

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

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**Form 10-Q**

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

For the quarterly period ended October 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-14505

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**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)

**1900 Avenue of the Stars, Suite 2600, Los Angeles, California 90067**  
(Address of principal executive offices) (Zip code)

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

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

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**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
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CONSOLIDATED BALANCE SHEETS**

	October 31, 2013 (unaudited)	April 30, 2013
<b>ASSETS</b>		
Cash and cash equivalents	\$ 182,628	\$ 224,066
Marketable securities	6,531	20,347
Receivables due from clients, net of allowance for doubtful accounts of \$9,775 and \$9,097, respectively	199,247	161,508
Income taxes and other receivables	6,675	8,944
Deferred income taxes	2,622	3,511
Prepaid expenses and other assets	31,097	28,724
Total current assets	428,800	447,100
Marketable securities, non-current	125,754	121,569
Property and equipment, net	52,651	53,628
Cash surrender value of company owned life insurance policies, net of loans	90,898	85,873
Deferred income taxes, net	60,552	63,203
Goodwill	259,071	257,293
Intangible assets, net	53,879	58,187
Investments and other assets	28,841	28,376
Total assets	<u>\$ 1,100,446</u>	<u>\$ 1,115,229</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 18,281	\$ 19,460
Income taxes payable	9,251	5,502
Compensation and benefits payable	119,163	160,298
Other accrued liabilities	61,332	83,291
Total current liabilities	208,027	268,551
Deferred compensation and other retirement plans	167,792	159,706
Other liabilities	20,800	22,504
Total liabilities	396,619	450,761
Stockholders' equity:		
Common stock: \$0.01 par value, 150,000 shares authorized, 61,729 and 61,022 shares issued and 49,441 and 48,734 shares outstanding, respectively	439,377	431,508
Retained earnings	266,266	236,090
Accumulated other comprehensive loss, net	(1,322)	(2,631)
Stockholders' equity	704,321	664,967
Less: notes receivable from stockholders	(494)	(499)
Total stockholders' equity	703,827	664,468
Total liabilities and stockholders' equity	<u>\$ 1,100,446</u>	<u>\$ 1,115,229</u>

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

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

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

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

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**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(unaudited)**

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

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

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

	Six Months Ended October 31,	
	2013	2012
	(in thousands)	
<b>Cash flows from operating activities:</b>		
Net income	\$ 30,176	\$ 11,614
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	12,524	8,039
Stock-based compensation expense	5,792	6,269
Provision for doubtful accounts	3,087	3,145
Gain on cash surrender value of life insurance policies	(4,587)	(2,178)
Gain on marketable securities	(6,369)	(1,129)
Deferred income taxes	3,949	5,174
Change in other assets and liabilities, net of effects of acquisition:		
Deferred compensation	7,372	(3,112)
Receivables due from clients	(40,826)	(23,004)
Income tax and other receivables	2,325	(1,774)
Prepaid expenses and other assets	(2,373)	(1,697)
Investment in unconsolidated subsidiaries	(1,022)	(974)
Income taxes payable	3,771	(3,634)
Accounts payable and accrued liabilities	(44,928)	(40,996)
Other	(4,498)	924
Net cash used in operating activities	<u>(35,607)</u>	<u>(43,333)</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(11,471)	(6,606)
Cash paid for acquisition, net of cash acquired	—	(34,437)
Purchase of marketable securities	(23,299)	(32,816)
Proceeds from sales/maturities of marketable securities	38,911	30,763
Change in restricted cash	2,861	—
Payment of contingent consideration from acquisition	(15,000)	—
Premiums on life insurance policies	(438)	(438)
Dividends received from unconsolidated subsidiaries	510	418
Net cash used in investing activities	<u>(7,926)</u>	<u>(43,116)</u>
<b>Cash flows from financing activities:</b>		
Purchase of common stock	(1,967)	(2,643)
Proceeds from issuance of common stock upon exercise of employee stock options and in connection with an employee stock purchase plan	3,854	1,019
Tax benefit from exercise of stock options	137	161
Net cash provided by (used in) financing activities	<u>2,024</u>	<u>(1,463)</u>
Effect of exchange rate changes on cash and cash equivalents	71	(1,177)
Net decrease in cash and cash equivalents	(41,438)	(89,089)
Cash and cash equivalents at beginning of period	<u>224,066</u>	<u>282,005</u>
Cash and cash equivalents at end of period	<u>\$182,628</u>	<u>\$192,916</u>

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

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**October 31, 2013**

**1. Organization and Summary of Significant Accounting Policies**

***Nature of Business***

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

***Basis of Consolidation and Presentation***

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

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

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

***Use of Estimates and Uncertainties***

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

***Revenue Recognition***

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

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**October 31, 2013**

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

***Allowance for Doubtful Accounts***

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

***Cash and Cash Equivalents***

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

***Restricted Cash***

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

***Marketable Securities***

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

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

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



**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**October 31, 2013**

in the statement of income in other income, net; any amount in excess of the credit loss is recorded as unrealized gains or losses as a component of comprehensive income. Generally, the amount of the loss is the difference between the cost or amortized cost and its then current fair value; a credit loss is the difference between the discounted expected future cash flows to be collected from the debt security and the cost or amortized cost of the debt security. The determination of the other-than-temporary decline includes, in addition to other relevant factors, a presumption that if the market value is below cost by a significant amount for a period of time, a write-down may be necessary. During the three and six months ended October 31, 2013 and 2012, no other-than-temporary impairment was recognized.

***Business Acquisitions***

Business acquisitions are accounted for under the acquisition method. The acquisition method requires the reporting entity to identify the acquirer, determine the acquisition date, recognize and measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired entity, and recognize and measure goodwill or a gain from the purchase. The acquiree's results are included in the Company's consolidated financial statements from the date of acquisition. Assets acquired and liabilities assumed are recorded at their fair values and the excess of the purchase price over the amounts assigned is recorded as goodwill, or if the fair value of the assets acquired exceeds the purchase price consideration, a bargain purchase gain is recorded. Adjustments to fair value assessments are generally recorded to goodwill over the measurement period (not longer than twelve months). The acquisition method also requires that acquisition-related transaction and post-acquisition restructuring costs be charged to expense as committed, and requires the Company to recognize and measure certain assets and liabilities including those arising from contingencies and contingent consideration in a business combination. During the six months ended October 31, 2013, the Company paid contingent consideration to the selling stockholders of PDI Ninth House ("PDI") of \$15 million, as required under the merger agreement, as a result of the achievement of certain pre-determined goals associated with expense synergies.

***Goodwill and Intangible Assets***

Goodwill represents the excess of the purchase price over the fair value of assets acquired. The goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, goodwill of the reporting unit would be considered impaired. To measure the amount of the impairment loss, the implied fair value of a reporting unit's goodwill is compared to the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying amount of a reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. For each of these tests, the fair value of each of the Company's reporting units is determined using a combination of valuation techniques, including a discounted cash flow methodology. To corroborate the discounted cash flow analysis performed at each reporting unit, a market approach is utilized using observable market data such as comparable companies in similar lines of business that are publicly traded or which are part of a public or private transaction (to the extent available). Results of the annual impairment test performed as of January 31, 2013, indicated that the fair value of each reporting unit exceeded its carrying amount. As a result, no impairment charge was recognized. There were no indicators of impairment as of October 31, 2013 and April 30, 2013.

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

***Compensation and Benefits Expense***

Compensation and benefits expense in the accompanying consolidated statements of income consist of compensation and benefits paid to consultants (employees who originate business), executive officers and administrative and support personnel.

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**October 31, 2013**

The most significant portions of this expense are salaries and the amounts paid under the annual performance related bonus plan to employees. The portion of the expense applicable to salaries is comprised of amounts earned by employees during a reporting period. The portion of the expenses applicable to annual performance related bonuses refers to the Company's annual employee performance related bonus with respect to a fiscal year, the amount of which is communicated and paid to each eligible employee following the completion of the fiscal year.

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

Because annual performance-based bonuses are communicated and paid only after the Company reports its full fiscal year results, actual performance-based bonus payments may differ from the prior year's estimate. Such changes in the bonus estimate historically have been immaterial and are recorded in current operations in the period in which they are determined. The performance related bonus expense was \$68.2 million and \$54.0 million for the six months ended October 31, 2013 and 2012, respectively, which was reduced by a change in the previous years' estimate recorded in the first quarter of fiscal 2014 and 2013 of \$0.7 million and \$0.2 million, respectively. This resulted in net bonus expense of \$67.5 million and \$53.8 million in the six months ended October 31, 2013 and 2012, respectively, included in compensation and benefits expense in the consolidated statements of income. During the three months ended October 31, 2013 and 2012, the performance related bonus expense was \$37.0 million and \$27.4 million, respectively, included in compensation and benefits expense. No change in estimate related to previous years' estimates was recorded in the three months ended October 31, 2013 or 2012.

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

***Restructuring Charges, Net***

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

***Stock-Based Compensation***

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

***Reclassifications***

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

***Recently Adopted Accounting Standards***

In February 2013, the Financial Accounting Standards Board ("FASB") issued updated guidance requiring entities to provide information about the amounts reclassified out of accumulated other comprehensive income ("AOCI") by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**October 31, 2013**

required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. No changes were made to the current requirements for reporting net income or other comprehensive income in the financial statements. The guidance is effective for annual and interim reporting periods beginning after December 15, 2012. The Company adopted this guidance during the six months ended October 31, 2013 and the adoption did not have an impact on the financial statements of the Company.

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

***Recently Proposed Accounting Standards***

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

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

**2. Basic and Diluted Earnings Per Share**

Basic earnings per common share was computed by dividing net earnings attributable to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings per common share was computed by dividing net earnings attributable to common stockholders by the weighted-average number of common shares outstanding plus dilutive common equivalent shares. Dilutive common equivalent shares include all in-the-money outstanding options or other contracts to issue common stock as if they were exercised or converted. During both the three and six months ended October 31, 2013, options to purchase 0.1 million shares were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. During both the three and six months ended October 31, 2012, options to purchase 0.6 million shares were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

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

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

**3. Comprehensive Income**

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

The components of accumulated other comprehensive loss were as follows:

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

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**4. Employee Stock Plans*****Stock-Based Compensation***

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

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

The Company uses the Black-Scholes option valuation model to estimate the grant date fair value of employee stock options. The expected volatility reflects consideration of the historical volatility in the Company's publicly traded stock during the period the option is granted. The Company believes historical volatility in these instruments is more indicative of expected future volatility than the implied volatility in the price of the Company's common stock. The expected life of each option is estimated using historical data. The risk-free interest rate is based on the U.S. Treasury zero-coupon issue with a remaining term approximating the expected term of the option. The Company uses historical data to estimate forfeiture rates applied to the gross amount of expense determined using the option valuation model. The Company did not grant stock options in the three and six months ended October 31, 2013 and 2012.

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

***Stock Incentive Plans***

At the Company's 2012 Annual Meeting of Stockholders, held on September 27, 2012, the Company's stockholders approved an amendment and restatement to the Korn/Ferry International Amended and Restated 2008 Stock Incentive Plan (the 2012 amendment and restatement being the "Second A&R 2008 Plan"), which among other things, increased the current maximum number of shares that may be issued under the plan to 5,700,000 shares, subject to certain changes in the Company's capital structure and other extraordinary events. The Second A&R 2008 Plan provides for the grant of awards to eligible participants, designated as either nonqualified or incentive stock options, restricted stock and restricted stock units, any of which may be performance-based or market-based, and incentive bonuses, which may be paid in cash or a combination thereof. Under the Second A&R 2008 Plan, the ability to issue full-value awards is limited by requiring full-value stock awards to count 1.91 times as much as stock options.

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**Stock Options**

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

	Six Months Ended October 31, 2013			
	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
(in thousands, except per share data)				
Outstanding, April 30, 2013	1,100	\$ 14.72		
Exercised	(315)	\$ 12.53		
Forfeited/expired	(26)	\$ 12.51		
Outstanding, October 31, 2013	<u>759</u>	\$ 15.70	<u>2.28</u>	<u>\$ 6,145</u>
Exercisable, October 31, 2013	<u>685</u>	\$ 15.60	<u>2.11</u>	<u>\$ 5,616</u>

As of October 31, 2013, there was \$0.3 million of total unrecognized compensation cost related to non-vested awards of stock options. That cost is expected to be recognized over a weighted-average period of 0.7 year. For stock option awards subject to graded vesting, the Company recognizes the total compensation cost on a straight-line basis over the service period for the entire award.

Additional information pertaining to stock options:

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

**Restricted Stock**

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

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

Restricted stock activity during the six months ended October 31, 2013 is summarized below:

	Shares	Weighted-Average Grant Date Fair Value
	(in thousands, except per share data)	
Non-vested, April 30, 2013	1,810	\$ 16.38
Granted	589	\$ 19.77
Vested	(492)	\$ 14.35
Forfeited/expired	(197)	\$ 16.92
Non-vested, October 31, 2013	<u>1,710</u>	<u>\$ 18.08</u>

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

As of October 31, 2013, there was \$23.0 million of total unrecognized compensation cost (including market-based restricted stock units) related to non-vested awards of restricted stock, which is expected to be recognized over a weighted-average period of 2.3 years. For restricted stock subject to graded vesting, the Company recognizes the total compensation cost on a straight-line basis over the service period for the entire award. During the three and six months ended October 31, 2013, shares of restricted stock of 1,025 and 101,399 totaling \$0.1 million and \$2.0 million, respectively, were repurchased by the Company, at the option of the employee, to pay for taxes related to vesting of restricted stock. During the three and six months ended October 31, 2012, shares of restricted stock of 9,080 and 186,206 totaling \$0.1 million and \$2.6 million, respectively, were repurchased by the Company, at the option of the employee, to pay for taxes related to vesting of restricted stock.

