”) contracts net of insurance premiums paid is reported in compensation and benefits expense. See Note 6.

New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations”. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not believe that the adoption of this statement will have a significant impact on its financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” which replaces SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.” This statement establishes a number of rules which govern accounting for the impairment of long-lived assets, eliminates inconsistencies from having two accounting models for long-lived assets to be disposed of by sale and expands the definition of a discontinued operation to a component of an entity for which identifiable cash flows exist. The statement is effective for fiscal years beginning after December 15, 2001. The Company does not believe that the adoption of this statement will have a significant impact on its financial position or results of operations.

Reclassifications

Certain prior year reported amounts have been reclassified in order to conform to the current year consolidated financial statement presentation.

2. Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per common share (“basic EPS”) was computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common and common equivalent share (“diluted EPS”) reflects the potential dilution that would occur if the outstanding options or other contracts to issue common stock were exercised or converted and was computed by dividing the net income (loss) by the weighted average number of shares of common stock outstanding and dilutive common equivalent shares. Following is a reconciliation of the numerator (income or loss) and denominator (shares in thousands) used in the computation of basic and diluted EPS:

| | Fiscal Year Ended April 30, | | | | | | | | |
|---|-----------------------------|-------------------------------|------------------------|----------|-------------------------------|------------------------|----------|-------------------------------|------------------------|
| | 2002 | | | 2001 | | | 2000 | | |
| | (Loss) | Weighted Average Shares | Per Share Amount | Income | Weighted Average Shares | Per Share Amount | Income | Weighted Average Shares | Per Share Amount |
| Basic EPS | | | | | | | | | |
| Income (loss) available to common shareholders | \$(98,251) | 37,547 | \$ (2.62) | \$31,013 | 37,266 | \$ 0.83 | \$30,811 | 36,086 | \$ 0.85 |
| Effect of dilutive securities | | | | | | | | | |
| Shareholder common stock purchase commitments | | | | | 270 | | | 373 | |
| Stock options | | | | | 942 | | | 1,221 | |
| Diluted EPS | | | | | | | | | |
| Income (loss) available to common shareholders plus assumed conversions | \$(98,251) | 37,547 | \$ (2.62) | \$31,013 | 38,478 | \$ 0.81 | \$30,811 | 37,680 | \$ 0.82 |

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For the year ended April 30, 2002, assumed exercises or conversions have been excluded in computing the diluted earnings per share since there was a net loss for the year and their inclusion would be anti-dilutive.

The following table adjusts net income (loss) and earnings (loss) per share for the impact of the implementation of SFAS No. 142 in the current year:

| | Year Ended April 30, | | |
|--|----------------------|-----------|-----------|
| | 2002 | 2001 | 2000 |
| Net income (loss) | | | |
| Reported net income (loss) | \$ (98,251) | \$ 31,013 | \$ 30,811 |
| Add back: goodwill amortization | | 11,526 | 2,662 |
| Adjusted net income (loss) | \$ (98,251) | \$ 42,539 | \$ 33,473 |
| Basic earnings (loss) per share | | | |
| Reported net income (loss) | \$ (2.62) | \$ 0.83 | \$ 0.85 |
| Goodwill amortization | | 0.31 | 0.07 |
| Adjusted net income (loss) | \$ (2.62) | \$ 1.14 | \$ 0.92 |
| Diluted earnings (loss) per share | | | |
| Reported net income (loss) | \$ (2.62) | \$ 0.81 | \$ 0.82 |
| Goodwill amortization | | 0.30 | 0.07 |
| Adjusted net income (loss) | \$ (2.62) | \$ 1.11 | \$ 0.89 |

3. Stock Incentive Plans

In July 1998, the Company adopted the Performance Award Plan (the “Plan”) to provide a means to attract, motivate, reward and retain talented and experienced officers, non-employee directors, other key employees and certain other eligible persons who may be granted awards from time to time by the Board of Directors (“the Board”) or the Compensation Committee, or, for non-employee directors, under a formula provided in the Plan. The maximum number of shares of common stock reserved for issuance is thirteen million, subject to adjustment for certain changes in the Company’s capital structure and other extraordinary events. Shares subject to awards that are not paid for or exercised before they expire or are terminated are available for other grants under the Plan to the extent permitted by law. The Plan is not exclusive. The Board may grant stock and performance incentives or other compensation, in stock or cash, under other plans or authority.

Awards under the Plan may be in the form of nonqualified stock options, incentive stock options, stock appreciation rights (“SARs”), restricted stock, stock unit awards, performance shares, stock bonuses or cash bonuses based on performance. The maximum term of options, SARs and other rights to acquire common stock under the Plan is generally ten years after the initial date of award, subject to provisions for further deferred payment in certain circumstances. Awards may be granted individually or in combination with other awards. No incentive stock option may be granted at a price that is less than the fair market value of the common stock (110% of fair market value of the common stock for certain participants) on the date of grant. Nonqualified stock options and other awards may be granted at prices below the fair market value of the common stock on the date of grant. Restricted stock awards can be issued for nominal or the minimum lawful consideration. Typically, the participant may vote restricted stock, but any dividend on restricted shares will be held in escrow subject to

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forfeiture until the shares have vested. No more than 350,000 shares will be available for restricted stock awards, subject to exceptions for restricted stock awards based on past service, deferred compensation and performance awards.

Under the Plan, each director who is not an officer or employee (a “Non-Employee Director”) is automatically granted a nonqualified stock option to purchase 2,500 shares of common stock when the person takes office and on the day of each annual shareholders meeting, at an exercise price equal to the market price of the common stock at the close of trading on that date. Non-Employee Directors may also be granted discretionary awards. All automatically granted Non-Employee Director stock options will have a ten-year term and will be immediately exercisable.

The status of stock options and SARs issued under the Company’s performance award plan is summarized below:

| | Number of Shares (in thousands) | Weighted Average Exercise Price |
|-------------------------------|------------------------------------|------------------------------------|
| Outstanding at April 30, 1999 | 3,572 | \$ 13.76 |
| Granted | 897 | 25.30 |
| Exercised | (443) | 13.89 |
| Canceled/forfeited | (197) | 14.81 |
| Outstanding at April 30, 2000 | 3,829 | \$ 16.40 |
| Granted | 4,125 | 23.71 |
| Exercised | (429) | 13.65 |
| Canceled/forfeited | (466) | 20.47 |
| Outstanding at April 30, 2001 | 7,059 | \$ 20.66 |
| Granted | 2,176 | 15.79 |
| Exercised | (74) | 13.70 |
| Canceled/forfeited | (1,139) | 22.03 |
| Canceled subject to exchange | (3,581) | 22.03 |
| Outstanding at April 30, 2002 | 4,441 | \$ 16.94 |

In March 2002, the Company accepted for exchange 3,580,641 options and SARs relating to shares of the Company’s common stock, representing approximately 53% of the shares subject to options and SARs that were eligible to be exchanged in the offer. Subject to the terms and conditions of the Offer to Exchange, the Company will issue replacement options and SARs relating to an aggregate of approximately 1,575,000 shares of the Company’s common stock to some or all of the 347 option and SAR holders that participated in the exchange no sooner than six months and one day after the options were canceled.

The Company has elected to follow Accounting Principles Board Opinion No. 25 “Accounting for Stock Issued to Employees” (“APB 25”) and related interpretations to account for its stock-based compensation arrangements. Under APB 25, no compensation expense is recognized for stock option awards granted at or above fair market value.

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The following table presents pro forma information regarding net income (loss) and EPS determined as if the Company had accounted for its employee stock options and SARs under the fair value method prescribed by SFAS No. 123 "Accounting for Stock-Based Compensation".

| | Fiscal Year Ended April 30, | | |
|-------------------|-----------------------------|-----------|-----------|
| | 2002 | 2001 | 2000 |
| Net income (loss) | | | |
| As reported | \$ (98,251) | \$ 31,013 | \$ 30,811 |
| Pro forma | (115,852) | 10,484 | 22,849 |
| Basic EPS | | | |
| As reported | (2.62) | 0.83 | 0.85 |
| Pro forma | (3.09) | 0.28 | 0.63 |
| Dilutive EPS | | | |
| As reported | (2.62) | 0.81 | 0.82 |
| Pro forma | (3.09) | 0.27 | 0.61 |

The weighted average fair value of options granted in fiscal 2002, 2001 and 2000 was \$8.61, \$16.49 and \$17.99, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with a zero dividend rate and the following assumptions:

| | Fiscal Year Ended April 30, | | |
|---------------------------------|-----------------------------|--------|--------|
| | 2002 | 2001 | 2000 |
| Expected stock volatility | 63.9% | 64.5% | 55.3% |
| Risk-free interest rate | 4.14% | 5.37% | 6.33% |
| Expected option life (in years) | 4 to 6 | 5 to 9 | 5 to 9 |

Summary information about the Company's stock options and SARs outstanding at April 30, 2002 is presented in the following table:

| Range of Exercise Price | Options Outstanding | | | Options Exercisable | |
|---------------------------|---------------------|--|---------------------------------|---------------------|---------------------------------|
| | Number Outstanding | Weighted Average Remaining Contractual Life in years | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| | (in thousands) | | | (in thousands) | |
| \$ 4.20 to \$ 8.40 | 32 | 9.8 | \$7.62 | | |
| 8.40 to 12.60 | 60 | 9.3 | 10.65 | 21 | \$9.78 |
| 12.60 to 16.80 | 3,156 | 6.4 | 14.60 | 1,887 | 13.78 |
| 16.80 to 21.00 | 26 | 8.7 | 18.21 | 12 | 18.40 |
| 21.00 to 25.20 | 957 | 7.7 | 22.42 | 374 | 22.46 |
| 25.20 to 29.40 | 100 | 7.8 | 27.64 | 45 | 27.52 |
| 29.40 to 33.60 | 63 | 7.3 | 29.77 | 44 | 29.77 |
| 33.60 to 37.80 | 46 | 6.6 | 35.26 | 36 | 35.26 |
| 37.80 to 42.00 | 1 | 0.2 | 42.00 | 1 | 42.00 |
| \$ 4.20 to \$42.00 | 4,441 | 6.8 | \$16.94 | 2,420 | \$15.99 |

In June 2001, the Company granted the Chief Executive Officer 100,000 shares of restricted stock with a fair market value of \$15.50 per share which vests evenly over three years. The Company also granted 43

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employees 210,333 shares of restricted stock and stock unit awards with a fair market value of \$16.04 per share which vest evenly over three years. At April 30, 2002, 261,500 shares of restricted stock and stock unit awards were outstanding. Compensation expense related to these awards is charged to earnings on a straight-line basis over the 36 month vesting period and totaled \$1,150 at April 30, 2002.

As of April 30, 2002, Futurestep has granted options to purchase 1,724,784 shares and 62,200 SARs under its Performance Award Plan. All awards have been granted at an estimate of the fair value on the date of the grant, as determined by the Futurestep Board of Directors. The maximum number of shares which may be awarded under the Futurestep Performance Award Plan is 3,500,000. Upon exercise, at the election of Futurestep, the SARs may be settled either by a cash payment or the issuance of shares of common stock of Futurestep having equivalent value. If all stock options outstanding as of April 30, 2002 were exercised, the option holders of such stock options would own approximately 8.3% of the then issued and outstanding shares of the common stock of Futurestep.

4. Asset Impairment and Restructuring Charges

Based on deteriorating economic conditions encountered in the first fiscal quarter of 2002, the Company began developing a series of restructuring initiatives to address the cost structure and to reposition the enterprise to gain market share and take full advantage of any economic uptrend. The immediate goals of these restructuring initiatives were to reduce losses, preserve top employees and maintain high standards of client service. In the first quarter, certain business units took actions approved by senior management, that did not require approval by the Board of Directors (“Board”), in response to a decline in revenue in the first two months of that quarter resulting in a restructuring charge for severance of \$3.0 million.

In August 2001, the Board approved a series of business realignment initiatives designed to reduce the work force by nearly 25%, or over 600 employees; consolidate all back-office functions for Futurestep and Korn/Ferry; reduce the investment in the operations of JobDirect and write-down other related assets and goodwill. Based upon these initiatives, the Company’s analysis indicated that goodwill associated with JobDirect was impaired. As a result, the Company recognized an asset impairment charge related to JobDirect goodwill of \$28,951 in the first quarter of fiscal 2002. In addition, all of the consultants of an acquired executive recruitment firm that was never integrated into the Company’s operations terminated their employment on August 1, 2001 and the Company recognized a goodwill impairment charge of \$11,230 in the first fiscal quarter of 2002.

During the three months ended October 31, 2001, the Company finalized the realignment initiatives approved by the Board in August 2001. The Company also decided to exit the college recruitment market and discontinue the operations of JobDirect. As a result, the Company recognized an additional goodwill impairment charge of \$2,745, an asset impairment charge of \$7.5 million and a restructuring charge of \$27.3 million.

During the fourth quarter of fiscal 2002, the Company implemented additional restructuring initiatives for executive recruitment and Futurestep businesses in Europe resulting in a restructuring charge of \$4.9 million, consisting of \$2.5 million of severance and \$2.4 million of facilities costs for excess space. In addition, the Company determined that a non-strategic investment was permanently impaired and recognized a non-cash charge of \$4.0 million.