**Common Stock**

During the three and six months ended October 31, 2013, the Company issued 126,244 shares and 315,123 shares of common stock, respectively, as a result of the exercise of stock options, with cash proceeds from the exercise of \$2.0 million and \$3.8 million, respectively. During the three and six months ended October 31, 2012, the Company issued 111,230 shares and 135,511 shares of common stock, respectively, as a result of the exercise of stock options, with cash proceeds from the exercise of \$0.8 million and \$1.0 million, respectively.

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

**5. Marketable Securities**

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

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

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

	Trading (1)(2)	Available-for- Sale (2)(3)	Total
	(in thousands)		
Mutual funds	\$98,001	\$ —	\$ 98,001
Corporate bonds	—	42,111	42,111
U.S. Treasury and agency securities	—	1,804	1,804
Total	98,001	43,915	141,916
Less: current portion of marketable securities	(4,537)	(15,810)	(20,347)
Non-current marketable securities	<u>\$93,464</u>	<u>\$ 28,105</u>	<u>\$121,569</u>

- (1) These investments are held in trust for settlement of the Company's vested and unvested obligations of \$119.3 million and \$99.2 million as of October 31, 2013 and April 30, 2013, respectively, under the ECAP (see Note 6 – *Deferred Compensation and Retirement Plans*).
- (2) The Company's financial assets measured at fair value on a recurring basis include trading securities classified as Level 1 and available-for-sale securities classified as Level 2. As of October 31, 2013 and April 30, 2013, the Company had

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cash equivalents of \$89.2 million and \$93.6 million, respectively, classified as Level 1. As of April 30, 2013, the Company had restricted cash of \$2.9 million, classified as Level 1. As of October 31, 2013, the Company had no restricted cash balance. As of October 31, 2013 and April 30, 2013, the Company had no investments classified as Level 3.

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

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

	October 31, 2013			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	
	(in thousands)			
Corporate bonds	\$ 14,297	\$ 29	\$ (4)	\$ 14,322
	April 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
	(in thousands)			
Corporate bonds	\$ 42,033	\$ 92	\$ (14)	\$ 42,111
U.S. Treasury and agency securities	1,802	2	—	1,804
Total	\$ 43,835	\$ 94	\$ (14)	\$ 43,915

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

Investments in marketable securities classified as available-for-sale securities are made based on the Company's investment policy, which restricts the types of investments that can be made. As of October 31, 2013 and April 30, 2013, the Company's investments associated with cash equivalents, consist of money market funds for which market prices are readily available and as of April 30, 2013 includes restricted cash. As of October 31, 2013 and April 30, 2013, marketable securities classified as available-for-sale consist of corporate bonds and as of April 30, 2013 also includes U.S. Treasury and agency securities, all for which market prices for similar assets are readily available. As of October 31, 2013, available-for-sale marketable securities have remaining maturities ranging from seven months to 2.0 years. Investments in marketable securities classified as trading are based upon investment selections the employee elects from a pre-determined set of securities in the ECAP and the Company invests in marketable securities to mirror these elections. As of October 31, 2013 and April 30, 2013, the Company's investments in marketable securities classified as trading consist of mutual funds for which market prices are readily available.

As of October 31, 2013 and April 30, 2013, the Company's marketable securities classified as trading were \$118.0 million (net of gross unrealized gains of \$9.2 million and gross unrealized losses of \$0.6 million) and \$98.0 million (net of gross unrealized gains of \$3.1 million and no gross unrealized losses), respectively.



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**6. Deferred Compensation and Retirement Plans**

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

The components of net periodic benefit costs are as follows:

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

The Company purchased COLI contracts insuring employees eligible to participate in the deferred compensation and pension plans as a means of funding benefits under such plans. The gross CSV of these contracts of \$164.2 million and \$159.2 million is offset by outstanding policy loans of \$73.3 million in the accompanying consolidated balance sheets as of October 31, 2013 and April 30, 2013, respectively. The market value of the underlying COLI investments increased by \$3.3 million and \$4.6 million during the three and six months ended October 31, 2013, respectively, and is recorded as a decrease in compensation and benefits expense in the accompanying consolidated statement of income. During the three and six months ended October 31, 2012, the market value of the underlying COLI investments increased by \$1.5 million and \$2.2 million, respectively, and is recorded as a decrease in compensation and benefits expense in the accompanying consolidated statement of income.

The Company has an ECAP, which is intended to provide certain employees an opportunity to defer salary and/or bonus on a pre-tax basis or make an after-tax contribution. The Company made contributions to the ECAP during the three and six months ended October 31, 2013, of \$2.5 million and \$16.7 million, respectively. The Company made contributions to the ECAP during the three and six months ended October 31, 2012, of \$1.8 million and \$19.3 million, respectively. As these contributions vest, the amounts are recorded as a liability in deferred compensation and other retirement plans on the accompanying balance sheet and compensation and benefits on the accompanying consolidated statement of income. Certain key management may also receive Company ECAP contributions upon commencement of employment. Participants generally vest in Company contributions over a four year period. The ECAP is accounted for whereby the changes in the fair value of the vested amounts owed to the participants are adjusted with a corresponding charge (or credit) to compensation and benefits costs. During the three and six months ended October 31, 2013, deferred compensation liability increased; therefore, the Company recognized an increase in compensation expense of \$3.4 million and \$5.0 million, respectively. During the three and six months ended October 31, 2012, deferred compensation liability increased; therefore, the Company recognized an increase in compensation expense of \$1.5 million and \$0.5 million, respectively.

Offsetting these changes in compensation and benefits expense was an increase in the fair value of marketable securities classified as trading (held in trust to satisfy obligations under certain deferred compensation liabilities) of \$4.4 million and \$1.9 million in the three months ended October 31, 2013 and 2012, respectively, and \$6.4 million and \$1.1 million in the six months ended October 31, 2013 and 2012, respectively, recorded in other income, net on the consolidated statement of income.

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**7. Restructuring Charges, Net**

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

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

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

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

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

As of October 31, 2013 and April 30, 2013, the restructuring liability is included in the current portion of other accrued liabilities on the consolidated balance sheets, except for \$1.4 million and \$2.4 million, respectively, of facilities costs which primarily relate to commitments under operating leases, net of sublease income, which are included in other long-term liabilities and will be paid over the next five years.

The restructuring liability by segment is summarized below:

	October 31, 2013		
	Severance	Facilities (in thousands)	Total
<b>Executive Recruitment</b>			
North America	\$ 201	\$ 435	\$ 636
Europe, Middle East and Africa (“EMEA”)	19	693	712
Total Executive Recruitment	220	1,128	1,348
<b>LTC</b>	319	2,756	3,075
<b>Futurestep</b>	—	1,103	1,103
<b>Corporate</b>	45	—	45
Liability as of October 31, 2013	<u>\$ 584</u>	<u>\$ 4,987</u>	<u>\$ 5,571</u>

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

## 8. Business Segments

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

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

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Financial highlights by business segment are as follows:

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

	Three Months Ended October 31, 2012								
	Executive Recruitment				Subtotal	LTC	Futurestep	Corporate	Consolidated
	North America	EMEA	Asia Pacific	South America					
	(in thousands)								
Fee revenue	\$ 69,441	\$ 33,142	\$ 18,338	\$ 6,827	\$ 127,748	\$ 38,452	\$ 30,031	\$ —	\$ 196,231
Total revenue	\$ 73,237	\$ 34,047	\$ 18,794	\$ 6,989	\$ 133,067	\$ 40,623	\$ 31,109	\$ —	\$ 204,799
Net income									\$ 1,196
Other income, net									(1,529)
Interest expense, net									762
Equity in earnings of unconsolidated subsidiaries									(344)
Income tax provision									2,684
Operating income (loss)	\$ 9,017	\$ (929)	\$ 1,080	\$ 1,217	\$ 10,385	\$ 6,252	\$ 237	\$ (14,105)	\$ 2,769
Depreciation and amortization	1,221	590	406	78	2,295	1,006	320	676	4,297
Other income (loss), net	78	(234)	48	—	(108)	19	1	1,617	1,529
Equity in earnings of unconsolidated subsidiaries	(70)	—	—	—	(70)	—	—	414	344
EBITDA	10,246	(573)	1,534	1,295	12,502	7,277	558	(11,398)	8,939
Restructuring charges, net	5,436	4,752	613	—	10,801	677	3,086	931	15,495
Adjusted EBITDA	<u>\$ 15,682</u>	<u>\$ 4,179</u>	<u>\$ 2,147</u>	<u>\$ 1,295</u>	<u>\$ 23,303</u>	<u>\$ 7,954</u>	<u>\$ 3,644</u>	<u>\$ (10,467)</u>	<u>\$ 24,434</u>

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	Six Months Ended October 31, 2013								Consolidated
	Executive Recruitment				Subtotal	LTC	Futurestep	Corporate	
	North America	EMEA	Asia Pacific	South America					
	(in thousands)								
Fee revenue	\$149,330	\$68,598	\$42,850	\$15,869	\$276,647	\$126,140	\$63,618	\$—	\$466,405
Total revenue	\$156,845	\$70,697	\$44,267	\$15,962	\$287,771	\$130,284	\$65,769	\$—	\$483,824
Net income									\$30,176
Other income, net									(6,619)
Interest expense, net									1,229
Equity in earnings of unconsolidated subsidiaries									(1,022)
Income tax provision									16,062
Operating income (loss)	\$31,854	\$11,820	\$8,972	\$3,761	\$56,407	\$11,341	\$5,084	\$(33,006)	\$39,826
Depreciation and amortization	1,883	887	835	173	3,778	6,058	848	1,840	12,524
Other income, net	448	282	92	10	832	53	548	5,186	6,619
Equity in earnings of unconsolidated subsidiaries	222	—	—	—	222	—	—	800	1,022
EBITDA	34,407	12,989	9,899	3,944	61,239	17,452	6,480	(25,180)	59,991
Restructuring charges, net	816	460	60	—	1,336	1,149	1,134	63	3,682
Separation costs	—	—	—	—	—	—	—	4,500	4,500
Integration costs	—	—	—	—	—	—	—	394	394
Adjusted EBITDA	\$35,223	\$13,449	\$9,959	\$3,944	\$62,575	\$18,601	\$7,614	\$(20,223)	\$68,567

	Six Months Ended October 31, 2012								Consolidated
	Executive Recruitment				Subtotal	LTC	Futurestep	Corporate	
	North America	EMEA	Asia Pacific	South America					
	(in thousands)								
Fee revenue	\$141,547	\$62,965	\$35,721	\$14,961	\$255,194	\$66,844	\$60,887	\$—	\$382,925
Total revenue	\$149,464	\$64,917	\$36,667	\$15,240	\$266,288	\$70,467	\$64,067	\$—	\$400,822
Net income									\$11,614
Other income, net									(512)
Interest expense, net									1,361
Equity in earnings of unconsolidated subsidiaries									(974)
Income tax provision									8,289
Operating income (loss)	\$27,091	\$859	\$1,578	\$3,306	\$32,834	\$10,514	\$3,419	\$(26,989)	\$19,778
Depreciation and amortization	2,427	1,146	769	159	4,501	1,623	616	1,299	8,039
Other income (loss), net	74	(208)	84	—	(50)	34	10	518	512
Equity in earnings of unconsolidated subsidiaries	157	—	—	—	157	—	—	817	974
EBITDA	29,749	1,797	2,431	3,465	37,442	12,171	4,045	(24,355)	29,303
Restructuring charges, net	5,436	4,752	613	—	10,801	677	3,086	931	15,495
Adjusted EBITDA	\$35,185	\$6,549	\$3,044	\$3,465	\$48,243	\$12,848	\$7,131	\$(23,424)	\$44,798

**9. Long-Term Debt**

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

**KORN/FERRY INTERNATIONAL AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**October 31, 2013**

**10. Commitments and Contingencies**

During the three and six months ended October 31, 2013, in connection with an employment dispute, the Company recorded expenses in the amount of \$2.0 million and \$4.5 million, respectively, in compensation and benefits expense. The Company settled the dispute and as of October 31, 2013 carries no liability regarding this matter.

**11. Acquisitions**

During the six months ended October 31, 2013, adjustments to the preliminary purchase price allocation relating to the PDI acquisition, resulted in a \$0.1 million decrease in net assets acquired and an increase in the purchase price and goodwill of \$0.2 million and \$0.3 million, respectively. As of October 31, 2013, the purchase price allocation relating to PDI remains preliminary as it relates to income taxes, among other things.

During the six months ended October 31, 2013, the Company paid contingent consideration to the selling stockholders of PDI of \$15 million, as required under the merger agreement, as a result of the achievement of certain pre-determined goals associated with expense synergies.

**12. Supplemental Balance Sheet Information**

Other accrued liabilities included deferred revenue of \$35.1 million and \$33.8 million as of October 31, 2013 and April 30, 2013, respectively, primarily as a result of LTC billings in advance of services rendered.

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **Forward-looking Statements**

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

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

#### **Executive Summary**

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

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

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

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

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

Fee revenue increased \$41.8 million, or 21% (7% increase excluding fee revenue from the prior year acquisitions), in the three months ended October 31, 2013 to \$238.0 million compared to \$196.2 million in the year-ago quarter, with increases in fee revenue in all regions of Executive Recruitment, Futurestep, and LTC. During the three months ended October 31, 2013, we recorded operating income of \$23.2 million with Executive Recruitment, LTC, and Futurestep segments contributing \$28.1 million, \$7.0 million, and \$2.6 million, respectively, offset by corporate expenses of \$14.5 million. Net income during the three months ended October 31, 2013 and 2012 was \$18.8 million and \$1.2 million, respectively. Adjusted EBITDA was \$36.7 million with Executive Recruitment, LTC, and Futurestep segments contributing \$30.7 million, \$10.3 million, and \$3.0 million, respectively, offset by corporate expenses of \$7.3 million during the three months ended October 31, 2013. Adjusted EBITDA increased \$12.3 million during the three months ended October 31, 2013, from Adjusted EBITDA of \$24.4 million during the three months ended October 31, 2012.

Our cash, cash equivalents and marketable securities decreased \$51.1 million, or 14%, to \$314.9 million at October 31, 2013 compared to \$366.0 million at April 30, 2013, mainly due to bonuses earned in fiscal 2013 and paid during the first quarter of fiscal 2014 and \$15.0 million in contingent consideration paid to selling stockholders of PDI, partially offset by cash provided by operating activities. As of October 31, 2013, we held marketable securities to settle obligations under the ECAP with a cost value of \$109.4 million and a fair value of \$118.0 million. Our vested and unvested obligations for which these assets were held in trust totaled \$119.3 million as of October 31, 2013. Our working capital increased by \$42.3 million to \$220.8 million in the six months ended October 31, 2013. We believe that cash on hand and funds from operations will be sufficient to meet our anticipated working capital, capital expenditures and general corporate requirements in the next twelve months. We had no long-term debt or any outstanding borrowings under our credit facility at October 31, 2013 or April 30, 2013. As of April 30, 2013, under our previous senior secured credit agreement we were required to maintain \$2.9 million in restricted cash to provide collateral for the standby letters of credit that were outstanding. There is no restricted cash requirement under our current senior unsecured revolving credit agreement and, as a result, the Company had no restricted cash balance as of October 31, 2013. As of October 31, 2013 and April 30, 2013, there was \$2.7 million of standby letters of credit issued under our long-term debt arrangements.



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**Results of Operations**

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2013	2012	2013	2012
Fee revenue	100.0%	100.0%	100.0%	100.0%
Reimbursed out-of-pocket engagement expenses	3.5	4.4	3.7	4.7
Total revenue	103.5	104.4	103.7	104.7
Compensation and benefits	67.8	67.8	67.4	68.2
General and administrative expenses	15.0	17.0	16.2	17.4
Reimbursed expenses	3.5	4.4	3.7	4.7
Cost of services	4.7	3.7	4.4	3.1
Depreciation and amortization	2.8	2.2	2.7	2.1
Restructuring charges, net	—	7.9	0.8	4.0
Operating income	9.7	1.4	8.5	5.2
Net income	7.9%	0.6%	6.5%	3.0%

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

	Three Months Ended October 31,				Six Months Ended October 31,			
	2013		2012		2013		2012	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%
(dollars in thousands)								
<b>Fee revenue</b>								
<b>Executive recruitment:</b>								
North America	\$ 75,183	31.6%	\$ 69,441	35.4%	\$ 149,330	32.0%	\$ 141,547	37.0%
EMEA	34,221	14.4	33,142	16.9	68,598	14.7	62,965	16.4
Asia Pacific	21,722	9.1	18,338	9.3	42,850	9.2	35,721	9.3
South America	8,866	3.7	6,827	3.5	15,869	3.4	14,961	3.9
<b>Total executive recruitment</b>	139,992	58.8	127,748	65.1	276,647	59.3	255,194	66.6
LTC	66,078	27.8	38,452	19.6	126,140	27.1	66,844	17.5
Futurestep	31,898	13.4	30,031	15.3	63,618	13.6	60,887	15.9
<b>Total fee revenue</b>	237,968	100.0%	196,231	100.0%	466,405	100.0%	382,925	100.0%
Reimbursed out-of-pocket engagement expenses	8,269		8,568		17,419		17,897	
<b>Total revenue</b>	<u>\$246,237</u>		<u>\$204,799</u>		<u>\$483,824</u>		<u>\$400,822</u>	

	Three Months Ended October 31,				Six Months Ended October 31,			
	2013		2012		2013		2012	
	Dollars	Margin (1)	Dollars	Margin (1)	Dollars	Margin (1)	Dollars	Margin (1)
(dollars in thousands)								
<b>Operating Income</b>								
<b>Executive recruitment:</b>								
North America	\$ 15,530	20.7%	\$ 9,017	13.0%	\$ 31,854	21.3%	\$ 27,091	19.1%
EMEA	5,860	17.1	(929)	(2.8)	11,820	17.2	859	1.4
Asia Pacific	4,472	20.6	1,080	5.9	8,972	20.9	1,578	4.4
South America	2,265	25.5	1,217	17.8	3,761	23.7	3,306	22.1
<b>Total executive recruitment</b>	28,127	20.1	10,385	8.1	56,407	20.4	32,834	12.9
LTC	7,006	10.6	6,252	16.3	11,341	9.0	10,514	15.7
Futurestep	2,539	8.0	237	0.8	5,084	8.0	3,419	5.6
Corporate	(14,507)	—	(14,105)	—	(33,006)	—	(26,989)	—
<b>Total operating income</b>	<u>\$ 23,165</u>	9.7%	<u>\$ 2,769</u>	1.4%	<u>\$ 39,826</u>	8.5%	<u>\$ 19,778</u>	5.2%

(1) Margin calculated as a percentage of fee revenue by business segment.

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	Three Months Ended October 31, 2013								
	Executive Recruitment					LTC	Futurestep	Corporate	Consolidated
	North America	EMEA	Asia Pacific	South America	Subtotal (in thousands)				
Fee revenue	\$ 75,183	\$ 34,221	\$ 21,722	\$ 8,866	\$ 139,992	\$ 66,078	\$ 31,898	\$ —	\$ 237,968
Total revenue	\$ 78,734	\$ 35,240	\$ 22,340	\$ 8,926	\$ 145,240	\$ 68,202	\$ 32,795	\$ —	\$ 246,237
Net income									\$ 18,759
Other income, net									(4,352)
Interest expense, net									638
Equity in earnings of unconsolidated subsidiaries									(557)
Income tax provision									8,677
Operating income (loss)	\$ 15,530	\$ 5,860	\$ 4,472	\$ 2,265	\$ 28,127	\$ 7,006	\$ 2,539	\$(14,507)	\$ 23,165
Depreciation and amortization	920	452	529	99	2,000	3,161	440	979	6,580
Other income (loss), net	321	48	75	7	451	45	(17)	3,873	4,352
Equity in earnings of unconsolidated subsidiaries	120	—	—	—	120	—	—	437	557
EBITDA	16,891	6,360	5,076	2,371	30,698	10,212	2,962	(9,218)	34,654
Separation costs	—	—	—	—	—	—	—	2,000	2,000
Adjusted EBITDA	\$ 16,891	\$ 6,360	\$ 5,076	\$ 2,371	\$ 30,698	\$ 10,212	\$ 2,962	\$ (7,218)	\$ 36,654
Adjusted EBITDA	22.5%	18.6%	23.4%	26.7%	21.9%	15.5%	9.3%		15.4%

	Three Months Ended October 31, 2012								
	Executive Recruitment					LTC	Futurestep	Corporate	Consolidated
	North America	EMEA	Asia Pacific	South America	Subtotal (in thousands)				
Fee revenue	\$ 69,441	\$ 33,142	\$ 18,338	\$ 6,827	\$ 127,748	\$ 38,452	\$ 30,031	\$ —	\$ 196,231
Total revenue	\$ 73,237	\$ 34,047	\$ 18,794	\$ 6,989	\$ 133,067	\$ 40,623	\$ 31,109	\$ —	\$ 204,799
Net income									\$ 1,196
Other income, net									(1,529)
Interest expense, net									762
Equity in earnings of unconsolidated subsidiaries									(344)
Income tax provision									2,684
Operating income (loss)	\$ 9,017	\$ (929)	\$ 1,080	\$ 1,217	\$ 10,385	\$ 6,252	\$ 237	\$(14,105)	\$ 2,769
Depreciation and amortization	1,221	590	406	78	2,295	1,006	320	676	4,297
Other income (loss), net	78	(234)	48	—	(108)	19	1	1,617	1,529
Equity in earnings of unconsolidated subsidiaries	(70)	—	—	—	(70)	—	—	414	344
EBITDA	10,246	(573)	1,534	1,295	12,502	7,277	558	(11,398)	8,939
Restructuring charges, net	5,436	4,752	613	—	10,801	677	3,086	931	15,495
Adjusted EBITDA	\$ 15,682	\$ 4,179	\$ 2,147	\$ 1,295	\$ 23,303	\$ 7,954	\$ 3,644	\$(10,467)	\$ 24,434
Adjusted EBITDA	22.6%	12.6%	11.7%	19.0%	18.2%	20.7%	12.1%		12.5%

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Six Months Ended October 31, 2013									
Executive Recruitment									
	North America	EMEA	Asia Pacific	South America	Subtotal	LTC	Futurestep	Corporate	Consolidated
	(in thousands)								
Fee revenue	\$ 149,330	\$ 68,598	\$ 42,850	\$ 15,869	\$ 276,647	\$ 126,140	\$ 63,618	\$ —	\$ 466,405
Total revenue	\$ 156,845	\$ 70,697	\$ 44,267	\$ 15,962	\$ 287,771	\$ 130,284	\$ 65,769	\$ —	\$ 483,824
Net income									\$ 30,176
Other income, net									(6,619)
Interest expense, net									1,229
Equity in earnings of unconsolidated subsidiaries									(1,022)
Income tax provision									16,062
Operating income (loss)	\$ 31,854	\$ 11,820	\$ 8,972	\$ 3,761	\$ 56,407	\$ 11,341	\$ 5,084	\$(33,006)	\$ 39,826
Depreciation and amortization	1,883	887	835	173	3,778	6,058	848	1,840	12,524
Other income, net	448	282	92	10	832	53	548	5,186	6,619
Equity in earnings of unconsolidated subsidiaries	222	—	—	—	222	—	—	800	1,022
EBITDA	34,407	12,989	9,899	3,944	61,239	17,452	6,480	(25,180)	59,991
Restructuring charges, net	816	460	60	—	1,336	1,149	1,134	63	3,682
Separation costs	—	—	—	—	—	—	—	4,500	4,500
Integration costs	—	—	—	—	—	—	—	394	394
Adjusted EBITDA	\$ 35,223	\$ 13,449	\$ 9,959	\$ 3,944	\$ 62,575	\$ 18,601	\$ 7,614	\$(20,223)	\$ 68,567
Adjusted EBITDA	23.6%	19.6%	23.2%	24.9%	22.6%	14.7%	12.0%		14.7%

Six Months Ended October 31, 2012									
Executive Recruitment									
	North America	EMEA	Asia Pacific	South America	Subtotal	LTC	Futurestep	Corporate	Consolidated
	(in thousands)								
Fee revenue	\$ 141,547	\$ 62,965	\$ 35,721	\$ 14,961	\$ 255,194	\$ 66,844	\$ 60,887	\$ —	\$ 382,925
Total revenue	\$ 149,464	\$ 64,917	\$ 36,667	\$ 15,240	\$ 266,288	\$ 70,467	\$ 64,067	\$ —	\$ 400,822
Net income									\$ 11,614
Other income, net									(512)
Interest expense, net									1,361
Equity in earnings of unconsolidated subsidiaries									(974)
Income tax provision									8,289
Operating income (loss)	\$ 27,091	\$ 859	\$ 1,578	\$ 3,306	\$ 32,834	\$ 10,514	\$ 3,419	\$(26,989)	\$ 19,778
Depreciation and amortization	2,427	1,146	769	159	4,501	1,623	616	1,299	8,039
Other income (loss), net	74	(208)	84	—	(50)	34	10	518	512
Equity in earnings of unconsolidated subsidiaries	157	—	—	—	157	—	—	817	974
EBITDA	29,749	1,797	2,431	3,465	37,442	12,171	4,045	(24,355)	29,303
Restructuring charges, net	5,436	4,752	613	—	10,801	677	3,086	931	15,495
Adjusted EBITDA	\$ 35,185	\$ 6,549	\$ 3,044	\$ 3,465	\$ 48,243	\$ 12,848	\$ 7,131	\$(23,424)	\$ 44,798
Adjusted EBITDA	24.9%	10.4%	8.5%	23.2%	18.9%	19.2%	11.7%		11.7%

### Three Months Ended October 31, 2013 Compared to Three Months Ended October 31, 2012

#### *Fee Revenue*

*Fee Revenue.* Fee revenue increased \$41.8 million, or 21%, to \$238.0 million in the three months ended October 31, 2013 compared to \$196.2 million in the year-ago quarter. The prior year acquisitions contributed \$28.1 million in fee revenue in our Leadership & Talent Consulting segment in the three months ended October 31, 2013 compared to the year-ago quarter. Excluding the prior year acquisitions, fee revenue increased \$13.7 million, or 7% (8% on a constant currency basis), compared to the year-ago quarter. This increase in fee revenue was primarily attributable to an increase in fee revenue in Executive Recruitment and to a lesser extent, an increase in Futurestep fee revenue. Exchange rates unfavorably impacted fee revenue by \$2.6 million in the three months ended October 31, 2013.

*Executive Recruitment.* Executive Recruitment reported fee revenue of \$140.1 million, an increase of \$12.3 million, or 10%, in the three months ended October 31, 2013 compared to \$127.8 million in the year-ago quarter. As detailed below, Executive Recruitment fee revenue increased in all regions in the three months ended October 31, 2013 compared to the year-ago quarter. The increase in Executive Recruitment fee revenue was mainly due to a 12% increase in the number of Executive Recruitment engagements billed in the three months ended October 31, 2013 as compared to the three months ended October 31, 2012, offset by a 2% decrease in the weighted-average fees billed during the same period. Exchange rates unfavorably impacted fee revenue by \$1.7 million in the three months ended October 31, 2013.