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Operating results include asset impairment and restructuring charges related to the following business segments:

| | Fiscal Year Ended April 30, 2002 | | | | |
|-----------------------------|----------------------------------|-----------|---------------|------------|-----------|
| | Asset Impairment | | Restructuring | | Total |
| | Goodwill | Other | Severance | Facilities | |
| Executive recruitment | | | | | |
| North America | \$ 13,975 | \$ 711 | \$ 9,073 | \$ 5,490 | \$ 29,249 |
| Europe | | | 4,833 | 2,517 | 7,350 |
| Asia/Pacific | | 15 | 1,761 | 70 | 1,846 |
| Total executive recruitment | \$ 13,975 | \$ 726 | \$ 15,667 | \$ 8,077 | \$ 38,445 |
| Futurestep | | 12,958 | 2,592 | 6,872 | 22,422 |
| JobDirect | 28,951 | 1,369 | 843 | 1,173 | 32,336 |
| Total | \$ 42,926 | \$ 15,053 | \$ 19,102 | \$ 16,122 | \$ 93,203 |

The goodwill impairment charge in executive recruitment was related to two prior year acquisitions, which were never integrated into the Company's operations, and for which there is no continuing business. All of the consultants were terminated in one of the acquired entities and the other entity was re-acquired by the former shareholders. The total goodwill write-off associated with these two acquisitions was \$13,975. The other asset impairment charge of \$726 is for the write-down of excess furniture and equipment to fair value less costs to sell.

The restructuring charge for executive recruitment severance of \$15,667 included 222 employees in North America, 277 employees in Europe, and 41 employees in Asia/Pacific, respectively. The facilities restructuring charge for executive recruitment of \$8,077 relates primarily to lease termination costs, net of estimated sublease income, for excess space in ten executive recruitment offices due to the reduction in workforce. The charge also includes \$330 related to unamortized leasehold improvements.

The Futurestep asset impairment and restructuring charges resulted from the restructuring of operations to streamline the business. The asset impairment charge of \$12,958 includes a recognized loss of \$6,264 on an investment in a strategic relationship that will not be developed with the integration of Futurestep and executive recruitment support services, the write-off of a \$4,000 investment that is no longer considered strategic that management believes is permanently impaired, \$801 for the write-down of excess furniture, fixtures and equipment to estimated fair value less costs to sell and the write-off of capitalized software costs of \$1,893 due to the integration of Futurestep and executive recruitment information technology support services.

The Futurestep restructuring charge of \$2,592 for severance is for 48, 84 and 17 employees in North America, Europe and Asia/Pacific, respectively. The facilities restructuring charge of \$6,144 relates to six Futurestep offices that were closed as employees were co-located with executive recruitment. The charge also includes \$1,622 related to the write-off of unamortized leasehold improvements.

Initially in fiscal 2002, the Company had attempted to reposition JobDirect to continue its business operations resulting in an impairment charge for goodwill of \$28,951 in the first fiscal quarter. The Company subsequently decided to discontinue the business and recognized an asset impairment charge of \$1,369, primarily for the write-down of furniture, fixtures and equipment at facilities that were closed to estimated fair value less costs to sell. The restructuring charge was comprised of severance of \$843 for 70 employees and \$1,173 for lease termination costs in excess of estimated sublease income for its three offices, including the write-off of leasehold improvements of \$61.

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A summary of the components of the restructuring liability by business segment at April 30, 2002 follows:

| | <u>Charged to Expense</u> | <u>Non-Cash Items</u> | <u>Payments</u> | <u>Liability at April 30, 2002</u> |
|-----------------------|---------------------------|-----------------------|-----------------|------------------------------------|
| Executive recruitment | | | | |
| North America | \$ 14,563 | \$ 330 | \$ 9,625 | \$ 4,608 |
| Europe | 7,350 | | 4,378 | 2,972 |
| Asia/Pacific | 1,831 | | 1,702 | 129 |
| Futurestep | 9,464 | 1,874 | 3,467 | 4,123 |
| JobDirect | 2,016 | 61 | 1,209 | 746 |
| | <u>\$ 35,224</u> | <u>\$ 2,265</u> | <u>\$20,381</u> | <u>\$ 12,578</u> |

The restructuring liability at April 30, 2002 includes \$2,179 of severance restructuring costs and \$10,399 of facilities restructuring costs. The severance accrual includes amounts paid monthly and are expected to be paid in full by October 31, 2002. The accrued liability for facilities costs primarily relates to commitments under operating leases, net of sublease income, of which \$3,277 is included in other long-term liabilities, that will be paid over the next two to ten years.

5. Employee Profit-Sharing

The Company has an Employee Tax Deferred Savings Plan that covers eligible employees in the United States. The discretionary accrued contribution to this plan was \$537, \$3,892 and \$3,027 for fiscal 2002, 2001 and 2000, respectively. In fiscal 2002, the Company contributed \$294 of the contribution accrued in fiscal 2001 to the plan.

6. Deferred Compensation and Retirement Plans, Pension Plan and Company Owned Life Insurance Policies

The Company has a defined benefit pension plan, referred to as the Worldwide Executive Benefit Plans (“WEB” plans), covering all of its employees in the United States and certain employees in other countries. The WEB plans are designed to integrate with government sponsored and local benefits and provide a monthly benefit to vice presidents and shareholders upon retirement from the Company. Each year a plan participant accrues and is fully vested in one-twentieth of the targeted benefits expressed as a percentage set by the Company for that year. Upon retirement, a participant receives a monthly benefit payment equal to the sum of the percentages accrued over such participant’s term of employment, up to a maximum of 20 years, multiplied by the participant’s highest average monthly salary during any 36 consecutive months in the final 72 months of active full-time employment.

The Company also has established several deferred compensation plans for vice-presidents that provide defined benefit payments to participants based on the deferral of current compensation subject to vesting and retirement or termination provisions.

The Enhanced Wealth Accumulation Plan (“EWAP”) was established in fiscal 1994. Certain vice presidents elect to participate in a “deferral unit” that requires the contribution of current compensation for an eight year period in return for defined benefit payments from the Company over a fifteen year period generally at retirement at age 65 or later. Participants may acquire additional “deferral units” every five years. The EWAP replaced the Wealth Accumulation Plan (“WAP”) in fiscal 1994 and executives who did not choose to roll over their WAP units into the EWAP continue to be covered under the earlier version in which participants generally vest and commence receipt of benefit payments at retirement at age 65.

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The Company also maintains a Senior Executive Incentive Plan (“SEIP”) for participants elected by the Board. Generally, to be eligible, the executive must be participating in the EWAP. Participation in the SEIP requires the participant to contribute a portion of their compensation during a four-year period, or in some cases make an after tax contribution, in return for a defined benefit paid by the Company generally over a fifteen year period after ten years of participation in the plan or such later date as may be elected by the participant.

Certain current and former employees also have individual deferred compensation arrangements with the Company which provide for payment of defined amounts over certain periods commencing at specified dates or events.

For financial accounting purposes, the Company estimates the present value of the future benefits payable under these plans as of the estimated payment commencement date. The Company also estimates the remaining number of years a participant will be employed by the Company. Then, each year during the period of estimated employment, the Company accrues a liability and recognizes expense for a portion of the future benefit using the “benefit/years of service” attribution method for the SEIP, WAP and EWAP plans and the “projected unit credit” method for the WEB plan.

In calculating the accrual for future benefit payments, management has made assumptions regarding employee turnover, participant vesting, violation of non-competition provisions, and the discount rate. Management periodically reevaluates all assumptions. If assumptions change in future reporting periods, the changes may impact the measurement and recognition of benefit liabilities and related compensation expense.

As of April 30, 2002 and 2001, the Company had unrecognized losses related to the deferred compensation plans of \$2,505 and \$5,533, respectively, due primarily to changes in assumptions of the discount rate used for calculating the accruals for future benefits. As of April 30, 2002 and 2001, the Company also had unrecognized (gains) losses related to the pension plan of (\$1,899) and \$282, respectively, due to changes in assumptions of the discount rate used for calculating the accruals for future benefits in fiscal 2001 and changes in assumptions related to the participant population in fiscal 2002. The Company amortizes unrecognized (gains) losses over the average remaining service period of active participants. The discount rate was 7.25% in both fiscal 2002 and 2001.

The Company also maintains various retirement plans statutorily required in five foreign jurisdictions. The aggregate of the long-term benefit obligation accrued at April 30, 2002 and 2001 is \$2,727 for 108 participants and \$3,246 for 75 participants, respectively. The Company’s contribution to these plans was \$1,299 and \$1,427 in fiscal 2002 and 2001, respectively.

The total long-term benefit obligations for the deferred compensation, retirement and pension plans were:

| | Fiscal Year Ended April 30, | |
|---|------------------------------------|------------------|
| | 2002 | 2001 |
| Deferred compensation plans | \$ 36,583 | \$ 33,334 |
| Retirement plans | 2,727 | 3,246 |
| Pension plan | 5,496 | 4,942 |
| Total long-term benefit obligation | \$ 44,806 | \$ 41,522 |

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The following tables reconcile the benefit obligation for the deferred compensation plans and the pension plan:

| | Fiscal Year Ended April 30, | |
|---|-----------------------------|-----------|
| | 2002 | 2001 |
| Deferred compensation plans: | | |
| Benefit obligation at beginning of year | \$ 34,673 | \$ 32,621 |
| Service cost | 2,788 | 3,080 |
| Interest cost | 1,225 | 366 |
| Plan participants' contributions | 1,629 | 1,541 |
| Recognized loss due to change in assumption | 332 | 306 |
| | \$ 5,974 | \$ 5,293 |
| Total expense | | |
| Benefits paid | (2,602) | (3,241) |
| | \$ 38,045 | \$ 34,673 |
| Benefit obligation at end of fiscal year | | |
| Less: current portion of benefit obligation | (1,462) | (1,339) |
| | \$ 36,583 | \$ 33,334 |
| Long-term benefit obligation at end of year | | |
| Fiscal Year Ended April 30, | | |
| | 2002 | 2001 |
| Pension plan: | | |
| Benefit obligation at beginning of year | \$ 4,942 | \$ 3,713 |
| Service cost | 576 | 981 |
| Interest cost | 243 | 253 |
| Recognized loss due to change in assumption | (136) | 19 |
| | \$ 683 | \$ 1,253 |
| Total expense | | |
| Benefits paid | (129) | (24) |
| | \$ 5,496 | \$ 4,942 |
| Long-term benefit obligation at end of year | | |

The Company has purchased COLI contracts insuring participants and former participants in the deferred compensation and pension plans. The gross CSV of these contracts of \$112,915 and \$102,286 is offset by outstanding policy loans of \$59,867 and \$47,925, in the accompanying consolidated balance sheets as of April 30, 2002 and 2001, respectively. Total death benefits payable under COLI contracts were \$238,425 and \$248,460 at April 30, 2002 and 2001, respectively. Management intends to use the future death benefits (if any) from these insurance contracts to fund the deferred compensation and pension arrangements; however, there may not be a direct correlation between the timing of the future cash receipts and disbursements under these arrangements. In addition, certain policies are held in trusts to provide additional benefit security for the deferred compensation and pension plans. As of April 30, 2002, COLI contracts with a net cash surrender value of \$44,207 and death benefits payable of \$185,927 were held in trust for these purposes.

7. Income Taxes

The provision for income taxes is based on reported income before income taxes. Deferred income tax assets and liabilities reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for tax purposes, as measured by applying the currently enacted tax laws.

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The (benefit from) provision for domestic and foreign income taxes is comprised of the following components:

| | Fiscal Year Ended April 30, | | |
|---|-----------------------------|-----------|-----------|
| | 2002 | 2001 | 2000 |
| | | Restated | Restated |
| Current income taxes: | | | |
| Federal | \$ (14,186) | \$ 11,258 | \$ 12,786 |
| State | (4,092) | 3,879 | 4,718 |
| Total | \$ (18,278) | 15,137 | 17,504 |
| Deferred income taxes: | | | |
| Federal | 3,906 | (4,231) | (1,097) |
| State | (841) | 11 | (366) |
| Total | 3,065 | (4,220) | (1,463) |
| Foreign income taxes | 2,885 | 11,526 | 5,897 |
| (Benefit from) provision for income taxes | \$ (12,328) | \$ 22,443 | \$ 21,938 |

The domestic and foreign components of income (loss) from continuing operations before domestic and foreign income and other taxes and equity in earnings of unconsolidated subsidiaries were as follows:

| | Fiscal Year Ended April 30, | | |
|---|-----------------------------|-----------|-----------|
| | 2002 | 2001 | 2000 |
| | | Restated | Restated |
| Domestic | \$ (82,478) | \$ 27,269 | \$ 37,784 |
| Foreign | (29,242) | 24,526 | 13,455 |
| Income (loss) before provision for income taxes and equity in earnings of unconsolidated subsidiaries | \$ (111,720) | \$ 51,795 | \$ 51,239 |

The difference between the effective tax rate in the consolidated financial statements and the statutory federal income tax rate can be attributed to the following:

| | Fiscal Year Ended April 30, | | |
|--|-----------------------------|----------|----------|
| | 2002 | 2001 | 2000 |
| | | Restated | Restated |
| U.S. federal statutory tax rate | 35.0% | 35.0% | 35.0% |
| Foreign source dividend income | (2.7) | 13.2 | 10.2 |
| Foreign income tax credits utilized | | (11.4) | (8.3) |
| Income subject to net higher foreign tax rates | 0.3 | 5.3 | 2.3 |
| COLI CSV decrease (increase), net | | 1.3 | (3.4) |
| Non-deductible goodwill amortization | | 4.2 | 1.3 |
| Impairment of acquired net operating losses | (4.4) | | |
| Non-deductible restructuring charge | (15.5) | | |
| Other | (1.7) | (4.3) | 5.7 |
| Effective tax rate | 11.0% | 43.3% | 42.8% |

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The significant components of deferred tax assets and liabilities are as follows:

| | As of April 30, | |
|---|------------------|------------------|
| | 2002 | 2001 |
| | | Restated |
| Deferred income tax assets (liabilities): | | |
| Deferred compensation | \$ 17,462 | \$ 15,490 |
| Allowance for doubtful accounts | 1,582 | 3,319 |
| Other accrued liabilities | 949 | (472) |
| Property and equipment | 3,471 | 2,101 |
| Loss and credit carryforwards | 2,912 | 9,217 |
| Other (foreign) | 12,766 | 4,108 |
| | \$ 39,142 | \$ 33,763 |
| Less: valuation allowance | (7,012) | |
| | \$ 32,130 | \$ 33,763 |

SFAS No. 109, "Accounting for Income Taxes", requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Management believes sufficient uncertainty exists regarding the realizability of the asset that a valuation allowance is required. Although realization is not assured, management believes that it is more likely than not that all of the deferred income tax asset will be realizable. Realization of the deferred income tax asset is dependent on the Company generating sufficient taxable income in future years as the deferred income tax charges become currently deductible for tax reporting purposes.

For the year ended April 30, 2002, the Company generated a net operating tax loss in the United States of approximately \$54.0 million. This U.S. net operating tax loss was carried back to the tax years ended April 30, 2000 and April 30, 2001. The Company expects to receive approximately \$18.3 million of federal and state tax refunds as a result of this carryback claim.

At April 30, 2002, the Company had foreign tax credit carryforwards of \$2,912 to offset future tax liabilities in the United States that expire in fiscal 2007.

The Company has not provided for U.S. deferred income taxes on approximately \$34.0 million of undistributed earnings and associated withholding taxes of the foreign subsidiaries as the Company has taken the position under Accounting Principles Board Opinion No. 23, "Accounting for Income Taxes-Special Areas", that its foreign earnings will be permanently reinvested offshore. If a distribution of these earnings were to be made, the Company might be subject to both foreign withholding taxes and U.S. income taxes, net of any allowable foreign tax credits or deductions. However, an estimate of these taxes is not practicable.

8. Property and Equipment and Long-lived Assets

Property and equipment is carried at cost, less accumulated depreciation. Leasehold improvements are amortized over the useful life of the asset, or the lease term, whichever is less, using the straight-line method. Software development costs for internal use are capitalized in accordance with Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" and, once placed in service, amortized using the straight-line method over the estimated useful life, generally five years. All other property and equipment is depreciated or amortized over the estimated useful lives of three to ten years, using the straight-line method.

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Property and equipment consists of the following:

| | As of April 30, | |
|---|-----------------|-----------|
| | 2002 | 2001 |
| | | Restated |
| Property and equipment: | | |
| Computer equipment and software | \$ 49,627 | \$ 48,528 |
| Furniture and fixtures | 22,325 | 24,011 |
| Leasehold improvements | 23,357 | 23,482 |
| Automobiles | 815 | 1,697 |
| | 96,124 | 97,718 |
| Less: Accumulated depreciation and amortization | (55,876) | (43,262) |
| Property and equipment, net | \$ 40,248 | \$ 54,456 |

The Company reviews long-lived assets for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The carrying value of assets are calculated at the lowest level for which there are identifiable cash flows. Recoverability of the carrying value is measured by comparing the carrying value of the asset to future net cash flows expected to be generated by the asset. If the carrying value is greater than the future net cash flows, the impairment charge recognized is the amount by which the carrying value exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

As a result of the restructuring initiatives in fiscal 2002, the Company recognized an asset impairment charge of \$4,789 related to the write-down of excess furniture and equipment to fair value less costs to sell and a restructuring charge of \$2,013 to write-off leasehold improvements. See Note 4.

9. Notes Payable and Long-Term Debt

The Company's long-term debt consists of the following:

| | As of April 30, | |
|--|-----------------|-----------|
| | 2002 | 2001 |
| | | Restated |
| Unsecured subordinated notes payable to shareholders due through 2004, bearing interest at various rates up to 8.50% | \$ 14,452 | \$ 23,674 |
| Less: current maturities | (12,818) | (11,832) |
| Long-term debt | \$ 1,634 | \$ 11,842 |

Long-term debt due to shareholders outstanding at April 30, 2002 of \$1,634 is due in fiscal 2004.

At April 30, 2002, the Company maintained a \$45.0 million credit facility with Bank of America that matures in November 2002. Borrowings under the credit facility bear interest at Prime plus 3.75%. The financial covenants include a minimum fixed charge coverage ratio, a maximum leverage ratio, a quick ratio and other customary events of default. The outstanding balance under the revolving line of credit was \$39.0 million at April 30, 2002. In June 2002, the outstanding borrowings under the facility were repaid and the credit facility commitment, which matures in November 2002, was reduced from \$45.0 million to \$31.2 million.

The Company has outstanding borrowings against the CSV of COLI contracts of \$59,867 and \$47,925 at April 30, 2002 and 2001, respectively. These borrowings are secured by the CSV, principal payments are not scheduled and interest is payable at least annually, at various fixed and variable rates ranging from 5.5% to 8.0%. See Note 6.

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10. Business Segments

The Company operates in two global business segments in the retained recruitment industry, executive recruitment and Futurestep. These segments are distinguished primarily by the method used to identify candidates and the candidates' level of compensation. The executive recruitment business segment is managed by geographic regions led by a regional president. Revenue from strategic management assessment engagements is included in executive recruitment. Futurestep's worldwide operations are managed by an operating group comprised of a president of operations for North America and Asia and a president of operations for Europe. The regional presidents and this operating group report directly to the Chief Executive Officer of the Company.

With the acquisition of JobDirect in fiscal 2001, the Company expanded into the college recruitment market. The Company decided to exit this business segment in the fiscal quarter ended October 31, 2001 and ceased operations in the fiscal quarter ending January 31, 2002. See Note 4.

A summary of the Company's operations (excluding interest income and other income, and interest expense) by business segment follows:

| | Fiscal Year Ended April 30, | | |
|-------------------------------|-----------------------------|-------------------|-------------------|
| | 2002 | 2001 | 2000 |
| | | Restated | Restated |
| Revenue: | | | |
| Executive recruitment: | | | |
| North America | \$ 203,986 | \$ 343,095 | \$ 271,313 |
| Europe | 92,972 | 135,278 | 112,045 |
| Asia/Pacific | 38,936 | 53,977 | 48,603 |
| South America | 11,350 | 17,183 | 17,307 |
| Futurestep | 45,261 | 82,082 | 38,294 |
| JobDirect | 1,386 | 4,683 | |
| | Total revenue | \$ 636,298 | \$ 487,562 |

| | Fiscal Year Ended April 30, | | |
|---|---|------------------|------------------|
| | 2002 | 2001 | 2000 |
| | | Restated | Restated |
| Operating profit (loss) before asset impairment and restructuring charges: | | | |
| Executive recruitment: | | | |
| North America | \$ 18,503 | \$ 65,080 | \$ 52,783 |
| Europe | (7,990) | 19,960 | 13,034 |
| Asia/Pacific | 393 | 6,632 | 5,174 |
| South America | (2,154) | 672 | 1,798 |
| Futurestep | (15,351) | (26,022) | (23,878) |
| JobDirect | (5,831) | (11,249) | |
| | Subtotal operating profit (loss) before asset impairment and restructuring charges | \$ 55,073 | \$ 48,911 |
| Asset impairment and restructuring charges (Note 4) | 93,203 | | |
| | Total operating profit (loss) | \$ 55,073 | \$ 48,911 |

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Goodwill amortization expense included in operating profit (loss) by business segment in fiscal 2001 and 2000 was: \$5,753 and \$890 in North America, \$1,866 and \$816 in Europe, \$286 and \$294 in Asia/Pacific, \$2,040 and \$662 in Futurestep and \$1,581 in JobDirect.

Identifiable assets by business segment are as follows:

| | As of April 30, | | |
|----------------------------------|-------------------|-------------------|-------------------|
| | 2002 | 2001 | 2000 |
| | | Restated | Restated |
| Identifiable assets: | | | |
| Executive recruitment: | | | |
| North America(1) | \$ 237,392 | \$ 259,811 | \$ 287,603 |
| Europe | 64,091 | 93,735 | 91,790 |
| Asia/Pacific | 32,952 | 39,259 | 33,376 |
| South America | 8,504 | 12,481 | 12,686 |
| Futurestep | 34,320 | 53,021 | 46,723 |
| JobDirect | 315 | 37,795 | |
| Total identifiable assets | \$ 377,574 | \$ 496,102 | \$ 472,178 |

(1) The Corporate office identifiable assets of \$88,053, \$101,146 and \$146,868 in fiscal 2002, 2001 and 2000, respectively, are included in North America.

A summary of goodwill, net included in identifiable assets by business segment in fiscal 2002, 2001 and 2000 follows:

| | As of April 30, | | |
|-----------------------|------------------|-------------------|------------------|
| | 2002 | 2001 | 2000 |
| Goodwill | | | |
| North America | \$ 45,558 | \$ 58,934 | \$ 51,385 |
| Europe | 19,897 | 19,468 | 24,770 |
| Asia/Pacific | 861 | 833 | 1,252 |
| Futurestep | 19,030 | 17,821 | 16,552 |
| JobDirect | | 28,950 | |
| Total goodwill | \$ 85,346 | \$ 126,006 | \$ 93,959 |

Following are the results of our Mexico operations reported on the equity method and excluded from the tables above:

| | Fiscal Year Ended April 30, | | |
|---|-----------------------------|-----------|-----------|
| | 2002 | 2001 | 2000 |
| Revenue | \$ 16,179 | \$ 17,479 | \$ 13,181 |
| Operating profit | 6,139 | 7,834 | 5,894 |
| Equity in earnings of unconsolidated subsidiaries | 1,141 | 1,661 | 1,510 |
| Identifiable assets | 5,951 | 5,629 | 5,945 |

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A summary of Futurestep's revenue and identifiable assets by geographic area follows:

| | Fiscal Year Ended April 30, | | |
|----------------------------------|-----------------------------|------------------|------------------|
| | 2002 | 2001 | 2000 |
| Revenue: | | | |
| North America | \$ 9,961 | \$ 26,507 | \$ 20,595 |
| Europe | 29,663 | 45,196 | 15,445 |
| Asia/Pacific | 5,637 | 10,379 | 2,254 |
| Total revenue | \$ 45,261 | \$ 82,082 | \$ 38,294 |
| | | | |
| | As of April 30, | | |
| | 2002 | 2001 | 2000 |
| Identifiable assets: | | | |
| North America | \$ 4,004 | \$ 11,139 | \$ 9,856 |
| Europe | 27,575 | 37,572 | 33,548 |
| Asia/Pacific | 2,741 | 4,310 | 3,319 |
| Total identifiable assets | \$ 34,320 | \$ 53,021 | \$ 46,723 |

The Company's clients were not concentrated in any specific geographic region and no single client accounted for a significant amount of the Company's revenue during fiscal 2002, 2001 or 2000.

11. Acquisitions

In fiscal 2001, the Company completed two acquisitions: Westgate Group, a leading executive recruitment firm, specializing in financial services in the eastern United States and JobDirect, an on-line recruiting service focused on college graduates and entry-level professionals. The aggregate purchase price of these acquisitions was \$47.2 million, consisting of 154,923 shares of the Company's stock valued at \$3.6 million, notes payable of \$5.0 million and cash of \$38.6 million. These acquisitions were accounted for under the purchase method and resulted in \$42.5 million of goodwill. Operating results of these businesses were included in the consolidated financial statements from their acquisition dates.

In fiscal 2002, the Company recognized a goodwill impairment charge of \$40.2 million related to these acquisitions. See Note 4.