North America reported fee revenue of \$75.2 million, an increase of \$5.8 million, or 8%, in the three months ended October 31, 2013 compared to \$69.4 million in the year-ago quarter. North America's increase in fee revenue is primarily due to a 10% increase in the number of engagements billed, offset by a 2% decrease in the weighted-average fees billed per engagement during the three months ended October 31, 2013 as compared to the year-ago quarter. The overall increase in fee revenue was primarily driven by increases in fee revenue in the life sciences/healthcare, technology and financial services sectors, partially offset by a decline in the industrial and consumer goods sectors. Exchange rates unfavorably impacted fee revenue by \$0.4 million in the three months ended October 31, 2013.

EMEA reported fee revenue of \$34.2 million, an increase of \$1.0 million, or 3%, in the three months ended October 31, 2013 compared to \$33.2 million in the year-ago quarter. EMEA's increase in fee revenue was primarily driven by a 5% increase in the number of engagements billed, offset by a 2% decrease in the weighted-average fees billed per engagement in the three months ended October 31, 2013 as compared to the year-ago quarter. The performance in existing offices in the Netherlands, Belgium, Italy and Austria were the primary contributors to the increase in fee revenue, in the three months ended October 31, 2013 compared to the year-ago quarter. In terms of business sectors, industrial and life sciences/healthcare experienced the largest increases in fee revenue, offset by a decrease in the financial services and consumer goods sectors in the three months ended October 31, 2013 as compared to the year-ago quarter. Exchange rates favorably impacted fee revenue by \$0.7 million in the three months ended October 31, 2013.

Asia Pacific reported fee revenue of \$21.8 million, an increase of \$3.5 million, or 19%, in the three months ended October 31, 2013 compared to \$18.3 million in the year-ago quarter. The increase in fee revenue was mainly due to a 27% increase in the number of engagements billed, offset by a 6% decrease in weighted-average fees billed per engagement in the three months ended October 31, 2013 compared to the year-ago quarter. The increase in performance in Singapore, China and Hong Kong were the primary contributors to the increase in fee revenue in the three months ended October 31, 2013 compared to the year-ago quarter. The largest increases in fee revenue were experienced in the life sciences/healthcare, industrial and consumer goods sectors in the three months ended October 31, 2013 as compared to the year-ago quarter, partially offset by a decrease in the technology sector. Exchange rates unfavorably impacted fee revenue by \$1.2 million in the three months ended October 31, 2013.

South America reported fee revenue of \$8.9 million, an increase of \$2.0 million, or 29%, in the three months ended October 31, 2013 compared to \$6.9 million in the year-ago quarter. The increase in fee revenue was mainly due to a 14% increase in the weighted-average fees billed per engagement, and a 13% increase in the number of engagements billed in the three months ended October 31, 2013 compared to the year-ago quarter. The increase in performance in Brazil, and Venezuela were the primary contributors to the increase in fee revenue in the three months ended October 31, 2013 compared to the year-ago quarter. Life sciences/healthcare, technology and consumer goods were the main sectors contributing to the increase in fee revenue in the three months ended October 31, 2013 compared to the year-ago quarter, partially offset by a decrease in fee revenue in the financial services and industrial sector during the same period. Exchange rates unfavorably impacted fee revenue for South America by \$0.8 million in the three months ended October 31, 2013.

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*Leadership & Talent Consulting.* Leadership & Talent Consulting reported fee revenue of \$66.0 million, an increase of \$27.6 million, or 72%, in the three months ended October 31, 2013 compared to \$38.4 million in the year-ago quarter. Excluding \$28.1 million of fee revenue contributed from prior year acquisitions, fee revenue decreased \$0.5 million, or 2% compared to the year-ago quarter. Fee revenue decreased due to a decrease in consulting fee revenue of \$1.2 million, or 5%, in the three months ended October 31, 2013 compared to the year-ago quarter, partially offset by an increase in product revenue of \$0.7 million during the same period. Exchange rates unfavorably impacted fee revenue by \$0.4 million in the three months ended October 31, 2013.

*Futurestep.* Futurestep reported fee revenue of \$31.9 million, an increase of \$1.9 million, or 6%, in the three months ended October 31, 2013 compared to \$30.0 million in the year-ago quarter. The increase in Futurestep's fee revenue was due to a 4% increase in the number of engagements billed and a 2% increase in the weighted-average fees billed per engagement in the three months ended October 31, 2013 compared to the year-ago quarter. The increase in fee revenue was also positively impacted by an increase in the level of activity for existing clients in the three months ended October 31, 2013 as compared to the year-ago quarter. Improvement in Futurestep fee revenue was primarily driven by increases in recruitment process outsourcing and non-executive and other professional recruitment. Exchange rates unfavorably impacted fee revenue by \$0.5 million in the three months ended October 31, 2013.

### ***Compensation and Benefits***

Compensation and benefits expense increased \$28.2 million, or 21%, to \$161.3 million in the three months ended October 31, 2013 from \$133.1 million in the year-ago quarter. The increase in compensation and benefits expense was mainly due to the acquisitions of PDI and Global Novations, which contributed \$13.4 million and \$1.1 million, respectively, to compensation and benefits expense. The remainder of the increase was due in large part to an increase in performance related bonus expense of \$8.3 million and an increase in salaries and related payroll taxes of \$2.9 million. The increase in performance related bonus expense was due to an increase in fee revenue and pre-bonus earnings while the increase in salaries and related payroll expense was due to an increase in average headcount for the three months ended October 31, 2013 compared to the year-ago quarter in both Futurestep and Leadership & Talent Consulting. In addition, there was a \$1.9 million increase in the fair value of amounts owed under certain deferred compensations plans and an increase in separation costs of \$0.8 million. Exchange rates favorably impacted compensation and benefits expenses by \$1.8 million during the three months ended October 31, 2013.

The changes in the fair value of vested amounts owed under certain deferred compensation plans increased compensation and benefits expense by \$3.4 million in the three months ended October 31, 2013 compared to \$1.5 million in the year-ago quarter. Offsetting these changes in compensation and benefits expense was an increase in the fair value of marketable securities classified as trading (held in trust to satisfy obligations under certain deferred compensation liabilities) of \$4.4 million and \$1.9 million in the three months ended October 31, 2013 and 2012, respectively, recorded in other income, net on the consolidated statement of income.

Executive Recruitment compensation and benefits expense increased \$6.8 million, or 8%, to \$93.6 million in the three months ended October 31, 2013 compared to \$86.8 million in the year-ago quarter. This increase was primarily due to an increase of \$6.4 million in performance related bonus expense due to the increase in revenue and pre-bonus earnings, a \$1.5 million increase in the fair value of vested amounts owed under certain deferred compensation plans, offset by a decrease of \$0.8 million in separation costs and a decrease of \$0.4 million in salaries and related payroll taxes due to the restructuring that took place in fiscal 2013. Executive Recruitment compensation and benefits expense as a percentage of fee revenue decreased to 67% in the three months ended October 31, 2013 from 68% in the three months ended October 31, 2012.

Leadership & Talent Consulting compensation and benefits expense increased \$18.1 million, or 90%, to \$38.2 million in the three months ended October 31, 2013 from \$20.1 million in the year-ago quarter. The increase was primarily due to the acquisitions of PDI and Global Novations. Excluding PDI and Global Novations, compensation and benefits expense increased \$3.6 million, or 21% in the three months ended October 31, 2013 compared to the year-ago quarter. The increase was driven by an increase in salaries and related payroll taxes of \$1.9 million and an increase in performance related bonus expense of \$1.8 million. The increase in both the salaries and related payroll taxes and performance related bonus expense was due to a 15% increase in the average headcount (excluding prior year acquisitions) during the three months ended October 31, 2013 compared to the year-ago quarter. Leadership & Talent Consulting compensation and benefits expense as a percentage of fee revenue increased to 58% in the three months ended October 31, 2013 from 52% in the three months ended October 31, 2012.

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Futurestep compensation and benefits expense increased \$1.9 million, or 9%, to \$22.5 million in the three months ended October 31, 2013 from \$20.6 million in the year-ago quarter. The increase was primarily driven by an increase in the salaries and related payroll taxes of \$1.2 million, and an increase in outside contractors of \$0.8 million. The increase in salaries and related payroll taxes was due to a 13% increase in the average headcount, primarily associated with an increase in staffing to accommodate a number of larger RPO contracts won by the Company in the quarter and for which delivery will occur in subsequent periods. Futurestep compensation and benefits expense as a percentage of fee revenue increased to 70% in the three months ended October 31, 2013 from 68% in the three months ended October 31, 2012.

Corporate compensation and benefits expense increased \$1.4 million, or 25%, to \$7.0 million in the three months ended October 31, 2013 from \$5.6 million in the year-ago quarter mainly due to an increase in separation charges of \$1.8 million, and an increase of \$1.0 million in the performance related bonus expense due to the overall profitability of the Company during the three months ended October 31, 2013 compared to the year-ago quarter, offset by a change in the cash surrender value (“CSV”) of company owned life insurance (“COLI”). The change in CSV of COLI reduced compensation and benefits expense by \$3.3 million and \$1.5 million in the three months ended October 31, 2013 and 2012, respectively. The increase in CSV of COLI was due to an increase in the underlying investments due to market changes. COLI is held to fund other deferred compensation retirement plans. (see Note 6 — *Deferred Compensation and Retirement Plans*, included in the Notes to our Consolidated Financial Statements)

### **General and Administrative Expenses**

General and administrative expenses increased \$2.4 million, or 7%, to \$35.8 million in the three months ended October 31, 2013 compared to \$33.4 million in the year-ago quarter. The increase is attributable to the acquisitions of PDI and Global Novations, which resulted in an increase in general and administrative expense of \$3.6 million. Excluding costs attributable to prior year acquisitions, general and administrative expenses decreased by \$1.2 million due to an increase in foreign exchange gain of \$0.7 million and decreases in bad debt expense and marketing and business development expenses of \$0.3 million and \$0.3 million, respectively, in the three months ended October 31, 2013 compared to the year-ago quarter. The decrease in marketing and business development expenses was due to ongoing cost control initiatives. General and administrative expenses as a percentage of fee revenue was 15% in the three months ended October 31, 2013 compared to 17% in the three months ended October 31, 2012.

Executive Recruitment general and administrative expenses decreased \$1.1 million, or 6%, to \$16.1 million in the three months ended October 31, 2013 from \$17.2 million in the year-ago quarter. The decrease in general and administrative expenses was driven by favorable foreign exchange rates, resulting in a gain of \$0.7 million in the three months ended October 31, 2013 compared to the year-ago quarter and a decrease in premise and office expense of \$0.7 million, offset by an increase in travel expenses of \$0.4 million. The decrease in premise and office expense was due to sharing of more office space with Leadership & Talent Consulting due to the implementation of the restructuring plans that took place in fiscal 2013. Executive Recruitment general and administrative expenses as a percentage of fee revenue was 12% in the three months ended October 31, 2013 compared to 13% in the three months ended October 31, 2012.

Leadership & Talent Consulting general and administrative expenses increased \$3.6 million, or 75%, to \$8.4 million in the three months ended October 31, 2013 from \$4.8 million in the year-ago quarter. The acquisitions of PDI and Global Novations contributed \$3.6 million to the increase in general and administrative expenses. Leadership & Talent Consulting general and administrative expenses as a percentage of fee revenue was 13% in both the three months ended October 31, 2013 and 2012.

Futurestep general and administrative expenses increased \$0.2 million, or 4%, to \$4.8 million in the three months ended October 31, 2013 compared to \$4.6 million in the year-ago quarter. Futurestep general and administrative expenses as a percentage of fee revenue was 15% in both the three months ended October 31, 2013 and 2012.

Corporate general and administrative expenses decreased \$0.3 million, or 4%, to \$6.5 million in the three months ended October 31, 2013 compared to \$6.8 million in the year-ago quarter. The decrease in general and administrative expenses was driven by a decrease of \$0.4 million in business development expenses in the three months ended October 31, 2013 compared to the year-ago quarter.

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### ***Cost of Services Expense***

Cost of services expense consist primarily of non-billable contractor and product costs related to the delivery of various services and products. Cost of services expense increased \$3.9 million, or 54%, to \$11.1 million in the three months ended October 31, 2013 compared to \$7.2 million in the year-ago quarter. The increase is attributable to the acquisitions of PDI and Global Novations which resulted in an increase in cost of services expense of \$3.8 million. Cost of services expense as a percentage of fee revenue was 5% in the three months ended October 31, 2013 compared to 4% in the three months ended October 31, 2012.

### ***Depreciation and Amortization Expenses***

Depreciation and amortization expenses were \$6.6 million, an increase of \$2.4 million in the three months ended October 31, 2013 compared to \$4.2 million in the year-ago quarter. The increase is mainly attributable to the acquisitions of PDI and Global Novations which resulted in an increase in depreciation and amortization expense of \$1.9 million, due to the increase in fixed assets and intangible assets from the acquisitions. This expense relates mainly to computer equipment, software, furniture and fixtures, leasehold improvements, and intangible assets.

### ***Restructuring Charges, Net***

No restructuring charges, net were incurred during the three months ended October 31, 2013. During the three months ended October 31, 2012, we implemented a restructuring plan in order to rationalize our cost structure in response to anticipated revenue levels. As a result, we recorded \$16.5 million of restructuring charges with \$11.3 million of severance costs to align our work force to current levels of business activities at that time and \$5.2 million relating to the consolidation of premises during the three months ended October 31, 2012. This restructuring expense was partially offset by a \$1.0 million recovery (legal settlement related to premises) from a previous restructuring action resulting in net restructuring costs of \$15.5 million.