During fiscal 2000, the Company completed a total of nine acquisitions in executive recruitment: seven firms in North America, including three in Canada; one in Europe; and one in Asia/Pacific. The aggregate purchase price of these acquisitions was \$84.5 million, consisting of 894,297 shares of the Company's stock valued at \$21.8 million, notes payable of \$31.8 million, cash of \$22.8 million and accrued liabilities of \$8.1 million. In addition, Futurestep completed the acquisition of the executive search and selection business of the PA Consulting Group with operations in Europe and Asia/Pacific for \$19.8 million payable in cash and \$1.7 million payable as deferred compensation over a three year period. These acquisitions were accounted for under the purchase method and resulted in \$98.1 million of intangible assets, primarily goodwill. The operating results of these entities, including executive recruitment and Futurestep revenue of \$24.2 million and

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\$7.3 million, respectively, have been included in the consolidated financial statements from their acquisition dates. In fiscal 2002, the Company recognized an asset impairment charge of \$2.7 million for goodwill related to one of the North America acquisitions.

The following selected unaudited pro forma information is provided to present a summary of the combined results of the Company and these acquisitions for fiscal years 2001 and 2000 as if the acquisitions had occurred as of the beginning of the respective periods, giving effect to these purchases. The pro forma data is presented for informational purposes only and may not necessarily reflect the results of operations of the Company had these companies operated as part of the Company for each of the periods presented, nor are they necessarily indicative of the results of future operations.

| | Fiscal Year Ended April 30, | |
|--------------------|-----------------------------|------------|
| | 2001 | 2000 |
| | Restated | Restated |
| Revenue | \$ 637,987 | \$ 554,353 |
| Net income | 29,016 | 30,078 |
| Earnings per share | | |
| Basic | 0.78 | 0.82 |
| Diluted | 0.75 | 0.79 |

12. Commitments and Contingencies

The Company leases office premises and certain office equipment under leases expiring at various dates through 2015. Total rental expense for fiscal years 2002, 2001 and 2000 amounted to \$28,513, \$25,892 and \$23,050, respectively. At April 30, 2002, minimum future commitments under noncancelable operating leases with lease terms in excess of one year aggregated \$100,041, excluding commitments accrued in the restructuring liability, payable as follows: \$23,313 in 2003, \$19,560 in 2004, \$17,111 in 2005, \$13,906 in 2006, \$8,975 in 2007 and \$17,176 thereafter. As of April 30, 2002, the Company has outstanding standby letters of credit of \$5,695 in connection with office leases.

As of April 30, 2002, the Company has employment agreements with certain of its executive officers, with initial terms through June 2004 that provide certain benefits if these executives are terminated or resign under certain limited circumstances. The maximum amount payable under these agreements, in aggregate, is \$5.4 million and \$7.2 million prior to and following a change in control, respectively. In addition, all outstanding options will immediately vest and remain exercisable for periods ranging from three months to their original expiration date following termination of employment.

The Company has a policy of requiring key vice presidents to enter into a standard form of employment agreement which provides for an annual base salary and discretionary and incentive bonus payments. In addition, the Company has a severance policy for all of its vice presidents that provides for minimum payments based on length of service. Upon termination without cause, the Company is required to pay the greater of the amount due under the employment contract or the severance policy. The Company also requires its vice presidents to agree in their employment contracts not to compete with the Company both during the term of their employment, and for a period of up to two years after their employment ends. For a period of two years after their employment with the Company, former vice presidents are prohibited from soliciting employees of the Company for employment outside of the Company.

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From time to time the Company has been and is involved in litigation incidental to its business. The Company is currently not a party to any litigation, which if resolved adversely against the Company, would in the opinion of the Company, have a material adverse effect on the Company's business, financial position or results of operations.

13. Subsequent Event

On June 13, 2002, the Company entered into a Securities Purchase Agreement with Friedman Fleischer & Lowe Capital Partners, L. P., a Delaware limited partnership and FFL Executive Partners, L. P., a Delaware limited partnership (the "Purchasers"), pursuant to which the Company issued and sold to the Purchasers for an aggregate purchase price of \$50 million (i) 10,000 shares of its 7.5% Convertible Series A Preferred Stock, par value \$0.01 per share (the "Series A Preferred Stock"), at a purchase price of \$1,000 per share, (ii) 7.5% Convertible Subordinated Notes Due 2010, in an aggregate principal amount of \$40 million (the "Notes"), and (iii) eight-year warrants to purchase 272,727 shares of the Company's common stock, par value \$0.01 per share (the "Common Stock"), with an exercise price of \$12.00 per share. The Series A Preferred Stock and the Notes are convertible into Common Stock at \$10.25 per share, initially representing 4,878,049 shares of Common Stock.

14. Impact of Restatement to Equity Method of Accounting for Mexico Subsidiaries

The following tables illustrate the impact of the adjustments to restate the Company's previously reported financial statements to the account for the Company's investments in its Mexico subsidiaries under the equity method (restated) instead of the consolidation method (previously reported). See Note 1.

Consolidated Balance Sheets

| | Fiscal 2001 | | | Fiscal 2000 | | |
|---------------------------------------|-------------------|------------------------|------------------------|-------------------|------------------------|------------------------|
| | Restated | Increase (Decrease) | Previously Reported | Restated | Increase (Decrease) | Previously Reported |
| Cash | \$ 85,661 | \$ (2,802) | \$ 88,463 | \$ 83,653 | \$ (3,322) | \$ 86,975 |
| Accounts receivable | 89,562 | (1,951) | 91,513 | 99,777 | (1,729) | 101,506 |
| Other current assets | 46,082 | (344) | 46,426 | 79,019 | (338) | 79,357 |
| Net fixed assets | 54,456 | (533) | 54,989 | 35,256 | (556) | 35,812 |
| Other investments | 6,894 | | 6,894 | 1,129 | | 1,129 |
| Other long-term assets | 213,447 | 1,403 | 212,044 | 173,344 | 2,129 | 171,215 |
| Total assets | \$ 496,102 | (4,227) | \$ 500,329 | \$ 472,178 | \$ (3,816) | \$ 475,994 |
| Accrued liabilities | \$ 142,598 | (627) | \$ 143,225 | \$ 155,774 | \$ (566) | \$ 156,340 |
| Other current liabilities | 27,496 | (473) | 27,969 | 28,205 | (245) | 28,450 |
| Long-term liabilities | 55,842 | 159 | 55,683 | 56,975 | 215 | 56,760 |
| Minority interest | | (3,286) | 3,286 | | (3,220) | 3,220 |
| Shareholders' equity | 270,166 | | 270,166 | 231,224 | | 231,224 |
| Total liabilities & equity | \$ 496,102 | \$ (4,277) | \$ 500,329 | \$ 472,178 | \$ (3,816) | \$ 475,994 |

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Consolidated Statement of Operations

| | Fiscal 2001 | | | Fiscal 2000 | | |
|--|------------------|------------------------|------------------------|------------------|------------------------|------------------------|
| | Restated | Increase (Decrease) | Previously Reported | Restated | Increase (Decrease) | Previously Reported |
| Revenue | \$636,298 | \$ (17,479) | \$ 653,777 | \$487,562 | \$ (13,181) | \$ 500,743 |
| Compensation & benefits | 383,277 | (4,499) | 387,776 | 295,307 | (3,601) | 298,908 |
| General & administrative expense | 197,948 | (5,146) | 203,094 | 143,344 | (3,686) | 147,030 |
| Interest income and other income, net | 4,122 | (691) | 4,813 | 6,748 | (654) | 7,402 |
| Interest expense | 7,400 | (21) | 7,421 | 4,420 | (16) | 4,436 |
| Income before provision for income taxes & non-controlling shareholders' interest or equity in earnings of unconsolidated subsidiaries | 51,795 | (8,504) | 60,299 | 51,239 | (6,532) | 57,771 |
| (Benefit from) provision for income taxes | 22,443 | (2,883) | 25,326 | 21,938 | (2,188) | 24,126 |
| Non-controlling shareholders' interest | | (3,960) | 3,960 | | (2,834) | 2,834 |
| Equity in earnings of unconsolidated subsidiaries | 1,661 | 1,661 | | 1,510 | 1,510 | |
| Net income | \$ 31,013 | \$ | \$ 31,013 | \$ 30,811 | \$ | \$ 30,811 |
| Basic EPS | \$ 0.83 | | \$ 0.83 | \$ 0.85 | | \$ 0.85 |
| Diluted EPS | \$ 0.81 | | \$ 0.81 | \$ 0.82 | | \$ 0.82 |

Consolidated Statement of Cash Flows

| | Fiscal 2001 | | | Fiscal 2000 | | |
|--|------------------|------------------------|------------------------|------------------|------------------------|------------------------|
| | Restated | Increase (Decrease) | Previously Reported | Restated | Increase (Decrease) | Previously Reported |
| Net cash provided by operating activities | \$ 63,848 | \$ 412 | \$ 63,436 | \$ 73,082 | \$ (1,440) | \$ 74,522 |
| Net cash used in investing activities | (55,687) | 108 | (55,795) | (107,298) | 120 | (107,418) |
| Net cash (used in) provided by financing activities | (2,325) | | (2,325) | 8,669 | | 8,669 |
| Effect of foreign currency exchange rate changes on cash flows | (3,828) | | (3,828) | (2,539) | | (2,539) |
| Net increase in cash and cash equivalents | 2,008 | 520 | 1,488 | (28,086) | (1,320) | (26,766) |
| Cash and cash equivalents at beginning of the period | 83,653 | (3,322) | 86,975 | 111,739 | (2,002) | 113,741 |
| Cash and cash equivalents at end of the period | \$ 85,661 | \$ (2,802) | \$ 88,463 | \$ 83,653 | \$ (3,322) | \$ 86,975 |

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15. Quarterly Financial Information (unaudited)

The following tables illustrate the impact of the adjustments to restate the Company's previously reported quarterly operating results to account for the Company's investments in its Mexico subsidiaries under the equity method (restated) instead of the consolidation method (previously reported).

Summary of Operating Results

| | Fiscal Year 2001 Quarters Ended, | | | | | | | |
|----------------------|----------------------------------|---------------------|------------|---------------------|------------|---------------------|-----------|---------------------|
| | July 31 | | October 31 | | January 31 | | April 30 | |
| | Restated | Previously Reported | Restated | Previously Reported | Restated | Previously Reported | Restated | Previously Reported |
| Revenue | \$169,518 | \$ 173,623 | \$168,934 | \$ 173,621 | \$152,633 | \$ 157,171 | \$145,213 | \$ 149,362 |
| South America* | 4,731 | 8,836 | 4,814 | 9,501 | 3,644 | 8,183 | 3,994 | 8,142 |
| Operating profit | 16,361 | 18,540 | 11,031 | 13,588 | 12,779 | 14,952 | 14,902 | 15,827 |
| South America* | 68 | 2,247 | 61 | 2,618 | (384) | 1,789 | 927 | 1,852 |
| Net income | 10,007 | 10,007 | 6,108 | 6,108 | 6,903 | 6,903 | 7,995 | 7,995 |
| Net income per share | | | | | | | | |
| Basic | 0.27 | 0.27 | 0.16 | 0.16 | 0.18 | 0.18 | 0.21 | 0.21 |
| Diluted | 0.26 | 0.26 | 0.16 | 0.16 | 0.18 | 0.18 | 0.21 | 0.21 |

| | Fiscal Year 2002 Quarters Ended, | | | | | | | |
|--------------------|----------------------------------|---------------------|------------|---------------------|------------|---------------------|-----------|-----------|
| | July 31 | | October 31 | | January 31 | | April 30 | |
| | Restated | Previously Reported | Restated | Previously Reported | Restated | Previously Reported | Restated | Restated |
| Revenue | \$109,537 | \$ 114,443 | \$104,489 | \$ 108,949 | \$89,771 | \$ 93,268 | \$ 90,094 | \$ 90,094 |
| South America* | 3,071 | 7,978 | 2,920 | 7,379 | 2,327 | 5,824 | 3,032 | 3,032 |
| Operating loss | (54,584) | (52,351) | (36,596) | (34,664) | (3,772) | (2,449) | (10,681) | (10,681) |
| South America* | (446) | 1,786 | (382) | 1,551 | (1,428) | (105) | 102 | 102 |
| Net loss | (46,859) | (46,859) | (30,867) | (30,867) | (7,253) | (7,253) | (13,272) | (13,272) |
| Net loss per share | | | | | | | | |
| Basic | (1.25) | (1.25) | (0.82) | (0.82) | (0.19) | (0.19) | (0.35) | (0.35) |
| Diluted | (1.25) | (1.25) | (0.82) | (0.82) | (0.19) | (0.19) | (0.35) | (0.35) |

* South America was previously referred to as Latin America

SCHEDULE II
KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS

| | Balance at Beginning of Year | Additions | | Deductions | Balance at End of Year |
|--|---------------------------------|----------------------------------|---------------------------------|------------|---------------------------|
| | | Charged to Costs and Expenses | Charged to Other Accounts | | |
| (in thousands) | | | | | |
| Allowance for Doubtful Accounts | | | | | |
| Year Ended April 30, 2002 | \$ 12,937 | \$ 10,853 | | \$ 16,023 | \$ 7,767 |
| Year Ended April 30, 2001 (restated) | 12,538 | 22,581 | | 22,182 | 12,937 |
| Year Ended April 30, 2000 (restated) | 7,847 | 11,858 | | 7,167 | 12,538 |
| Reserve for Severance and Costs Under Corporate Restructuring Program | | | | | |
| Year Ended April 30, 2002 | | 93,203 | | 80,625 | 12,578 |
| Year Ended April 30, 2000 | 1,549 | | | 1,549 | |
| Reserve for Acquired Termination Costs | | | | | |
| Year Ended April 30, 2001 | 2,520 | | | 2,520 | |
| Year Ended April 30, 2000 | | | 2,520 | | 2,520 |

AMENDED AND RESTATED BYLAWS

of

KORN/FERRY INTERNATIONAL,
a Delaware corporation

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AMENDED AND RESTATED BYLAWS

for the regulation, except
as otherwise provided by statute or
its Certificate of Incorporation,

of

KORN/FERRY INTERNATIONAL

ARTICLE I. OFFICES.

Section 1. REGISTERED OFFICE.

The registered office of the corporation in the State of Delaware shall be fixed in the Certificate of Incorporation of the corporation.

Section 2. PRINCIPAL EXECUTIVE OFFICE.

The corporation's principal executive office shall be fixed and located at such place, either within or without the State of Delaware, as the Board of Directors of the corporation (the "Board") shall determine. The Board is granted full power and authority to change said principal executive office from one location to another.

Section 3. OTHER OFFICES.

The corporation may have such other offices, either within or without the State of Delaware, as the Board may designate or the business of the corporation may from time to time require.

ARTICLE II. STOCKHOLDERS.

Section 1. PLACE OF MEETINGS.

Meetings of the stockholders shall be held either at the principal executive office of the corporation or at any other place within or without the State of Delaware as may be designated by the Board and filed with the Secretary of the corporation.

Section 2. ANNUAL MEETINGS.

The annual meetings of the stockholders shall be held at such time, date and place, either within or without the State of Delaware, as may be fixed by the Board. At such meetings, directors shall be elected and any other proper business may be transacted.

Section 3. BUSINESS WHICH MAY BE CONDUCTED AT MEETINGS OF THE STOCKHOLDERS.

(a) *Annual Meetings of the Stockholders.*

(i) Nominations of persons for election to the Board and the proposal of business to be considered by the stockholders may be made at an annual meeting of the stockholders only (A) pursuant to the corporation's notice of meeting (or any supplement thereto), (B) by or at the direction of the Board or (C) by any stockholder of the corporation who was a stockholder of record of the corporation at the time the notice provided for in this Section 3 is delivered to the Secretary of the corporation, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 3.

(ii) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (C) of paragraph (a)(i) of this Section 3, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation and any such proposed business other than the nominations of persons for election to the Board must constitute a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the corporation not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 70 days after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the corporation). In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth: (A) as to each person whom the stockholder proposes to nominate for election as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14a-11 thereunder (and such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and, in the event that such business includes a proposal to amend the Bylaws of the corporation, the language of the proposed amendment), the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (C) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (1) the

name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner, (2) the class and number of shares of capital stock of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner, (3) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at such meeting to propose such business or nomination, and (4) a representation whether the stockholder or beneficial owner, if any, intends or is part of a group which intends (x) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (y) otherwise to solicit proxies from stockholders in support of such proposal or nomination. The corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the corporation.

(iii) Notwithstanding anything in the second sentence of paragraph (a)(ii) of this Section 3 to the contrary, in the event that the number of directors to be elected to the Board of the corporation at the annual meeting is increased and there is no public announcement by the corporation naming the nominees for the additional directorships at least 100 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 3 shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the Secretary of the corporation at the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

(b) *Special Meetings of the Stockholders.* Only such business shall be conducted at a special meeting of the stockholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting. Nominations of persons for election to the Board may be made at a special meeting of the stockholders at which directors are to be elected pursuant to the corporation's notice of meeting (i) by or at the direction of the Board or (ii) provided that the Board has determined that directors shall be elected at such meeting, by any stockholder of the corporation who is a stockholder of record at the time the notice provided for in this Section 3 is delivered to the Secretary of the corporation, who is entitled to vote at the meeting and upon such election, and who complies with the notice procedures set forth in this Section 3. In the event the corporation calls a special meeting of the stockholders for the purpose of electing one or more directors to the Board, any stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the corporation's notice of meeting, if the stockholder's notice required by paragraph (a)(ii) of this Section 3 shall be delivered to the Secretary at the principal executive offices of the corporation not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(c) *General.*

(i) Only persons who are nominated in accordance with the procedures set forth in this Section 3 shall be eligible to be elected at an annual or special meeting of the stockholders of the corporation to serve as directors and only such business shall be conducted at a meeting of the stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 3. Except as otherwise provided by law, the Chair of the Board, as chair of the meeting, shall have the power and duty (A) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 3 (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made or solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee or proposal in compliance with such stockholder's representation as required by clause (a)(ii)(C)(4) of this Section 3) and (B) if any proposed nomination or business was not made or proposed in compliance with the Section 3, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted.

(ii) For purposes of this Section 3, "public announcement" shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(iii) Notwithstanding the foregoing provisions of this Section 3, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 3. Nothing in this Section 3 shall be deemed to affect any rights (A) of stockholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (B) of the holders of any series of Preferred Stock to elect directors pursuant to any applicable provisions of the Certificate of Incorporation of the corporation.

Section 4. SPECIAL MEETINGS.

Special meetings of the stockholders may be called only by the Board, the Chair of the Board, the Chief Executive Officer or the President, and may not be called by any other person or persons. Upon written request delivered to the Secretary of the corporation by any person or persons (other than the Board) entitled to call a special meeting of the stockholders, the Secretary shall cause notice to be given to the stockholders entitled to vote that a meeting will be held at the time requested by the person or persons calling the meeting. If notice of a special meeting of the stockholders is not given within 20 days after the Secretary's receipt of the request, the person or persons entitled to call the meeting may give the notice. Subject to the provisions of applicable law, only such business shall be considered at a special meeting of the stockholders as shall have been stated in the notice for such meeting.

Section 5. NOTICE OF ANNUAL OR SPECIAL MEETINGS.

(a) *Time Periods.* Written notice of each annual or special meeting of the stockholders shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. Such notice shall state the place, date and hour of the meeting and (i) in the case of the annual meeting, those matters which the Board, at the time of the mailing of the notice, intends to present for action by the stockholders (but, subject to Section 3 of this Article II and the provisions of applicable law, any other matters properly brought may be presented at the meeting for action) or (ii) in the case of a special meeting, the purpose or purposes for which the meeting was called. The notice of any meeting at which directors are to be elected shall include the names of nominees intended at the time of the notice to be presented by the Board for election.

(b) *Method.* Notice of a stockholders' meeting shall be given: (i) in writing or (ii) by United States mail, addressed to the stockholder at the address of such stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice.

Notice by mail shall be deemed to have been given at the time written notice is deposited in the United States mail, postage prepaid. Any other written notice shall be deemed to have been given at the time it is personally delivered to the recipient, delivered to a common carrier for transmission or actually transmitted by the person giving the notice by electronic means to the recipient.

Section 6. QUORUM—REQUIRED VOTES.

Except as otherwise provided by law, the Certificate of Incorporation of the corporation or these bylaws, at each meeting of the stockholders the presence in person or by proxy of the holders of a majority in voting power of the outstanding shares of stock entitled to vote at the meeting shall be necessary and sufficient to constitute a quorum. In the absence of a quorum, the stockholders so present may, by a majority in voting power thereof, adjourn the meeting from time to time in the manner provided in Section 7 of this Article II until a quorum shall attend.

Section 7. ADJOURNED MEETINGS AND NOTICE THEREOF.

Any meeting of the stockholders, annual or special, may adjourn from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 8. VOTING.

The stockholders entitled to notice of any meeting or to vote at any such meeting shall be only those persons in whose name shares stand on the stock records of the corporation on the record date determined in accordance with Section 9 of this Article II.

Voting at meetings of the stockholders need not be by written ballot. At all meetings of the stockholders for the election of directors, a plurality of the votes cast shall be sufficient to elect. All other elections and questions shall, unless otherwise provided by the Certificate of Incorporation of the corporation, these bylaws, the rules or regulations of any stock exchange applicable to the corporation or as otherwise provided by law or pursuant to any regulation applicable to the corporation, be decided by the affirmative vote of the holders of a majority in voting power of the shares of stock of the corporation which are present in person or by proxy and entitled to vote thereon.

Voting shall in all cases be subject to the following provisions:

- (a) The stockholders of the corporation shall not have the right to cumulate their votes for the election of directors of the corporation.
- (b) Shares held by an administrator, executor, guardian, conservator or custodian may be voted by such holder either in person or by proxy, without a transfer of such shares into the holder's name; and shares standing in the name of a trust may be voted by the trustee of such trust, either in person or by proxy, but no trustee shall be entitled to vote shares held by such trust without a transfer of such shares into the trust's name.
- (c) Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into the receiver's name if authority to do so is contained in the order of the court by which such receiver was appointed.
- (d) Except where otherwise agreed in writing between the parties, a stockholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.
- (e) Shares standing in the name of a minor may be voted by, and the corporation may treat all rights incident thereto as exercisable by, the minor, in person or by proxy, whether or not the corporation has notice, actual or constructive, of the minor's actual age, unless a guardian of the minor's property has been appointed and written notice of such appointment has been given to the corporation.
- (f) Shares standing in the name of another corporation, domestic or foreign, may be voted by such officer, agent or proxyholder of such other corporation as the bylaws of such other corporation may prescribe or, in the absence of such provision, as the board of directors of such other corporation may determine or, in the absence of such determination, by the chair of the board of directors, president or any vice president of such other corporation, or by

any other person authorized to do so by the chair of the board, president or any vice president of such other corporation. Shares which are purported to be voted or any proxy purported to be executed in the name of a corporation (whether or not any title of the person signing is indicated) shall be presumed to be voted or the proxy executed in accordance with the provisions of this clause, unless the contrary is shown.

(g) Shares of the corporation owned by its subsidiaries shall not be entitled to vote on any matter.

(h) If shares stand of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, husband and wife as community property, tenants by the entirety, voting trustees, persons entitled to vote under a stockholder voting agreement or otherwise, or if two or more persons (including proxyholders) have the same fiduciary relationship respecting the same shares, unless the Secretary of the corporation is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect:

(i) If only one votes, such act binds all;

(ii) If more than one vote, the act of the majority so voting binds all; or

(iii) If more than one vote, but the vote is evenly split on any particular matter, each faction may vote the securities in question proportionately.

If the instrument so filed or the registration of the shares shows that any such tenancy is held in unequal interests, a majority or even split for the purpose of this Section 8 shall be a majority or even split in interest.

Section 9. RECORD DATE.

In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of the stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date: (a) in the case of determination of stockholders entitled to vote at any meeting of stockholders or adjournment thereof, shall, unless otherwise required by law, not be more than 60 nor less than 10 days before the date of such meeting; (b) in the case of determination of stockholders entitled to express consent to corporate action in writing without a meeting, shall not be more than 10 days from the date upon which the resolution fixing the record date is adopted by the Board and (c) in the case of any other action, shall not be more than 60 days prior to such other action. If no record date is fixed: (a) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding

the day on which the meeting is held; (b) the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action of the Board is required by law or the Certificate of Incorporation of the corporation, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation in accordance with applicable law, or, if prior action by the Board is required by law or the Certificate of Incorporation of the corporation, shall be at the close of business on the day on which the Board adopts the resolution taking such prior action and (c) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

Section 10. CONSENT OF ABSENTEES.

The transactions of any meeting of the stockholders, however called and noticed, and wherever held, are as valid as though conducted at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of the meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Attendance of a person at a meeting shall constitute a waiver of notice of and presence at such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required by the General Corporation Law of the State of Delaware to be included in the notice but not so included, if such objection is expressly made at the meeting. Neither the business to be transacted at nor the purpose of any regular or special meeting of the stockholders need be specified in any written waiver of notice, consent to the holding of the meeting or approval of the minutes thereof, except as provided in the General Corporation Law of the State of Delaware.

Section 11. PROXIES.

Each stockholder entitled to vote at a meeting of the stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or by delivering a proxy in accordance with applicable law bearing a later date to the Secretary of the corporation.

A proxy or consent validly delivered to the corporation shall mean any written authorization which is signed by the person executing the proxy, as well as any electronic

transmission (to include without limitation transmissions by facsimile and by computer messaging systems), which is authorized by a stockholder or the stockholder's attorney in fact, which gives another person or persons power to vote with respect to the shares of such stockholder. A stockholder may authorize another person or persons to act for such stockholder as proxy by transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that any such telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder. If it is determined that such telegrams, cablegrams or other electronic transmissions are valid, the inspectors or, if there are no inspectors, such other persons making that determination shall specify the information upon which they relied. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this Section 11 may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

Section 12. INSPECTORS OF ELECTION.

(a) *Appointment of Inspectors.* In advance of any meeting of the stockholders, the Board shall appoint inspectors of election to act at such meeting and any adjournment thereof. If inspectors of election are not so appointed, or if any persons so appointed fail to appear or refuse to act, the Chair of the Board presiding at any such meeting may, and on the request of any stockholder or stockholder's proxy shall, make such appointment at the meeting. The number of inspectors shall be either one or three. If appointed at a meeting on the request of one or more stockholders' proxies, the majority of shares present shall determine whether one or three inspectors are to be appointed.