### ***Operating Income***

Operating income increased \$20.4 million to \$23.2 million in the three months ended October 31, 2013 as compared to \$2.8 million in the year-ago quarter. This increase in operating income resulted from a \$41.8 million increase in fee revenue, and a decrease in restructuring charges, net of \$15.5 million, offset by an increase in compensation and benefits expense of \$28.2 million, \$3.9 million in cost of services expense, an increase in general administrative expenses and depreciation and amortization of \$2.4 million and \$2.4 million, respectively, during the three months ended October 31, 2013 as compared to the year-ago quarter.

Executive Recruitment operating income increased \$17.6 million to \$28.1 million in the three months ended October 31, 2013 as compared to \$10.5 million in the year-ago quarter. The increase in Executive Recruitment operating income is attributable to an increase of \$12.3 million in fee revenue, a decrease of \$10.7 million in restructuring charges, net, and a decrease of \$1.1 million in general and administrative expenses, offset by an increase of \$6.8 million in compensation and benefits expense during the three months ended October 31, 2013 as compared to the year-ago quarter. Executive Recruitment operating income as a percentage of fee revenue was 20% in the three months ended October 31, 2013 as compared to 8% in the three months ended October 31, 2012.

LTC operating income increased \$0.8 million to \$7.0 million in the three months ended October 31, 2013 as compared to \$6.2 million in the year-ago quarter. Operating income changed due to an increase of \$27.6 million in fee revenue, offset by an increase of operating expenses of \$26.8 million, during the three months ended October 31, 2013 as compared to the year-ago quarter. LTC operating income as a percentage of fee revenue was 11% in the three months ended October 31, 2013 as compared to 16% in the three months ended October 31, 2012.

Futurestep operating income increased by \$2.4 million to \$2.6 million in the three months ended October 31, 2013 from \$0.2 million in the year-ago quarter. The increase in Futurestep operating income was primarily due to an increase in fee revenue of \$1.9 million and a decrease of \$3.1 million in restructuring charges, offset by an increase of \$1.9 million, \$0.4

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million and \$0.2 million in compensation and benefits expense, cost of services expense and general and administrative expenses during the three months ended October 31, 2013 as compared to the year-ago quarter. Futurestep operating income as a percentage of fee revenue was 8% in the three months ended October 31, 2013 as compared to 1% in the three months ended October 31, 2012.

### ***Adjusted EBITDA***

Adjusted EBITDA increased \$12.3 million to \$36.7 million in the three months ended October 31, 2013 as compared to \$24.4 million in the year-ago quarter. This increase in Adjusted EBITDA resulted from an increase of \$41.8 million in fee revenue and an increase of \$2.8 million in other income, mainly due to an increase in the market value of mutual funds held in trust for settlement of our obligations under certain deferred compensation plans during the three months ended October 31, 2013 as compared to the year-ago quarter, offset by an increase in compensation and benefits expense (excluding certain separation costs), cost of services expense and general and administrative expenses of \$26.2 million, \$3.9 million and \$2.4 million, respectively. Adjusted EBITDA as a percentage of fee revenue was 15% in the three months ended October 31, 2013 as compared to 12% in the three months ended October 31, 2012.

Executive Recruitment Adjusted EBITDA increased \$7.5 million to \$30.7 million in the three months ended October 31, 2013 as compared to \$23.2 million in the year-ago quarter. The increase in Executive Recruitment Adjusted EBITDA is attributable to an increase of \$12.3 million in fee revenue, a decrease of \$1.1 million in general and administrative expenses, and an increase in other income of \$0.6 million during the three months ended October 31, 2013 as compared to the year-ago quarter, offset by an increase of \$6.8 million in compensation and benefits expense during the three months ended October 31, 2013 as compared to the year-ago quarter. Executive Recruitment Adjusted EBITDA as a percentage of fee revenue was 22% in the three months ended October 31, 2013 as compared to 18% in the year-ago quarter.

LTC Adjusted EBITDA increased by \$2.3 million to \$10.3 million in the three months ended October 31, 2013 as compared to \$8.0 million in the year-ago quarter. The increase in LTC Adjusted EBITDA is primarily due to an increase of \$27.6 million in fee revenue, offset by an increase of \$18.1 million, \$3.6 million and \$3.6 million in compensation and benefits expense, general and administrative expenses and cost of services expense, respectively, during the three months ended October 31, 2013 as compared to the year-ago quarter. LTC Adjusted EBITDA as a percentage of fee revenue was 15% in the three months ended October 31, 2013 as compared to 21% in the year-ago quarter.

Futurestep Adjusted EBITDA decreased by \$0.6 million to \$3.0 million in the three months ended October 31, 2013 as compared to \$3.6 million in the year-ago quarter. The decrease in Futurestep Adjusted EBITDA was primarily due to an increase of \$1.9 million, \$0.4 million and \$0.2 million in compensation and benefits expense, cost of services expense, and general and administrative expenses, offset by an increase in fee revenue of \$1.9 million during the three months ended October 31, 2013 as compared to the year-ago quarter. Futurestep Adjusted EBITDA as a percentage of fee revenue was 9% in the three months ended October 31, 2013 as compared to 12% in the year-ago quarter.

### ***Other Income, Net***

Other income, net increased by \$2.8 million, to income of \$4.3 million in the three months ended October 31, 2013 as compared to income of \$1.5 million in the year-ago quarter. The increase in other income, net reflects a \$2.5 million change in the increase in the market value of mutual funds held in trust for settlement of our obligations under certain deferred compensation plans (see Note 6 — *Deferred Compensation and Retirement Plans*, included in the consolidated financial statements) during the three months ended October 31, 2013 as compared to the year-ago quarter. During the three months ended October 31, 2013, there was a \$1.9 million increase in certain deferred compensation retirement plan liabilities (see Note 6 — *Deferred Compensation and Retirement Plans*, included in the consolidated financial statements) which resulted in an increase in compensation and benefits expense.

### ***Interest Expense, Net***

Interest expense, net primarily relates to borrowings under our COLI policies, which is partially offset by interest earned on cash and cash equivalent balances. Interest expense, net was \$0.6 million in the three months ended October 31, 2013 as compared to \$0.8 million in the year-ago quarter.



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### ***Income Tax Provision***

The provision for income taxes was \$8.6 million in the three months ended October 31, 2013 compared to \$2.7 million in the year-ago quarter. The provision for income taxes in the three months ended October 31, 2013 and 2012 reflects a 32% and 76% effective tax rate, respectively. The effective tax rate for the three months ended October 31, 2012 was negatively impacted by increasing losses, primarily as a result of restructuring costs discrete to the three months ended October 31, 2012, in countries where no tax benefits can be recognized. The effective tax rate for the three months ended October 31, 2013 was not impacted by such costs and was further benefitted by a higher percentage of taxable income arising in jurisdictions with lower statutory tax rates.

### ***Equity in Earnings of Unconsolidated Subsidiaries***

Equity in earnings of unconsolidated subsidiaries is comprised of our less than 50% interest in our Mexican subsidiary and IGroup, LLC. We report our interest in earnings or loss of our Mexican subsidiary and IGroup, LLC on the equity basis as a one-line adjustment to net income. Equity in earnings was \$0.5 million and \$0.4 million in the three months ended October 31, 2013 and 2012, respectively.

## **Six Months Ended October 31, 2013 Compared to Six Months Ended October 31, 2012**

### ***Fee Revenue***

*Fee Revenue.* Fee revenue increased \$83.5 million, or 22%, to \$466.4 million in the six months ended October 31, 2013 compared to \$382.9 million in the six months ended October 31, 2012. The prior year acquisitions contributed \$56.6 million in fee revenue in our Leadership & Talent Consulting segment. Excluding the prior year acquisitions, fee revenue increased \$26.9 million, or 7% (8% on a constant currency basis), compared to the year-ago period. This increase in fee revenue was primarily attributable to an increase in fee revenue in Executive Recruitment, and to a lesser extent, an increase in Leadership & Talent Consulting and Futurestep fee revenue. Exchange rates unfavorably impacted fee revenue by \$4.4 million in the six months ended October 31, 2013.

*Executive Recruitment.* Executive Recruitment reported fee revenue of \$276.7 million, an increase of \$21.5 million, or 8%, in the six months ended October 31, 2013 compared to \$255.2 million in the six months ended October 31, 2012. As detailed below, Executive Recruitment fee revenue increased in all regions in the six months ended October 31, 2013 compared to the six months ended October 31, 2012. The increase in Executive Recruitment fee revenue was mainly due to a 7% increase in the number of Executive Recruitment engagements billed in the six months ended October 31, 2013 compared to the six months ended October 31, 2012 and a 1% increase in the weighted-average fees billed during the same period. Exchange rates unfavorably impacted fee revenue by \$3.0 million in the six months ended October 31, 2013.

North America reported fee revenue of \$149.3 million, an increase of \$7.8 million, or 5%, in the six months ended October 31, 2013 compared to \$141.5 million in the six months ended October 31, 2012. North America's increase in fee revenue is primarily due to a 4% increase in the number of engagements billed and a 2% increase in the weighted-average fees billed per engagement during the six months ended October 31, 2013 compared to the year-ago period. The overall increase in fee revenue was primarily driven by increases in fee revenue in the life sciences/healthcare, financial services and consumer goods sectors, partially offset by a decline in the industrial sector. Exchange rates unfavorably impacted fee revenue by \$0.6 million in the six months ended October 31, 2013.

EMEA reported fee revenue of \$68.6 million, an increase of \$5.6 million, or 9%, in the six months ended October 31, 2013 compared to \$63.0 million in the six months ended October 31, 2012. EMEA's increase in fee revenue was primarily driven by a 6% increase in the number of engagements billed and a 3% increase in the weighted-average fees billed per engagement in the six months ended October 31, 2013 compared to the year-ago period. The performance in existing offices in the United Kingdom, Germany, Netherlands and Belgium were the primary contributors to the increase in fee revenue, in the six months ended October 31, 2013 compared to the year-ago period. In terms of business sectors, industrial, technology, life sciences/healthcare and financial services experienced the largest increases in fee revenue, offset by a decrease in the consumer goods sector in the six months ended October 31, 2013 compared to the year-ago period. Exchange rates favorably impacted fee revenue by \$0.8 million in the six months ended October 31, 2013.

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Asia Pacific reported fee revenue of \$42.9 million, an increase of \$7.2 million, or 20%, in the six months ended October 31, 2013 compared to \$35.7 million in the six months ended October 31, 2012. The increase in fee revenue was mainly due to a 16% increase in the number of engagements billed and a 3% increase in weighted-average fees billed per engagement in the six months ended October 31, 2013 compared to the year-ago period. The increase in performance in Singapore, China, Australia and Japan were the primary contributors to the increase in fee revenue. The largest increases in fee revenue were experienced in the life sciences/healthcare, industrial, financial services and consumer goods sectors in the six months ended October 31, 2013 compared to the year-ago period, partially offset by a decrease in the technology sector. Exchange rates unfavorably impacted fee revenue by \$1.9 million in the six months ended October 31, 2013.

South America reported fee revenue of \$15.9 million, an increase of \$0.9 million, or 6%, in the six months ended October 31, 2013 compared to \$15.0 million in the six months ended October 31, 2012. The increase in fee revenue was mainly due to a 10% increase in the number of engagements billed, offset by a 4% decrease in the weighted-average fees billed per engagement in the six months ended October 31, 2013 compared to year-ago period. The increase in performance in Brazil and Venezuela were the primary contributors to the increase in fee revenue, offset by a decrease in fee revenue in Chile and Peru. Life sciences/healthcare, consumer goods and technology were the main sectors contributing to the increase in fee revenue in the six months ended October 31, 2013 compared to the year-ago period, partially offset by a decrease in fee revenue in the industrial and financial services sector during the same period. Exchange rates unfavorably impacted fee revenue for South America by \$1.3 million in the six months ended October 31, 2013.

*Leadership & Talent Consulting.* Leadership & Talent Consulting reported fee revenue of \$126.1 million, an increase of \$59.3 million, or 89%, in the six months ended October 31, 2013 compared to \$66.8 million in the six months ended October 31, 2012. Excluding \$56.6 million of fee revenue from the prior year acquisitions, fee revenue increased during the six months ended October 31, 2013 by \$2.7 million, or 4% compared to the year-ago period. Fee revenue increased due to an increase in consulting fee revenue of \$2.1 million, or 4%, in the six months ended October 31, 2013 compared to the year-ago period and an increase in product revenue of \$0.6 million during the same period. Exchange rates unfavorably impacted fee revenue by \$0.7 million in the six months ended October 31, 2013.

*Futurestep.* Futurestep reported fee revenue of \$63.6 million, an increase of \$2.7 million, or 4%, in the six months ended October 31, 2013 compared to \$60.9 million in the six months ended October 31, 2012. The increase in Futurestep's fee revenue was due to a 7% increase in the weighted-average fees billed per engagement, offset by a 3% decrease in the number of engagements billed in the six months ended October 31, 2013 compared to the year-ago period. The increase in fee revenue was also positively impacted by an increase in the level of activity for existing clients in the six months ended October 31, 2013 as compared to the year-ago period. Improvement in Futurestep fee revenue was primarily driven by increases in recruitment process outsourcing and non-executive and other professional recruitment. Exchange rates unfavorably impacted fee revenue by \$0.7 million in the six months ended October 31, 2013.