(b) *Duties of Inspectors.* The duties of such inspectors shall include: determining the number of shares outstanding and the voting power of each; determining the shares represented at the meeting; determining the existence of a quorum; determining the authenticity, validity and effect of proxies; receiving votes, ballots or consents; hearing and determining all challenges and questions in any way arising in connection with the right to vote; counting and tabulating all votes or consents; determining when the polls shall close; determining the result; and doing such acts as may be proper to conduct the election or vote with fairness to all stockholders. If there are three inspectors, the decision, act or certificate of a majority is in all respects the decision, act or certificate of all.

Section 13. CONDUCT OF MEETING.

The Chair of the Board shall preside at all meetings of the stockholders. The Chair shall conduct each such meeting in a businesslike and fair manner, but shall not be obligated to follow any technical, formal or parliamentary rules or principles of procedure. The Chair's rulings on procedural matters shall be conclusive and binding on all stockholders, unless

at the time of a ruling a request for a vote is made to the stockholders holding shares entitled to vote and which are represented in person or by proxy at the meeting, in which case the decision of a majority of such shares shall be conclusive and binding on all stockholders. Without limiting the generality of the foregoing, the Chair shall have all of the powers usually vested in the chair of a meeting of stockholders.

Section 14. LIST OF STOCKHOLDERS ENTITLED TO VOTE.

The Secretary of the corporation shall prepare and make, at least 10 days before every meeting of the stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present. Upon the willful neglect or refusal of the directors to produce such a list at any meeting for the election of directors, such directors shall be ineligible for election to any office at such meeting. Except as otherwise provided by law, the stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list of stockholders or the books of the corporation, or to vote in person or by proxy at any meeting of the stockholders.

Section 15. CONSENT OF STOCKHOLDERS IN LIEU OF MEETING.

(a) Any action required to be taken at any annual or special meeting of the stockholders of the corporation, or any action which may be taken at any annual or special meeting of the stockholders duly called in accordance with the Certificate of Incorporation of the corporation, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting for the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the corporation by delivery to its registered office in Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of the stockholders are recorded. Delivery made to the corporation's registered office shall be made by hand or by certified or registered mail, return receipt requested.

(b) Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within 60 days of the date the earliest dated consent is delivered to the corporation, a written consent or consents signed by a sufficient number of holders to take action are delivered to the corporation in the manner prescribed in paragraph (c) of this Section 15.

(c) In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which date shall not be more than 10 days after the date upon which the resolution fixing the record date is adopted by the Board. Any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent shall, by written notice to the Secretary, request the Board to fix a record date. The Board shall promptly, but in all events within 10 days after the date on which such a request is received, adopt a resolution fixing the record date. If no record date has been fixed by the Board within 10 days of the date on which such a request is received, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation in accordance with paragraphs (a) and (b) of this Section 15. If no record date has been fixed by the Board and prior action by the Board is required by applicable law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the Board adopts the resolution taking such prior action.

(d) Within 5 business days after receipt of the earliest dated consent delivered to the corporation in the manner provided in this Section 15, the corporation, shall retain nationally recognized independent inspectors of elections for the purposes of performing a ministerial review of the validity of consents and any revocations thereof. The cost of retaining inspectors of election shall be borne by the corporation.

(e) At any time that stockholders soliciting consents in writing to corporate action have a good faith belief that the requisite number of valid and unrevoked consents to authorize or take the action specified has been received by them, the consents shall be delivered by the soliciting stockholders of the corporation's registered office in the State of Delaware or principal place of business or to the Secretary of the corporation, together with a certificate stating their belief that the requisite number of valid and unrevoked consents has been received as of a specific date, which date shall be identified in the certificate. In the event that delivery shall be made to the corporation's registered office in Delaware, such delivery shall be made by hand or by certified or registered mail, return receipt requested. Upon receipt of such consents, the corporation shall cause the consents to be delivered promptly to the inspectors of election. The corporation also shall deliver promptly to the inspectors of election any revocations of consents in its possession, custody or control as of the time of receipt of the consents.

(f) As promptly as practicable after the consents and revocations are received by them, the inspectors of election shall issue a preliminary report to the corporation stating: (i) the number of shares represented by valid and unrevoked consents; (ii) the number of shares represented by invalid consents; (iii) the number of shares represented by invalid revocations and (iv) the number of shares entitled to submit consents as of the record date. Unless the corporation and the soliciting stockholders agree to a shorter or longer period, the corporation and the soliciting stockholders shall have 5 business days to review the consents and revocations and to advise the inspectors and the opposing party in writing as to whether they intend to challenge the preliminary report. If no timely written notice of an intention to challenge the preliminary report is received, the inspectors shall certify the preliminary report (as corrected or modified by virtue of the detection by the inspectors of clerical errors) as their final report and deliver it to the corporation. If the corporation or the soliciting stockholders give timely written notice of an intention to challenge the preliminary report, a challenge session shall be scheduled by the inspectors as promptly as practicable. A transcript of the challenge session shall be recorded by a certified court reporter. Following completion of the challenge session, the inspectors shall issue as promptly as practicable their final report and deliver it to the corporation. A copy of the final report shall be included in the book in which the proceedings of meetings of the stockholders are required.

(g) The corporation shall give prompt notice to the stockholders of the results of any consent solicitation or the taking of corporate action without a meeting by less than unanimous written consent.

(h) This Section 15 shall in no way impair or diminish the right of any stockholder or director, or any officer whose title to office is contested, to contest the validity of any consent or revocation thereof, or to take any other action with respect thereto.

ARTICLE III. DIRECTORS.

Section 1. POWERS.

Subject to limitations of the Certificate of Incorporation of the corporation, of these bylaws and of the General Corporation Law of the State of Delaware relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed by or under the direction of the Board and it shall have the final authority in matters of strategy and policy matters for the corporation.

The Board may delegate management duties for the operation of the business of the corporation to those persons to whom authority is properly delegated by the Board, including officers of the company, provided that the business and affairs of the corporation shall be managed and all corporate powers shall be exercised under the ultimate direction of the Board. Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the Board shall have the following powers in addition to the other powers enumerated in these bylaws:

(a) To select and remove all the other officers (in accordance with the provisions of these bylaws), agents and employees of the corporation; prescribe the powers and duties for them as may not be inconsistent with law, the Certificate of Incorporation of the corporation or these bylaws; fix their compensation and require from them an affidavit providing for the good faith exercise of their duties only in the best interests of the corporation.

(b) To conduct, manage and control the affairs and business of the corporation and to make such rules and regulations therefor not inconsistent with law, the Certificate of Incorporation of the corporation or these bylaws, as they may deem best.

(c) To adopt, alter, amend and repeal these bylaws from time to time as they may deem best.

(d) To adopt, make and use a corporate seal, and to prescribe the forms of certificates of stock, and to alter the form of such seal and of such certificates from time to time as they may deem best.

(e) To authorize the issuance of shares of stock of the corporation from time to time, upon such terms and for such consideration as may be lawful.

(f) To borrow money and incur indebtedness for the purposes of the corporation, and to cause to be executed and delivered, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations or other evidences of debt and securities therefor.

Section 2. NUMBER OF DIRECTORS.

The authorized number of directors shall be as set forth in the Certificate of Incorporation of the corporation. The Board shall fix the exact number of directors by resolution duly adopted by the Board.

Section 3. NOMINATION, ELECTION, QUALIFICATION AND TERM OF OFFICE.

(a) *Eligibility for Election as Director.* Only persons who are nominated by, or at the direction of the Board or the Chair of the Board, or by a stockholder who has given timely written notice to the Secretary of the corporation in accordance with Section 3 of Article II of these bylaws, will be eligible for election as directors of the corporation.

(b) *Meetings at which Directors May Be Elected.* The directors shall be elected at each annual meeting of the stockholders, but if any such annual meeting is not held or the directors are not elected thereat, the directors may be elected at any special meeting of the stockholders called for that purpose.

(c) *Classes of the Board of Directors.* The Board shall be divided into three classes in accordance with the provisions of the Certificate of Incorporation of the corporation.

(d) *Qualified Directors.* For a person to be qualified to serve as a director of the corporation, such person need not be an employee or stockholder of the corporation during his or her directorship.

(e) *Length of Term for Directors.* At each annual meeting of the stockholders beginning with the first annual meeting of the stockholders, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders to be held in the third year following the year of their election, with each director in each class to hold office until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal.

(f) *Removal of Directors.* Any director, or the entire Board, may be removed only for cause, by the affirmative vote of a majority of the shares then entitled to vote at the election of directors.

Section 4. VACANCIES.

Any director may resign, to be effective upon giving written notice to the Board or to the Chair of the Board, President or Secretary of the corporation, unless the notice specifies a later time for the effectiveness of such resignation. If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

Any newly-created directorship resulting from an increase in the authorized number of directors or any vacancies in the Board occurring by reason of death, resignation, retirement, disqualification or removal may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, and each director so elected shall hold office until the next annual meeting at which the class of which he is a member becomes subject to re-election and until such director's successor has been elected and qualified.

A vacancy or vacancies in the Board shall be deemed to exist in case of the death, resignation or removal of any director, or if the authorized number of directors is increased, or if the stockholders fail, at any annual or special meeting of the stockholders at which any director or directors are elected, to elect the full authorized number of directors to be voted for at that meeting.

The stockholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of the director's term of office.

Section 5. PLACE OF MEETING.

Regular or special meetings of the Board shall be held at any place within or without the State of Delaware which has been designated from time to time by the Board. In the absence of such designation, regular meetings shall be held at the principal executive office of the corporation.

Section 6. REGULAR MEETINGS.

Following each annual meeting of the stockholders, the Board shall hold a regular meeting for the purpose of organization, election of officers and the transaction of other business.

Other regular meetings of the Board shall be held without call on such dates and at such times as may be fixed by the Board. Call and notice of all regular meetings of the Board are hereby dispensed with.

Section 7. SPECIAL MEETINGS.

Special meetings of the Board for any purpose or purposes may be called at any time by the Chair, the Chief Executive Officer, any Vice Chair, the President, the Secretary of the corporation or by any two directors.

Special meetings of the Board shall be held upon four days' written notice or at least twenty-four hours' notice given personally or by telephone, including a voice messaging system or other system or technology designed to record and communicate messages, telegraph, facsimile, electronic mail or other electronic means of communication. Any written notice shall be addressed or delivered to each director at such director's address as it is shown upon the records of the corporation or as may have been given to the corporation by the director for purposes of notice or, if such address is not shown on such records or is not readily ascertainable, at the place in which the meetings of the directors are regularly held.

Notice by mail shall be deemed to have been given at the time a written notice is deposited in the United States mails, postage prepaid. Any other written notice shall be deemed to have been given at the time it is personally delivered to the recipient or is delivered to a common carrier for transmission, or actually transmitted by the person giving the notice by electronic means to the recipient. Oral notice shall be deemed to have been given at the time it is communicated, in person or by telephone or wireless, to the recipient or to a person at the office of the recipient who the person giving the notice has reason to believe will promptly communicate it to the recipient.

Section 8. QUORUM.

A majority of the whole Board constitutes a quorum of the Board for the transaction of business, except to adjourn as provided in Section 11 of this Article III. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board, unless a greater number is required by law or by the Certificate of Incorporation of the corporation. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

Section 9. PARTICIPATION IN MEETINGS BY COMMUNICATIONS EQUIPMENT.

(a) *Participation by Conference Telephone.* Members of the Board, or any committee thereof, may participate in a meeting through the use of conference telephones. Participation in such a meeting shall constitute presence in person at that meeting as long as all members participating in such meeting are able to hear one another.

(b) *Participation by Electronic Video Screen Equipment or Other Similar Communications Equipment* Members of the Board may participate in a meeting through the use of electronic video screen equipment or other similar communications equipment. Participation in such a meeting shall constitute presence in person at that meeting by a member of the Board if all of the following apply:

(i) each member participating in the meeting can communicate with all of the other members concurrently;

(ii) each member is provided the means of participating in all matters before the Board, including, without limitation, the capacity to propose, or to interpose an objection to, a specific action to be taken by the corporation; and

(iii) the corporation adopts and implements some means of verifying both of the following: (x) a person participating in the meeting is a director or other person entitled to participate in the Board meeting, and (y) all actions of, or votes by, the Board are taken or cast only by the directors and not by persons who are not directors.

Section 10. WAIVER OF NOTICE.

Notice of a meeting need not be given to any director who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 11. ADJOURNMENT.

A majority of the directors present, whether or not a quorum is present, may adjourn any directors' meeting to another time and place. Notice of the time and place of an adjourned meeting need not be given to absent directors if the time and place has been fixed at the meeting adjourned, except as provided in the next sentence. If the meeting is adjourned for more than 24 hours, notice of any adjournment to another time or place shall be given prior to the time of the commencement of the adjourned meeting to the directors who were not present at the time of the adjournment.

Section 12. FEES AND COMPENSATION.

Directors and members of committees may receive such compensation, if any, for their services, and such reimbursement for expenses, as may be fixed or determined by the Board. The corporation shall not compensate directors or committee members who are also employees of the corporation.

Section 13. ACTION WITHOUT MEETING.

Any action required or permitted to be taken by the Board may be taken without a meeting if all members of the Board shall consent in writing to such action. Such consent or consents shall have the same effect as a unanimous vote of the Board and shall be filed with the minutes of the proceedings of the Board.

Section 14. RIGHTS OF INSPECTION.

Every director shall have the right at any reasonable time to examine the corporation's stock ledger, a list of the stockholders of the corporation and the corporation's other books and records for any purpose reasonably related to such director's position as a director and to make copies or extracts therefrom. Such inspection by a director may be made in person or by such director's agent or attorney.

Section 15. COMMITTEES.

The Board may appoint one or more committees, each consisting of one or more directors, and delegate to such committees any of the powers and authority of the Board, except no such committee shall have power or authority in reference to the following:

- (a) Approving, adopting or recommending to the stockholders any action or matter expressly required by the General Corporation Law of the State of Delaware to be submitted to the stockholders for approval; or
- (b) Adopting, altering, amending or repealing these bylaws or any of them.

Any such committee must be designated, and the members or alternate members thereof appointed, by resolution adopted by a majority of the whole Board and any such committee may be designated an Executive Committee or by such other name as the Board shall specify. Alternate members of a committee may replace any absent member at any meeting of the committee. The Board shall have the power to prescribe the manner in which proceedings of any such committee shall be conducted. In the absence of any such prescription, such committee shall have the power to prescribe the manner in which its proceedings shall be conducted. Unless the Board or such committee shall otherwise provide, the regular and special meetings and other action of any such committee shall be governed by the provisions of this Article III applicable to meetings and actions of the Board. Minutes shall be kept of each meeting of each committee.

Section 16. STANDING COMMITTEES.

The Board may have the following standing committees: Audit, Executive, Nominating and Compensation and Personnel.

(a) *Audit Committee.* The Audit Committee shall be responsible for reviewing the activities of the corporation to ensure that such activities are being conducted within the boundaries of corporate policy and appropriate regulatory and legal requirements and for ensuring the integrity of financial information supplied to the stockholders. The Audit Committee also shall make recommendations to the Board after consultation with the Chief Financial Officer as to the selection of independent public accountants to examine the consolidated financial statements of the corporation and its subsidiaries. The Audit Committee also shall discuss with the independent public accountants the scope of their examination, recommend supplemental audit reviews or audit steps as deemed desirable, and review the accounting policies of the corporation. The Audit Committee also shall be available to receive reports, suggestions, questions and recommendations from the independent public accountants, the Chief Financial Officer and the General Counsel. It also shall confer with those parties in order to assure the sufficiency and effectiveness of the programs being followed by corporate officers in the area of compliance with the law and conflicts of interest.

(b) *Executive Committee of the Board.* The Executive Committee of the Board shall have all of the authority of the Board, except with respect to the approval of any action which requires stockholder approval under the General Corporation Law of the State of Delaware.

(c) *Nominating Committee.* The Nominating Committee shall recommend to the Board criteria for the selection of candidates to serve on the Board, evaluate all proposed candidates, recommend to the Board nominees to fill vacancies on the Board, and prior to the annual meeting of the stockholders recommend to the Board a slate of nominees for election to the Board by the stockholders of the Corporation at the annual meeting. In carrying out its duties, the committee shall seek possible candidates for the Board and otherwise aid in attracting qualified candidates to the Board. The committee shall be available to the Chair or President and other members of the Board for consultation concerning candidates for the Board. The committee shall periodically review, assess and make recommendations to the Board with regard to the size and composition of the Board. The committee shall have all additional powers necessary to carry out its responsibilities and such other duties as may be assigned by the Board from time to time.

The Nominating Committee also shall have the authority to administer a self-appraisal process by members of the Board and make a report thereon to the Board, from time to time, or as designated by the Board.

(d) *Compensation and Personnel Committee.* The Compensation and Personnel Committee shall have the responsibility for the compensation of the senior executives of the Corporation including salaries and benefits. In carrying out its duties, the committee shall review and approve overall executive compensation programs which are market competitive for the officers of the Corporation, and shall review the specific salaries of Executive Vice Presidents and senior vice presidents subject to the ratification of the salary programs established for the Chair and the Chief Executive Officer of the Corporation by the Board acting as a whole. The committee shall also review and make recommendations to the Board with respect to the Corporation's overall compensation program for directors and officers, including salaries, employee benefit plans, stock options granted, equity incentive plans and payment of bonuses. The committee shall also have all additional powers necessary to carry out its responsibilities and such other duties as may be assigned by the Board from time to time.

ARTICLE IV. OFFICERS.

Section 1. OFFICERS.

The senior officers of the corporation shall be a Chair of the Board, a Chief Executive Officer, a Chief Operating Officer, a Chief Financial Officer and a Secretary. The corporation may also have, at the discretion of the Board, a President, a Chief Administrative Officer, one or more Vice Chairs of the Board, one or more Vice Presidents, one or more Assistant Secretaries, Treasurers, Assistant Treasurers, and such other officers as may be elected or appointed in accordance with the provisions of Section 2 of this Article IV.

Section 2. ELECTION OR APPOINTMENT.

The senior officers of the corporation shall be elected by the Board on an annual basis. In addition, other officers may be elected or appointed in accordance with the provisions of Section 5 of this Article IV. All officers, whether elected or appointed, shall be chosen annually by, and shall serve at the pleasure of, the Board, and shall hold their respective offices until their resignation, removal or other disqualification from service, or until their respective successors shall be elected.

The Board may elect, and may empower the Chair or the Chief Executive Officer to appoint, such other subordinate officers as the business of the corporation may require, each of whom shall hold office for such period and shall have such authority and perform such duties as are provided in these bylaws or as the Board may from time to time determine.

Section 3. ELECTED SENIOR OFFICERS.

The elected senior officers of the corporation shall have those positions and those duties named below in this Section 3. Further, in each case, the named officer also shall have the general powers and duties of governance or management usually vested in that office and such other powers and duties as may be prescribed by the Board.

In the case of the Chair of the Board, the Chair shall, if present, preside at all meetings of the Board and shall preside at all meetings of the stockholders. The Chair of the Board has the general powers and duties of management usually vested in the office of chair of the board of a corporation and such other powers and duties as may be prescribed by the Board. The Chief Executive Officer shall be the senior executive officer of the corporation. The President has the general powers and duties of management of the corporation. The Chief Operating Officer shall have the general powers and duties to carry out general administrative and financial management of the corporation. The Board also may elect one or more Vice Chairs of the Board who, in the absence of the Chair, will assume the duties of that position.

In the absence or disability of the Chief Executive Officer, the President, the Chief Operating Officer, the Vice Chair, or any Executive Vice President designated by the Board, shall perform all the duties of the Chief Executive Officer and, when so acting, shall have all the powers of, and be subject to all the restrictions upon, the Chief Executive Officer.

The Secretary shall keep or cause to be kept, at the principal executive office and such other place as the Board may order, a book of minutes of all meetings of stockholders, the Board and its committees, with the time and place of holding, whether regular or special, and if special, how authorized, the notice thereof given, the names of those present at Board and committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof. The Secretary shall keep, or cause to be kept, a copy of these bylaws of the corporation at the principal executive office or such other place as the Board may order.

The Secretary shall keep, or cause to be kept, at the principal executive office or at the office of the corporation's transfer agent or registrar, if one has been appointed, a share register, or a duplicate share register, showing the names of the stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the Board and any committees thereof required by these bylaws or by law to be given, shall keep the seal of the corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board.

The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the corporation, and shall send or cause to be sent to the stockholders of the corporation such financial statements and reports as are by law or these bylaws required to be sent to them. The books of account shall at all times be open to inspection by any director.

The Chief Financial Officer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the Board. The Chief Financial Officer shall disburse the funds of the corporation as may be ordered by the Board, shall render to the Chair of the Board, the Chief Executive Officer, the President and the directors, whenever they request it, an account of all transactions as Chief Financial Officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board.

Section 4. REMOVAL AND RESIGNATION.

Any officer elected by the Board may be removed only by the Board, either with or without cause, at any time. In the case of an officer not elected by the Board, such an officer may be removed by another officer upon whom such power of removal may be conferred by the Board. Any removal shall be without prejudice to the rights, if any, of the officer under any contract of employment of the officer.

Any officer may resign at any time by giving written notice to the corporation, subject to the rights of the corporation under any contract between the corporation and the officer. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. VACANCIES.

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular election or appointment to such office.

ARTICLE V. OTHER PROVISIONS.

Section 1. INSPECTION OF CORPORATE RECORDS.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in the State of Delaware or at its principal executive office.

Section 2. INSPECTION OF BYLAWS.

The corporation shall keep in its principal executive office in the State of California, or if its principal executive office is not in such State at its principal business office in such State, the original or a copy of these bylaws as amended to date, which shall be open to inspection by stockholders at all reasonable times during office hours. If the principal executive office of the corporation is located outside the State of California and the corporation has no principal business office in such state, it shall upon the written request of any stockholder furnish to such stockholder a copy of these bylaws as amended to date.

Section 3. ENDORSEMENT OF DOCUMENTS; CONTRACTS.

Subject to the provisions of applicable law, any note, mortgage, evidence of indebtedness, contract, share certificate, conveyance or other instrument in writing and any assignment or endorsements thereat executed or entered into between the corporation and any other person, when signed by the Chair of the Board, the Chief Executive Officer, the Chief Operating Officer, the President, the Vice Chair, an Executive Vice President, or any senior vice president and the Secretary, any Assistant Secretary, the Chief Financial Officer or any Assistant Treasurer of the corporation shall be valid and binding on the corporation in the absence of actual knowledge on the part of the other person that the signing officers had no authority to execute the same. Any such instruments may be signed by any other person or persons and in such manner as from time to time shall be determined by the Board, and, unless so authorized by the Board, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or amount.

Section 4. CERTIFICATES OF STOCK.

Every holder of shares of the corporation shall be entitled to have a certificate signed in the name of the corporation by the Chair or Vice Chair of the Board, or the Chief Executive Officer or the President, and by the Chief Financial Officer or an Assistant Treasurer or the Secretary or an Assistant Secretary, certifying the number of shares and the class or series of shares owned by the stockholder. Any or all of the signatures on the certificate may be facsimile. If any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.

Certificates for shares may be issued prior to full payment under such restrictions and for such purposes as the Board may provide; provided, however, that on any certificate issued to represent any partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated.

Except as provided in this Section 4, no new certificate for shares shall be issued in lieu of an old one unless the latter is surrendered and cancelled at the same time. The Board may, however, if any certificate for shares is alleged to have been lost, stolen or destroyed, authorize the issuance of a new certificate in lieu thereof, and the corporation may require that the corporation be given a bond or other adequate security sufficient to indemnify it against any claim that may be made against it (including expense or liability) on account of the alleged loss, theft or destruction of such certificate or the issuance of such new certificate.

The Company shall not register the transfer of any securities issued in reliance on Regulation S promulgated under the Securities Act of 1933, as amended, unless the Company has received such assurances as it may reasonably request that the transfer of such securities was made in accordance with the provisions of such Regulation S.

Section 5. REPRESENTATION OF SHARES OF OTHER CORPORATIONS.

The Chair of the Board or any other officer or officers authorized by the Board or the Chair of the Board are each authorized to vote, represent and exercise on behalf of the corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of the corporation. The authority herein granted may be exercised either by any such officer in person or by any other person authorized so to do by proxy or power of attorney duly executed by said officer.

Section 6. STOCK PURCHASE PLANS.

The corporation may adopt and carry out a stock purchase plan or agreement or stock option plan or agreement providing for the issue and sale for such consideration as may be fixed of its unissued shares, or of issued shares acquired or to be acquired, to one or more of the employees or directors of the corporation or of a subsidiary or to a trustee on their behalf and for the payment for such shares in installments or at one time, and may provide for aiding any such persons in paying for such shares by compensation for services rendered, promissory notes or otherwise.

Any such stock purchase plan or agreement or stock option plan or agreement may include, among other features, the fixing of eligibility for participation therein, the class and price of shares to be issued or sold under the plan or agreement, the number of shares which may be subscribed for, the method of payment therefor, the reservation of title until full payment therefor, the effect of the termination of employment, an option or obligation on the part of the corporation to repurchase the shares upon termination of employment, restrictions upon transfer of the shares, the time limits of and termination of the plan, and any other matters, not in violation of applicable law, as may be included in the plan as approved or authorized by the Board or any committee of the Board.

Section 7. ELECTION OF FISCAL YEAR.

Upon the election of the Board, the Board may authorize the change of the current Fiscal Year of the Corporation to begin on January 1 of each year and end on December 31 of each subsequent year.

Section 8. CONSTRUCTION AND DEFINITIONS.

Unless the context otherwise requires, the general provisions, rules of construction and definitions contained in the General Corporation Law of the State of Delaware shall govern the construction of these bylaws.

Section 9. AMENDMENTS.