### ***Compensation and Benefits***

Compensation and benefits expense increased \$53.0 million, or 20%, to \$314.1 million in the six months ended October 31, 2013 from \$261.1 million in the six months ended October 31, 2012. The increase in compensation and benefits expense was mainly due to the acquisitions of PDI and Global Novations, which contributed \$26.5 million and \$5.2 million, respectively, to compensation and benefits expense. Also contributing to the increase in compensation and benefits expense was an increase in performance related bonus expense of \$12.0 million (excluding prior year acquisitions) due to the mix in pre-bonus earnings before restructuring expense by operating segment for the six months ended October 31, 2013 compared to the year-ago period. In addition, there was a \$4.5 million increase in the fair value of amounts owed under certain deferred compensations plans, \$3.9 million increase in salaries and related payroll taxes, separation costs of \$3.5 million offset by the change in the cash surrender value of the company owned life insurance that decreased compensation and benefits expense by \$2.4 million in the six months ended October 31, 2013 compared to the year-ago period. The increase in salaries and related payroll taxes was due to an increase in the average headcount for the six months ended October 31, 2013 compared to the year-ago period due in large part to an increase in headcount in Futurestep and Leadership & Talent Consulting. Exchange rates favorably impacted compensation and benefits expenses by \$2.8 million during the six months ended October 31, 2013.

The changes in the fair value of vested amounts owed under certain deferred compensation plans increased compensation and benefits expense by \$5.0 million in the six months ended October 31, 2013 compared to \$0.5 million in compensation and benefits expense in the six months ended October 31, 2012. Offsetting these changes in compensation and benefits

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expense was an increase in the fair value of marketable securities classified as trading (held in trust to satisfy obligations under certain deferred compensation liabilities) of \$6.4 million and \$1.1 million in the six months ended October 31, 2013 and 2012, respectively, recorded in other income, net on the consolidated statement of income.

Executive Recruitment compensation and benefits expense increased \$10.6 million, or 6%, to \$182.0 million in the six months ended October 31, 2013 compared to \$171.4 million in the six months ended October 31, 2012. This increase is primarily due to an increase of \$11.1 million in performance related bonus expense due to the increase in pre-bonus earnings before restructuring, a \$3.8 million increase in the fair value of vested amounts owed under certain deferred compensation plans, offset by a decrease of \$2.2 million in salaries and related payroll taxes due to the restructuring that took place in fiscal 2013, \$1.3 million decrease in employee insurance costs and a decrease of \$0.7 million in separation costs. Executive Recruitment compensation and benefits expense decreased as a percentage of fee revenue to 66% in the six months ended October 31, 2013 from 67% in the six months ended October 31, 2012.

Leadership & Talent Consulting compensation and benefits expense increased \$36.9 million, or 104%, to \$72.3 million in the six months ended October 31, 2013 from \$35.4 million in the six months ended October 31, 2012. The increase was primarily due to the acquisitions of PDI and Global Novations. Excluding PDI and Global Novations, compensation and benefits expense increased \$5.2 million, or 16% in the six months ended October 31, 2013 compared to the year-ago period. The increase was driven by an increase in salaries and related payroll taxes of \$3.2 million and an increase of \$1.9 million in performance related bonus expense, both increases due to a 10% increase in the average headcount (excluding prior year acquisitions) during the six months ended October 31, 2013 compared to the year-ago period. Leadership & Talent Consulting compensation and benefits expense as a percentage of fee revenue increased to 57% in the six months ended October 31, 2013 from 53% in the six months ended October 31, 2012.

Futurestep compensation and benefits expense increased \$1.7 million, or 4%, to \$43.8 million in the six months ended October 31, 2013 from \$42.1 million in the six months ended October 31, 2012. The increase was driven by an increase in temporary contractors of \$1.9 million primarily associated with an increase in staffing to accommodate a number of larger RPO contracts won by the Company in the six months ended October 31, 2013 and for which delivery will occur in subsequent periods. Futurestep compensation and benefits expense as a percentage of fee revenue was 69% in the six months ended October 31, 2013 and 2012.

Corporate compensation and benefits expense increased \$3.8 million, or 31%, to \$16.0 million in the six months ended October 31, 2013 from \$12.2 million in the six months ended October 31, 2012 mainly due to an increase of \$4.4 million in separation charges, \$1.0 million increase in performance related bonus expense as a result of the increase in the Company's overall profitability, and \$0.4 million increase in the fair value of vested amounts owed under certain deferred compensation plans. The increase in compensation and benefits expense was offset by the change in the cash surrender value ("CSV") of company owned life insurance ("COLI"). The change in CSV of COLI reduced compensation and benefits expense by \$4.6 million and \$2.2 million in the six months ended October 31, 2013 and 2012, respectively. The larger increase in CSV of COLI in the six months ended October 31, 2013 was due to a larger increase in the underlying investments due to market changes. COLI is held to fund other deferred compensation retirement plans.

### *General and Administrative Expenses*

General and administrative expenses increased \$8.9 million, or 13%, to \$75.7 million in the six months ended October 31, 2013 compared to \$66.8 million in the six months ended October 31, 2012. The increase is attributable to the acquisitions of PDI and Global Novations, which resulted in an increase in general and administrative expense of \$7.3 million and \$0.8 million, respectively. Also contributing to the increase in general and administrative expenses was an increase in legal and other professional fees of \$1.5 million, offset by a favorable foreign exchange rate that resulted in a foreign exchange gain of \$0.5 million in the six months ended October 31, 2013 compared to foreign exchange loss of \$0.2 million during the six months ended October 31, 2012. General and administrative expenses as a percentage of fee revenue was 16% in the six months ended October 31, 2013 compared to 17% in the six months ended October 31, 2012.

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Executive Recruitment general and administrative expenses decreased \$2.7 million, or 8%, to \$33.0 million in the six months ended October 31, 2013 from \$35.7 million in the six months ended October 31, 2012. The decrease in general and administrative expenses was driven by favorable foreign exchange rates, resulting in a gain of \$1.0 million in the six months ended October 31, 2013 compared to the year-ago period, a decrease in premise and office expenses and legal and other professional services of \$0.9 million and \$0.8 million, respectively. The decrease in premise and office expenses was due to sharing more office space with Leadership & Talent Consulting due to the implementation of the restructuring plans that took place in fiscal 2013. Executive Recruitment general and administrative expenses as a percentage of fee revenue was 12% in the six months ended October 31, 2013 compared to 14% in the six months ended October 31, 2012.

Leadership & Talent Consulting general and administrative expenses increased \$8.7 million, or 95%, to \$17.9 million in the six months ended October 31, 2013 from \$9.2 million in the six months ended October 31, 2012. The acquisitions of PDI and Global Novations contributed \$8.1 million to the increase in general and administrative expenses. Also contributing to the increase in general and administrative expenses, was an increase of \$0.4 million in business development expenses and an increase in premise and office expenses of \$0.2 million. The increase in business development expenses was due to marketing events that LTC participated in order to support the business. Leadership & Talent Consulting general and administrative expenses as a percentage of fee revenue was 14% in both the six months ended October 31, 2013 and 2012.

Futurestep general and administrative expenses increased \$0.3 million, or 3%, to \$9.7 million in the six months ended October 31, 2013 compared to \$9.4 million in the six months ended October 31, 2012. The increase in general and administrative expenses was driven by an increase in business development expenses of \$0.3 million primarily due to increases in marketing expenses in order to support growth in the business. Futurestep general and administrative expenses as a percentage of fee revenue were 15% in both the six months ended October 31, 2013 and 2012.

Corporate general and administrative expenses increased \$2.6 million, or 21%, to \$15.1 million in the six months ended October 31, 2013 compared to \$12.5 million in the six months ended October 31, 2012. The increase in general and administrative expenses was driven by an increase of \$1.7 million in legal and other professional fees, \$0.4 million in integration costs as a result of the PDI acquisition and \$0.5 million in premise and office expenses in the six months ended October 31, 2013 compared to the six months ended October 31, 2012.

### ***Cost of Services Expense***

Cost of services expense consist primarily of non-billable contractor and product costs related to the delivery of various services and products. Cost of services expense increased \$8.9 million, or 76%, to \$20.6 million in the six months ended October 31, 2013 compared to \$11.7 million in the six months ended October 31, 2012. The increase is primarily attributable to the acquisitions of PDI and Global Novations which resulted in an increase in cost of services expense of \$6.5 million and \$0.9 million, respectively. The rest of the increase came from Futurestep and Leadership & Talent Consulting (excluding prior year acquisitions) in order to support future growth in their respective businesses. Cost of services expense as a percentage of fee revenue was 4% in the six months ended October 31, 2013 compared to 3% in the six months ended October 31, 2012.

### ***Depreciation and Amortization Expenses***

Depreciation and amortization expenses were \$12.5 million, an increase of \$4.5 million in the six months ended October 31, 2013 compared to \$8.0 million in the six months ended October 31, 2012. The increase is attributable to the acquisitions of PDI and Global Novations which resulted in an increase in depreciation and amortization expense of \$3.2 million and \$0.7 million, respectively, due to the increase in fixed assets and intangible assets from the acquisitions. This expense relates mainly to computer equipment, software, furniture and fixtures, leasehold improvements, and intangible assets.

### ***Restructuring Charges, Net***

During the six months ended October 31, 2013, we continued with the integration of PDI by consolidating and eliminating redundant office space in select offices and consolidating certain overhead functions. As a result, we recorded \$3.7 million in restructuring charges, net in the six months ended October 31, 2013, of which \$2.9 million relates to consolidation of premise and \$0.8 million relates to severance. During the six months ended October 31, 2012, we implemented a restructuring plan in order to rationalize our cost structure in response to anticipated revenue levels. As a result, we recorded \$16.5 million of restructuring charges with \$11.3 million of severance costs to align our work force to

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current levels of business activities and \$5.2 million relating to the consolidation of premises during the six months ended October 31, 2012. This restructuring expense was partially offset by a \$1.0 million recovery (legal settlement related to premises) from a previous restructuring action resulting in net restructuring costs of \$15.5 million.

### ***Operating Income***

Operating income increased \$20.0 million to \$39.8 million in the six months ended October 31, 2013 as compared to \$19.8 million in the six months ended October 31, 2012. This increase in operating income resulted from an increase in fee revenue of \$83.5 million and a reduction in restructuring expenses of \$11.8 million, offset by an increase in compensation and benefits expense of \$53.0 million, an increase in general administrative expenses of \$8.9 million, an increase in cost of services expense of \$8.9 million, and an increase in depreciation and amortization expenses of \$4.5 million during the six months ended October 31, 2013 as compared to the six months ended October 31, 2012.

Executive Recruitment operating income increased \$23.5 million to \$56.4 million in the six months ended October 31, 2013 as compared to \$32.9 million in the six months ended October 31, 2012. The increase in Executive Recruitment operating income is attributable to an increase of \$21.5 million in fee revenue and a decrease of \$9.4 million and \$2.7 million in restructuring charges and general and administrative expenses, respectively, offset by an increase of \$10.6 million in compensation and benefits expense during the six months ended October 31, 2013 compared to the year-ago period. Executive Recruitment operating income as a percentage of fee revenue was 20% in the six months ended October 31, 2013 as compared to 13% in the six months ended October 31, 2012.

LTC operating income increased \$0.8 million to \$11.3 million in the six months ended October 31, 2013 as compared to \$10.5 million in the six months ended October 31, 2012. The change in LTC operating income was primarily due to an increase of \$59.3 million in fee revenue, offset by an increase in operating expenses of \$58.5 million, during the six months ended October 31, 2013 compared to the year-ago period. LTC operating income as a percentage of fee revenue was 9% in the six months ended October 31, 2013 as compared to 16% in the six months ended October 31, 2012.

Futurestep operating income increased by \$1.7 million to \$5.1 million in the six months ended October 31, 2013 from \$3.4 million in the six months ended October 31, 2012. The increase in Futurestep operating income was primarily due to an increase in fee revenue of \$2.7 million and a reduction in restructuring charges of \$1.9 million, offset by an increase of \$1.7 million in compensation and benefits expense, an increase in cost of services expense of \$0.8 million, and an increase in depreciation and amortization expenses of \$0.2 million during the six months ended October 31, 2013 compared to the year-ago period. Futurestep operating income as a percentage of fee revenue was 8% in the six months ended October 31, 2013 as compared to 6% in the six months ended October 31, 2012.

### ***Adjusted EBITDA***

Adjusted EBITDA increased \$23.8 million to \$68.6 million in the six months ended October 31, 2013 as compared to \$44.8 million in the six months ended October 31, 2012. This increase in Adjusted EBITDA resulted from an increase of \$83.5 million in fee revenue and an increase of \$6.1 million in other income, mainly due to an increase in the market value of mutual funds held in trust for settlement of our obligations under certain deferred compensation plans during the six months ended October 31, 2013 compared to the year-ago period, offset by an increase in compensation and benefits expense (excluding certain separation costs), cost of services expense, and general and administrative expenses (excluding integration costs), of \$48.5 million, \$8.9 million and \$8.5 million, respectively. Adjusted EBITDA as a percentage of fee revenue was 15% in the six months ended October 31, 2013 as compared to 12% in the six months ended October 31, 2012.

Executive Recruitment Adjusted EBITDA increased \$14.4 million to \$62.5 million in the six months ended October 31, 2013 as compared to \$48.1 million in the six months ended October 31, 2012. The increase in Executive Recruitment Adjusted EBITDA is attributable to an increase of \$21.5 million in fee revenue, an increase of \$0.9 million in other income, mainly due to an increase in the market value of mutual funds held in trust for settlement of our obligations under certain deferred compensation plans and a decrease of \$2.7 million in general and administrative expenses, offset by an increase of \$10.6 million in compensation and benefits expense during the six months ended October 31, 2013 compared to the year-ago period. Executive Recruitment Adjusted EBITDA as a percentage of fee revenue was 23% in the six months ended October 31, 2013 as compared to 19% in the six months ended October 31, 2012.