These bylaws may be altered, amended or repealed either by the approval of 66 and 2/3 percent of the outstanding shares of the corporation entitled to vote on such action or, subject to the provisions of the General Corporation Law of the State of Delaware, by the approval of the Board.

Section 10. LOANS TO OFFICERS AND OTHER EMPLOYEES.

The corporation may lend money to, guarantee any obligation of or otherwise assist any officer or other employee of the corporation or of any of its subsidiaries, including any officer or employee who is director of the corporation or any of its subsidiaries, whenever, in the judgment of the Board, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may

be unsecured or secured in such manner as the Board shall approve, including, without limitation, a pledge of shares of stock of the corporation.

Section 11. EMERGENCY BYLAWS.

(a) The Board may adopt emergency bylaws, subject to repeal or change by action of the stockholders, which shall, notwithstanding any different provision in the General Corporation Law of the State of Delaware, the Certificate of Incorporation of the corporation or these bylaws, be operative during any emergency resulting from an attack on the United States or on a locality in which the corporation conducts its business or customarily holds meetings of the Board or its stockholders, or during any nuclear or atomic disaster, or during the existence of any catastrophe, or other similar emergency condition, as a result of which a quorum of the Board or a standing committee thereof cannot readily be convened for action. The emergency bylaws may make any provision that may be practical and necessary for the circumstances of the emergency, including provisions that:

(i) A meeting of the Board or a committee thereof may be called by any officer or director in such manner and under such conditions as shall be prescribed in the emergency bylaws;

(ii) The director or directors in attendance at the meeting, or any greater number fixed by the emergency bylaws, shall constitute a quorum; and

(iii) The officers or other persons designated on a list approved by the Board before the emergency, all in such order of priority and subject to such conditions and for such period of time (not longer than reasonably necessary after the termination of the emergency) as may be provided in the emergency bylaws or in the resolution approving the list, shall, to the extent required to provide a quorum at any meeting of the Board, be deemed directors for such meeting.

(b) The Board, either before or during any such emergency, may provide, and from time to time modify, lines of succession in the event that during such emergency any or all officers or agents of the corporation shall for any reason be rendered incapable of discharging their duties.

(c) The Board, either before or during any such emergency, may, effective in the emergency, change the head office or designate several alternative head offices or regional offices, or authorize the officers so to do.

(d) No officer, director or employee acting in accordance with any emergency bylaws shall be liable except for willful misconduct.

(e) To the extent not inconsistent with any emergency bylaws so adopted, these bylaws shall remain in effect during any emergency and upon its termination the emergency bylaws shall cease to be operative.

(f) Unless otherwise provided in emergency bylaws, notice of any meeting of the Board during such an emergency may be given only to such of the directors as it may be feasible to reach at the time and by such means as may be feasible at the time, including publication or radio.

(g) To the extent required to constitute a quorum at any meeting of the Board during such an emergency, the officers of the corporation who are present shall, unless otherwise provided in emergency bylaws, be deemed, in order of rank and within the same rank in order of seniority, directors for such meeting.

(h) Nothing contained in this Section 11 shall be deemed exclusive of any other provisions for emergency powers consistent with the General Corporation Law of the State of Delaware.

ARTICLE VI. INDEMNIFICATION.

Section 1. RIGHT TO INDEMNIFICATION.

The corporation shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person (an "Indemnitee") who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding"), by reason of the fact that he, or a person for whom he is the legal representative, is or was a director or officer of the corporation or, while a director or officer of the corporation, is or was serving at the written request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or non-profit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such Indemnitee. Notwithstanding the preceding sentence, except as otherwise provided in Section 3 of this Article VI, the corporation shall be required to indemnify an Indemnitee in connection with a proceeding (or part thereof) commenced by such Indemnitee only if the commencement of such proceeding (or part thereof) by the Indemnitee was authorized by the Board.

Section 2. PREPAYMENT OF EXPENSES.

The corporation shall pay the expenses (including attorneys' fees) incurred by an Indemnitee in defending any proceeding in advance of its final disposition *provided, however*, that, to the extent required by law, such payment of expenses in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the Indemnitee to repay all amounts advanced if it should be ultimately determined that the Indemnitee is not entitled to be indemnified under this Article VI or otherwise.

Section 3. CLAIMS.

If a claim for indemnification of advancement of expenses under this Article VI is not paid in full within 60 days after a written claim therefor by the Indemnitee has been received by the corporation, the Indemnitee may file suit to recover the unpaid amount of such claim and,

if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the corporation shall have the burden of proving that the Indemnitee is not entitled to the requested indemnification or advancement of expenses under applicable law.

Section 4. NON-EXCLUSIVITY OF RIGHTS.

The rights conferred on any Indemnitee by this Article VI shall not be exclusive of any other rights which such Indemnitee may have or hereafter acquire under any statute, provision of the Certificate of Incorporation of the corporation, these bylaws, agreement, vote of the stockholders or disinterested directors or otherwise.

Section 5. OTHER SOURCES.

The corporation's obligation, if any, to indemnify or to advance expenses to any Indemnitee who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise or non-profit entity shall be reduced by any amount such Indemnitee may collect as indemnification or advancement of expenses from such other corporation, partnership, joint venture, trust, enterprise or non-profit entity.

Section 6. AMENDMENT OR REPEAL.

Any repeal or modification of the foregoing provisions of this Article VI shall not adversely affect any right or protection hereunder of any Indemnitee in respect of any act or omission occurring prior to the time of such repeal or modification.

Section 7. OTHER INDEMNIFICATION AND PREPAYMENT OF EXPENSES.

This Article VI shall not limit the right of the corporation, to the extent and in the manner permitted by law, to indemnify and to advance expenses to persons other than Indemnitees when and as authorized by appropriate corporate action.

KORN/FERRY INTERNATIONAL
AMENDMENTS TO
PERFORMANCE AWARD PLAN

The following sets forth the amendments and modifications to the Korn/Ferry International Performance Award Plan (the "Plan") as of June 4, 2002. Terms used herein and not otherwise defined have the meaning set forth in the Plan. These amendments and modifications have been adopted by the Board and, as applicable, the stockholders of the Company.

Paragraph (a) of the definition of Fair Market Value contained in Section 7 of the Plan was amended to read as follows:

“Fair Market Value” on any date means:

(a) if the stock is listed on the New York Stock Exchange or on another national securities exchange, the closing sales price of the stock on the New York Stock Exchange or such other exchange on such date, or, if there is no trading of the stock as quoted on the New York Stock Exchange or such other exchange on such date, then the closing sales price as quoted on the New York Stock Exchange or such other exchange on the next preceding date on which there was trading in such shares;”

The following is a list of subsidiaries of Korn/Ferry International

| <u>Subsidiaries</u> | <u>Jurisdiction</u> |
|--|---------------------|
| 1. Korn/Ferry International S.A. | Argentina |
| 2. Korn/Ferry International Pty Limited | Australia |
| 3. Korn/Ferry International Limited Niederlassung | Austria |
| 4. Korn/Ferry International S/C Ltda. | Brazil |
| 5. Korn/Ferry Canada, Inc. | Canada |
| 6. Korn/Ferry Montreal, Inc. | Canada |
| 7. Korn/Ferry International, S.A. | Chile |
| 8. Korn/Ferry International (China) Limited | China |
| 9. Korn/Ferry International spol.s.r.o | Czech Republic |
| 10. Korn/Ferry International A/S | Denmark |
| 11. Korn/Ferry International Oy | Finland |
| 12. Korn/Ferry International & Cie, S.N.C. | France |
| 13. Hofman, Herbold & Partner Management Beratung | Germany |
| 14. Korn/Ferry International GmbH | Germany |
| 15. Korn/Ferry International SA | Greece |
| 16. Korn/Ferry International (Asia Pacific) Limited | Hong Kong |
| 17. Korn/Ferry International (H.K.) Limited | Hong Kong |
| 18. Korn/Ferry International Budapest Individual Consulting and Service Ltd. | Hungary |
| 19. Korn/Ferry Consultants India Private Limited | India |
| 20. Korn/Ferry Investment India Limited | India |
| 21. PT. Korn/Ferry International | Indonesia |
| 22. Korn/Ferry International S.R.L. | Italy |
| 23. Nihon Korn/Ferry International | Japan |
| 24. Korn/Ferry International (Korea) Limited | Korea |
| 25. Agensi Pekerjaan Futurestep Worldwide (M) Sdn. Bhd. | Malaysia |
| 26. Agensi Pekerjaan Korn/Ferry International (Malaysia) Sdn. Bhd. | Malaysia |
| 27. Korn/Ferry Internacional del Norte, S.A. de C.V. | Mexico |
| 27. Korn/Ferry International S.A. de C.V. | Mexico |

| <u>Subsidiaries</u> | <u>Jurisdiction</u> |
|---|---------------------------|
| 28. Postgraduados y Especialistas S.A. de C.V. | Mexico |
| 29. Servicios Romac S.A. de C.V. | Mexico |
| 30. Korn/Ferry International B.V. | Netherlands |
| 31. Korn Ferry International NZ Limited | New Zealand |
| 32. Korn/Ferry International A/S | Norway |
| 33. Korn/Ferry International—Peru S.A. | Peru |
| 34. Korn/Ferry International Sp.z.o.o. | Poland |
| 35. Korn/Ferry International Pte. Ltd. | Singapore |
| 36. Korn/Ferry Espana, S.A. | Spain |
| 37. Korn/Ferry International S.A. | Spain |
| 38. Korn/Ferry International AB | Sweden |
| 39. Korn/Ferry (Schweiz) AG | Switzerland |
| 40. Korn-Ferry (Switzerland) Ltd | Switzerland |
| 41. Korn-Ferry (Suisse) SA | Switzerland |
| 42. REMCO Research & Management Consulting Services S.A. | Switzerland |
| 43. Korn/Ferry (Thailand) Limited | Thailand |
| 44. Korn/Ferry International Executive Recruitment (Thailand) Limited | Thailand |
| 45. Futurestep (UK) Limited | United Kingdom |
| 46. Korn/Ferry International, Limited | United Kingdom |
| 47. Pintab Associates Limited | United Kingdom |
| 48. Korn/Ferry International Holding India | United States, California |
| 49. KFI-LK, Inc. | United States, Delaware |
| 50. Korn/Ferry S.A. | United States, California |
| 51. Pearson, Caldwell & Farnsworth, Inc. | United States, California |
| 52. Korn/Ferry International Futurestep, Inc. | United States, Delaware |
| 53. Korn/Ferry International Futurestep (Holdings) Inc. | United States, Delaware |
| 54. Korn/Ferry International Worldwide, Inc. | United States, Delaware |
| 55. JobDirect.com, Inc. | United States, Delaware |
| 56. Korn/Ferry International Consultores Asociados, C.A. | Venezuela |
| 57. Korn/Ferry International Futurestep (Australia) Pty Ltd | Australia |
| 58. Korn/Ferry International Futurestep(Ossterreich) GmbH | Austria |

| Subsidiaries | Jurisdiction |
|---|--------------|
| 59. Korn/Ferry International Futurestep (Belgium) BVBA | Belgium |
| 60. Korn/Ferry International Futurestep (Canada) Inc. | Canada |
| 61. Korn/Ferry International Futurestep (Denmark) ApS | Denmark |
| 62. Korn/Ferry International Futurestep (Finland) | Finland |
| 63. Korn/Ferry International Futurestep (France) SARL | France |
| 64. Korn/Ferry International Futurestep (Deutschland) GmbH | Germany |
| 65. Korn/Ferry International Futurestep Multimedia Advertising GmbH | Germany |
| 66. Korn/Ferry International Futurestep (Hong Kong) Ltd | Hong Kong |
| 67. Korn/Ferry International Futurestep (Ireland) Ltd | Ireland |
| 68. Korn/Ferry International Futurestep (Italy) S.r.l. | Italy |
| 69. Futurestep (Japan) K.K. | Japan |
| 70. Korn/Ferry International Futurestep (Luxembourg) SARL | Luxembourg |
| 71. Korn/Ferry International Futurestep (Malaysia) Sdn. Bhd. | Malaysia |
| 72. Korn/Ferry International Futurestep (The Netherlands) B.V | Netherlands |
| 73. Korn/Ferry International Futurestep (Holdings) B.V. | Netherlands |
| 74. Korn/Ferry International Futurestep (New Zealand) Ltd | New Zealand |
| 75. Korn/Ferry International Futurestep (Norge) AS | Norway |
| 76. Korn/Ferry International Futurestep (Singapore) Pte Ltd. | Singapore |
| 77. Korn/Ferry International Futurestep (Espana), S.L. | Spain |
| 78. Futurestep (Sweden) AB | Sweden |
| 79. Korn/Ferry International Futurestep (Schweiz) GmbH | Switzerland |

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-73147 and 333-49580) pertaining to the Korn/Ferry International Performance Award Plan of our report dated June 20, 2002, with respect to the consolidated financial statements and financial statement schedule of Korn Ferry International as of and for the year ended April 30, 2002, included in the Company's Annual Report (Form 10-K) for the year ended April 30, 2002.

/s/ ERNST & YOUNG LLP

Los Angeles, California
July 26, 2002