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LTC Adjusted EBITDA increased by \$5.8 million to \$18.7 million in the six months ended October 31, 2013 as compared to \$12.9 million in the six months ended October 31, 2012. The increase in LTC Adjusted EBITDA is primarily due to an increase of \$59.3 million in fee revenue, offset by an increase of \$36.9 million, \$8.7 million and \$7.9 million in compensation and benefits expense, general and administrative expenses and cost of service expenses, respectively, during the six months ended October 31, 2013 compared to the year-ago period. LTC Adjusted EBITDA as a percentage of fee revenue was 15% in the six months ended October 31, 2013 as compared to 19% in the six months ended October 31, 2012.

Futurestep Adjusted EBITDA increased by \$0.6 million to \$7.7 million in the six months ended October 31, 2013 as compared to \$7.1 million in the six months ended October 31, 2012. The increase in Futurestep Adjusted EBITDA was primarily due to an increase in fee revenue of \$2.7 million, offset by an increase of \$1.7 million, and \$0.8 million in compensation and benefits expense and cost of services expenses, respectively, during the six months ended October 31, 2013 compared to the year-ago period. Futurestep Adjusted EBITDA as a percentage of fee revenue was 12% in both the six months ended October 31, 2013 and 2012.

### ***Other Income, Net***

Other income, net increased by \$6.1 million, to income of \$6.6 million in the six months ended October 31, 2013 as compared to income of \$0.5 million in the six months ended October 31, 2012. The increase in other income, net reflects a \$5.3 million change in the increase in the market value of mutual funds held in trust for settlement of our obligations under certain deferred compensation plans (see Note 6 — *Deferred Compensation and Retirement Plans*, included in the consolidated financial statements) during the six months ended October 31, 2013 compared to the year-ago period. During the six months ended October 31, 2013, there was a \$4.5 million increase in certain deferred compensation retirement plan liabilities (see Note 6 — *Deferred Compensation and Retirement Plans*, included in the consolidated financial statements) during the same period, which resulted in an increase in compensation and benefits expense.

### ***Interest Expense, Net***

Interest expense, net primarily relates to borrowings under our COLI policies, which is partially offset by interest earned on cash and cash equivalent balances. Interest expense, net was \$1.2 million in the six months ended October 31, 2013 as compared to \$1.4 million in the six months ended October 31, 2012.

### ***Income Tax Provision***

The provision for income taxes was \$16.0 million in the six months ended October 31, 2013 compared to \$8.3 million in the six months ended October 31, 2012. The provision for income taxes in the six months ended October 31, 2013 and 2012 reflects a 36% and 44% effective tax rate, respectively. The decrease in the effective tax rate for the six months ended October 31, 2013 is due to a higher percentage of taxable income arising in jurisdictions with lower statutory tax rates and lower restructuring costs in jurisdictions in which tax benefits cannot be recognized.

### ***Equity in Earnings of Unconsolidated Subsidiaries***

Equity in earnings of unconsolidated subsidiaries is comprised of our less than 50% interest in our Mexican subsidiary and IGroup, LLC. We report our interest in earnings or loss of our Mexican subsidiary and IGroup, LLC on the equity basis as a one-line adjustment to net income. Equity in earnings was \$1.0 million in both the six months ended October 31, 2013 and 2012.

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### **Liquidity and Capital Resources**

Our performance is subject to the general level of economic activity in the geographic regions and the industries which we service. While we believe, based on current economic conditions, that our cash on hand and funds from operations will be sufficient to meet anticipated working capital, capital expenditures and general corporate requirements during the next twelve months, if the national or global economy, credit market conditions, and/or labor markets were to deteriorate in the future, it is likely that such changes would put negative pressure on demand for our services and affect our operating cash flows. If these conditions were to persist over an extended period of time, we may incur negative cash flows, and it might require us to access our existing credit facility to meet our capital needs.

Cash and cash equivalents and marketable securities were \$314.9 million and \$366.0 million as of October 31, 2013 and April 30, 2013, respectively. As of October 31, 2013 and April 30, 2013, we held \$128.1 million and \$146.8 million, respectively of cash and cash equivalents in foreign locations, substantially all of which is readily convertible into other foreign currencies. If these amounts were distributed to the United States, in the form of dividends, we would be subject to additional U.S. income taxes. The Company has a plan to distribute a portion of the cash held in foreign locations to the United States and has recorded a \$0.9 million deferred tax liability for additional taxes that would arise in connection with these distributions. Cash and cash equivalents consist of cash and highly liquid investments purchased with original maturities of three months or less. Marketable securities consist of mutual funds and investments in corporate bonds and U.S. Treasury and agency securities. The primary objectives of our investment in mutual funds are to meet the obligations under certain of our deferred compensation plans, while the other securities are available for general corporate purposes.

As of October 31, 2013 and April 30, 2013, our marketable securities of \$132.3 million and \$141.9 million, respectively, included \$118.0 million (net of gross unrealized gains of \$9.2 million and gross unrealized losses of \$0.6 million) and \$98.0 million (net of gross unrealized gains of \$3.1 million and no gross unrealized losses), respectively, held in trust for settlement of our obligations under certain deferred compensation plans, of which \$113.5 million and \$93.5 million, respectively, are classified as non-current. Our vested and unvested obligations for which these assets were held in trust totaled \$119.3 million and \$99.2 million as of October 31, 2013 and April 30, 2013, respectively. As of October 31, 2013, we had marketable securities classified as available-for-sale with a balance of \$14.3 million. These securities represent excess cash invested under our investment policy with a professional money manager and are available for general corporate purposes.

The net increase in our working capital of \$42.3 million as of October 31, 2013 compared to April 30, 2013 is primarily attributable to an increase in accounts receivable, a decrease in other accrued liabilities and in compensation and benefits payable, partially offset by a decrease in cash and cash equivalents and marketable securities. Cash and cash equivalents, marketable securities and compensation and benefits payable decreased due to the payment of annual bonuses earned in fiscal 2013 and paid during the first quarter of fiscal 2014 and Company contributions made to the ECAP while accounts receivable increased due to an increase in the number of days sales outstanding which increased from 59 days to 71 days (which is consistent with historical experience) from April 30, 2013 to October 31, 2013. Also contributing to the decrease in cash and cash equivalents and other accrued liabilities was the contingent consideration payment of \$15.0 million made to the selling stockholders of PDI. Cash used in operating activities was \$35.6 million in the six months ended October 31, 2013, a decrease of \$7.7 million, from cash used in operating activities of \$43.3 million in the six months ended October 31, 2012. The decrease in cash used in operating activities is primarily due to an increase in profitability offset by an increase in our days of sales outstanding in the six months ended October 31, 2013 compared to the six months ended October 31, 2012.

Cash used in investing activities was \$7.9 million in the six months ended October 31, 2013; a decrease of \$35.2 million from cash used in investing activities of \$43.1 million in the six months ended October 31, 2012. The decrease in cash used in investing activities is primarily attributable to the acquisition of Global Novations of \$34.4 million in prior year, an increase of \$17.7 million in net proceeds from the purchase and sale/maturities of marketable securities and \$2.9 million in restricted cash that became unrestricted during the six months ended October 31, 2013, as described below, offset by the payment of the contingent consideration to the selling stockholders of PDI of \$15.0 million and an increase in cash used to purchase property and equipment (including capitalized software) of \$4.8 million.

Cash provided in financing activities during the six months ended October 31, 2013 was \$2.0 million as compared to cash used by financing activities of \$1.5 million in the six months ended October 31, 2012. Cash provided in financing activities increased primarily due to an increase of \$2.8 million in cash proceeds from the exercise of employee stock options and a decrease in the cash used to repurchase shares of common stock to satisfy tax withholding requirements upon the vesting of restricted stock by \$0.7 million. As of October 31, 2013, \$24.4 million remained available for common stock repurchases under our stock repurchase program, approved by the Board of Directors on November 2, 2007.

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### ***Cash Surrender Value of Company Owned Life Insurance Policies, Net of Loans***

As of October 31, 2013 and April 30, 2013, we held contracts with gross CSV of \$164.2 million and \$159.2 million, respectively. In fiscal 2014 and 2013, we paid our premiums under our COLI contracts from operating cash, and in prior years, we generally borrowed under our COLI contracts to pay related premiums. Such borrowings do not require annual principal repayments, bear interest primarily at variable rates and are secured by the CSV of COLI contracts. Total outstanding borrowings against the CSV of COLI contracts were \$73.3 million as of October 31, 2013 and April 30, 2013. At October 31, 2013 and April 30, 2013, the net cash value of these policies was \$90.9 million and \$85.9 million, respectively.

### ***Long-Term Debt***

Our senior unsecured revolving Credit Agreement provides for an aggregate availability up to \$75.0 million with an option to increase the facility by an additional \$50.0 million, subject to lender consent, and a \$15.0 million sub-limit for letters of credit (the "Facility"). The Facility matures on January 18, 2018. Borrowings under the Facility bear interest, at our election, at the London Interbank Offered Rate ("LIBOR") plus the applicable margin or the base rate plus the applicable margin. The base rate is the highest of (i) the published prime rate, (ii) the federal funds rate plus 1.50%, or (iii) one month LIBOR plus 1.50%. The applicable margin is based on a percentage per annum determined in accordance with a specified pricing grid based on the total funded debt to adjusted EBITDA ratio. For LIBOR loans, the applicable margin will range from 0.50% to 1.50% per annum, while for base rate loans the applicable margin will range from 0.00% to 0.25% per annum. We are required to pay a quarterly commitment fee of 0.25% to 0.35% on the Facility's unused commitments based on the Company's funded debt to adjusted EBITDA ratio. The financial covenants include a maximum consolidated funded debt to adjusted EBITDA ratio, and a minimum adjusted EBITDA, each as defined in the Credit Agreement. As of October 31, 2013, we complied with the financial covenants. In addition, there is a domestic liquidity requirement that we maintain \$50 million in unrestricted cash and/or marketable securities (excluding any marketable securities that are held in trust for the settlement of our obligations under certain deferred compensation plans) as a condition to consummating permitted acquisitions, paying dividends to our stockholders and shares repurchases of our common stock. We are permitted to pay up to \$50.0 million in dividends in any fiscal year (subject to the satisfaction of certain conditions), which amount is further limited by any shares repurchased and any consideration paid with respect to acquisitions during such fiscal year.

As of October 31, 2013 and April 30, 2013, we had no borrowings under the Facility. At October 31, 2013 and April 30, 2013, there was \$2.7 million of standby letters of credit issued associated with certain lease premises. As of April 30, 2013, under our previous secured senior credit agreement, we were required to maintain \$2.9 million in restricted cash to provide collateral for the standby letters of credit that remain outstanding. During the six months ended October 31, 2013 we transferred the standby letters of credit to the Facility. Since there is no restricted cash requirement under the Facility, the Company has no restricted cash balance as of October 31, 2013.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements and have not entered into any transactions involving unconsolidated, special purpose entities. We had no material changes in contractual obligations as of October 31, 2013, as compared to those disclosed in our table of contractual obligations included in our Annual Report.

### **Critical Accounting Policies**

Preparation of this Quarterly Report on Form 10-Q 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 and changes in the estimates are reported in current operations. In preparing our interim consolidated financial statements and accounting for the underlying transactions and balances, we apply our accounting policies as disclosed in the notes to our consolidated financial statements. We consider the policies related to revenue recognition, performance related bonus, deferred compensation, and the carrying values of receivables, marketable securities, goodwill, intangible assets, fair value of contingent consideration and recoverability of deferred income taxes as critical to an understanding of our interim



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consolidated financial statements because their application places the most significant demands on management's judgment. Specific risks for these critical accounting policies are described in our Form 10-K filed with the Securities Exchange Commission. There have been no material changes in our critical accounting policies since fiscal 2013.

### **Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

As a result of our global operating activities, we are exposed to certain market risks, including foreign currency exchange fluctuations and fluctuations in interest rates. 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, hedging or other speculative purposes nor do we trade in derivative financial instruments.

#### **Foreign Currency Risk**

Substantially all our foreign subsidiaries' operations 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 reporting period and revenue and expenses are translated at average rates of exchange during the reporting period. Resulting translation adjustments are reported as a component of accumulated other comprehensive income on our consolidated balance sheets.

Transactions denominated in a currency other than the reporting entity's functional currency may give rise to transaction gains and losses that impact our results of operations. Historically, we have not realized significant foreign currency gains or losses on such transactions. During the six months ended October 31, 2013, we recognized foreign currency gains, on an after tax basis, of \$0.4 million compared to the six months ended October 31, 2012 in which we recognized foreign currency losses, on an after tax basis, of \$0.1 million.

Our primary exposure to exchange losses or gains is based on outstanding intercompany loan balances denominated in U.S. dollars. If the U.S. dollar strengthened or weakened by 15%, 25% and 35% against the Pound Sterling, the Euro, the Canadian dollar, the Australian dollar and the Yen, our exchange loss or gain for the three months ended October 31, 2013 would have been \$2.7 million, \$4.5 million and \$6.3 million, respectively, based on outstanding balances at October 31, 2013.

#### **Interest Rate Risk**

We primarily manage our exposure to fluctuations in interest rates through our regular financing activities, which generally are short term and provide for variable market rates. As of October 31, 2013 and April 30, 2013, we had no outstanding borrowings under our Facility. We had \$73.3 million of borrowings against the CSV of COLI contracts as of October 31, 2013 and April 30, 2013, bearing interest primarily at variable rates. The risk of fluctuations in these variable rates is minimized by the fact that we receive a corresponding adjustment to our borrowed funds crediting rate on the CSV on our COLI contracts.

### **Item 4. *Controls and Procedures***

#### **(a) Evaluation of Disclosure Controls and Procedures.**

Based on their evaluation of our disclosure controls and procedures conducted as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective.

#### **(b) Changes in Internal Control over Financial Reporting.**

There were no changes in our internal control over financial reporting during the three months ended October 31, 2013 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**PART II.****Item 1. Legal Proceedings**

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 management, after consultation with legal counsel, have a material adverse effect on the Company's business, financial position or results of operations.

**Item 1A. Risk Factors**

In our Form 10-K for the year ended April 30, 2013, we described material risk factors facing our business. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations. As of the date of this report, there have been no material changes to the risk factors described in our Form 10-K.

**Item 2. Unregistered Sale of Equity Securities, Use of Proceeds and Issuers Purchases of Equity Securities****Issuer Purchases of Equity Securities**

The following table summarizes common stock repurchased by us during the quarter ended October 31, 2013:

	Shares Purchased (1)	Average Price Paid Per Share	Shares Purchased as Part of Publicly- Announced Programs (2)	Approximate Dollar Value of Shares That May Yet be Purchased Under the Programs (2)
August 1, 2013 — August 31, 2013	—	\$ —	—	\$24.4 million
September 1, 2013 — September 30, 2013	1,025	\$20.99	—	\$24.4 million
October 1, 2013 — October 31, 2013	—	\$ —	—	\$24.4 million
Total	<u>1,025</u>	\$20.99	—	\$24.4 million

(1) Represents withholding of a portion of restricted shares to cover taxes on vested restricted shares.

(2) On November 2, 2007, the Board of Directors approved the repurchase of \$50 million of our common stock in a common stock repurchase program. The shares can be repurchased in open market transactions or privately negotiated transactions at our discretion.

Under our credit facility, we are permitted to pay up to \$50.0 million in dividends in any fiscal year (subject to the satisfaction of certain conditions), which amount is further limited by any shares repurchased and any consideration paid with respect to acquisitions during such fiscal year and requires us to maintain \$50.0 million in unrestricted cash and/or marketable securities (excluding any marketable securities that are held in trust for the settlement of the Company's obligation under certain deferred compensation plans) as a condition to consummating permitted acquisitions, paying dividends to our stockholders and repurchasing shares of our common stock.

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### **Item 6. Exhibits**

<u>Exhibit Number</u>	<u>Description</u>
3.1	Korn/Ferry International Restated Certificate of Incorporation.
3.2	Korn/Ferry International Third Amended and Restated Bylaws.
31.1	Chief Executive Officer Certification pursuant to Rule 13a-14(a) under the Exchange Act.
31.2	Chief Financial Officer Certification pursuant to Rule 13a-14(a) under the Exchange Act.
32.1	Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

**SIGNATURES**

Pursuant to the requirements 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/ Robert P. Rozek

**Robert P. Rozek**

**Executive Vice President and Chief Financial Officer**

Date: December 9, 2013

**EXHIBIT INDEX**

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32.1	Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

**RESTATED CERTIFICATE OF INCORPORATION**

**OF**

**KORN/FERRY INTERNATIONAL**

Korn/Ferry International, a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), DOES HEREBY CERTIFY AS FOLLOWS:

**FIRST:** The Corporation filed its original Certificate of Incorporation with the Secretary of State of Delaware on September 13, 1999.

**SECOND:** The Board of Directors of the Corporation duly adopted, pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, a Restated Certificate of Incorporation of the Corporation.

**THIRD:** The Restated Certificate of Incorporation, as adopted by the Board of Directors of the Corporation, is as follows:

**Article I: Name**

The name of the corporation is Korn/Ferry International (the "Corporation").

**Article II: Registered Office**

The address of the registered office of the Corporation in the State of Delaware is 2711 Centerville Road, Suite 400, Wilmington, County of New Castle 19808. The name of its registered agent at such address is Corporation Service Company.

**Article III: Purpose**

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

**Article IV: Stock**

Section 1. Authorized Shares. The total number of shares of all classes which the Corporation shall have the authority to issue shall be 200,000,000, which shall be divided into two classes, one to be designated "Common Stock," which shall consist of 150,000,000 authorized shares, \$0.01 par value per share, and a second class to be designated as "Preferred Stock," which shall consist of 50,000,000 authorized shares, \$0.01 par value per share.

Section 2. Preferred Stock of the Corporation. The Preferred Stock may be issued in one or more series, from time to time, each series to be appropriately designated by a distinguishing number, letter or title, prior to the issuance of any shares thereof. The first series of Preferred Stock shall initially consist of 10,000 shares and shall be designated "7.5% Convertible Series A Preferred Stock" ("Series A Preferred Stock").

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Section 3. Authority of Board of Directors to Issue Stock. Each series of Preferred Stock shall consist of such number of shares and have such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, as shall be stated in the resolutions or resolutions providing for the issuance of such series adopted by the Board of Directors of the Corporation (the "Board of Directors"), and the Board of Directors is hereby expressly vested with authority, to the full extent now or hereafter provided by law, to adopt any such resolution or resolutions. The authority of the Board of Directors with respect to each series shall include, but not be limited to, determination of the following:

- (a) The number of shares constituting the series and the distinctive designation of that series;
- (b) The dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series;
- (c) Whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;
- (d) Whether that series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board of Directors shall determine;
- (e) Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or date upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;
- (f) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund;
- (g) The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, and the relative rights of priority, if any, of payment of shares of that series; and
- (h) Any other relative rights, preferences and limitations of that series.

Section 4. No Preemptive or Preferential Rights. No holders of shares of the Corporation of any class, now or hereafter authorized, shall have any preferential or preemptive rights to subscribe for, purchase or receive any shares of the Corporation of any class, now or hereafter authorized, or any options or warrants to subscribe for such shares, or any rights to subscribe for, purchase or receive any securities convertible to or exchangeable for such shares, which may at any time be issued, sold or offered for sale by the Corporation.

Section 5. Series A Preferred Stock.

(a) Designation. Each share of Series A Preferred Stock shall be identical in all respects to every other share of Series A Preferred Stock. The shares of Series A Preferred Stock are subject to subordination in the manner, and to the extent, set forth in that certain Subordination Agreement, dated as of June 13, 2002, made by the Corporation and certain other persons in favor of Bank of America and certain senior creditors.

(b) Number of Shares. The number of shares of Series A Preferred Stock shall initially be 10,000. Such number may from time to time be increased (but not in excess of the total number of authorized shares of Preferred Stock) or decreased (but not below the number of shares of Series A Preferred Stock then outstanding) by the Board of Directors. Shares of Series A Preferred Stock that are redeemed, purchased or otherwise acquired by the Corporation or converted into Common Stock shall be cancelled and shall revert to authorized but unissued shares of Preferred Stock undesignated as to series.

(c) Definitions. As used herein with respect to Series A Preferred Stock:

(i) "Accrued Dividends," with respect to any share of Series A Preferred Stock, means an amount computed at the annual dividend rate for Series A Preferred Stock, from the Closing Date or the Accrual Date, as applicable, to and including the date to which such dividends are to be accrued (whether or not such dividends have been declared), less the aggregate amount of all dividends previously paid on such share whether in cash or stock.

(ii) "Average Closing Price" with respect to any period shall be calculated on a volume-weighted average basis. Specifically, it shall be computed by (x) multiplying the Closing Price on each Trading Day within the period by a fraction, the numerator of which is the trading volume of the Common Stock for such Trading Day on the New York Stock Exchange or within the relevant trading market if not the New York Stock Exchange, and the denominator of which is the aggregate trading volume for the trading period, and (y) adding together the products thus derived.

(iii) "Business Day" means each Monday, Tuesday, Wednesday, Thursday or Friday on which banking institutions in New York, New York or Los Angeles, California are not authorized or obligated by law, regulation or executive order to close.

(iv) "Closing Date" means June 13, 2002.

(v) "Closing Price" on any Trading Day means the last reported sales price regular way or, in case no such reported sale takes place on such Trading Day, the average of the reported closing bid and asked prices regular way, in each case on the New York Stock Exchange or, if the Common Stock is not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange, market or quotation system on which the Common Stock is listed or admitted to trading, or, if such prices are not available, Closing Price shall mean the price per share of the Common Stock determined by the Board of Directors on a reasonable basis and in good faith.

(vi) "Fair Market Value" on any day means the Closing Price.



(vii) "*Fundamental Change*" means any transaction (including any merger, consolidation, recapitalization or other reorganization) or a series of related transactions as a result of which all or substantially all of the outstanding Common Stock is converted into or exchanged for stock, other securities, cash or assets.

(viii) "*Junior Stock*" means the Common Stock and any other class or series of stock of the Corporation hereafter authorized over which Series A Preferred Stock has preference or priority in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(ix) "Note" means the 7.5% Convertible Subordinated Note Due 2010 of the Corporation.

(x) "*Parity Stock*" means any other class or series of stock of the Corporation that ranks on a parity with Series A Preferred Stock in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(xi) "*Redemption Date*" means the date fixed for redemption by or pursuant to this Certificate of Designations.

(xii) "*Trading Day*" means a day on which the principal national securities exchange, market or quotation system on which the Common Stock is listed or admitted to trading is open for the transaction of business or, if the Common Stock is not listed or admitted to trading, a Business Day.

(xiii) "*Warrants*" means the eight-year warrants issued pursuant to the Purchase Agreement, dated as of June 13, 2002, by and between the Corporation and the other parties thereto.

(d) *Dividends.*

(i) *Rate.* Holders of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors, but only out of funds legally available therefor, cumulative dividends per share of Series A Preferred Stock at the annual rate of 7.5% (or as such rate may be modified pursuant to the next paragraph) of the Issuance Price. The Issuance Price means \$1000 per share of Series A Preferred Stock, as adjusted to reflect the occurrence of any stock split, stock dividend, stock combination, stock subdivision or similar recapitalization affecting such share.

In the event that any Registration Default (as such term is defined in the Investor Rights Agreement, entered into as of the Closing Date by and between the Corporation and the other parties thereto, hereinafter the "Investor Rights Agreement") exists and is continuing, then the annual rate of 7.5% referred to in the foregoing paragraph shall be increased by one percentage point per quarter, up to a maximum of 14%, until such time as the Registration Default ceases to continue (as set forth in the Investor Rights Agreement) at which point the annual rate shall immediately be reduced to 7.5%.

(ii) *Payment.* Dividends are payable semi-annually on the thirteenth day of June and December in each year (or, if any such date is not a Business Day, on the next succeeding Business Day), beginning December 13, 2002, to holders of record on the Business Day preceding such dividend payment date, fixed for that purpose by the Board of Directors in advance of payment of each particular dividend. The amount of dividends payable for the initial dividend period and any period shorter than a full semi-annual period during which shares are outstanding shall be computed on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed in the period which is payable. The dividend payable per share of Series A Preferred Stock for each full dividend period shall be computed by dividing the annual dividend rate by two. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payments on shares of Series A Preferred Stock which may be in arrears; provided, however, that to the extent that the Corporation does not declare and pay the amounts specified in Section 5(d)(i) above on the dividend payment date on which such dividend is payable, the holders of the Series A Preferred Stock thus affected shall also receive, but only out of funds legally available for the payment of dividends, additional dividends in an amount equal to 2.0% per annum of such overdue amount for each day (beginning with the first day following such dividend payment date) for which such failure to declare and pay such dividends continues.

Dividends payable on shares of Series A Preferred Stock shall be paid in additional shares of Series A Preferred Stock provided, however, that on any dividend payment date occurring on or before the second anniversary of the Closing Date, dividends equal to 1% of the Issuance Price shall be paid in cash and equal to 6.5% of the Issuance Price shall be paid in additional shares of Series A Preferred Stock, and provided, further, at the option of the Corporation, dividends payable on shares of Series A Preferred Stock on any dividend payment date occurring after the second anniversary of the Closing Date may be paid entirely in cash or in additional shares of Series A Preferred Stock. To the extent that dividends are paid in additional shares of Series A Preferred Stock, such shares shall be valued at the Issuance Price, and such additional shares shall be entitled to receive cumulative dividends beginning from the date of issuance (such date an "Accrual Date").

(iii) *Priority of Dividends.* So long as any share of Series A Preferred Stock remains outstanding, no dividend whatsoever shall be paid or declared and no distribution shall be made on any Junior Stock, other than a dividend or distribution payable solely in Junior Stock, and no shares of Junior Stock shall be purchased, redeemed or otherwise acquired for consideration by the Corporation, directly or indirectly (other than as a result of (A) a reclassification of Junior Stock for or into Junior Stock, (B) the exchange or conversion of one share of Junior Stock for or into another share of Junior Stock, or (C) the repurchase of Common Stock from the Corporation's employees up to an aggregate amount of up to \$1,000,000 of Common Stock per year) provided, however, that dividends may be paid on Junior Stock if (i) all Accrued Dividends on all outstanding shares of Series A Preferred Stock for all past dividend periods have been paid in full and (ii) in the case of a dividend or distribution, there shall contemporaneously have been declared and paid or made on each outstanding share of Series A Preferred Stock a dividend or distribution in the same amount as the Corporation would have paid on such share if such share had been converted into Common Stock on the record date for the payment of such dividend or distribution and had received the dividend or distribution payable on such Common Stock. Subject to the foregoing, such dividends and distributions (payable in cash, stock or otherwise) as may be determined by the Board of Directors may be declared and paid on any Junior Stock from time to time out of any funds legally available therefor.

(c) Liquidation Rights.

(i) *Voluntary or Involuntary Liquidation.* In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, holders of Series A Preferred Stock shall be entitled, before any distribution or payment out of the assets of the Corporation may be made to the holders of any Junior Stock, to receive in full an amount per share equal to the greater of (i) the Issuance Price, together with an amount equal to all Accrued Dividends to the date of payment and (ii) the amount that a holder of one share of Series A Preferred Stock would be entitled to receive if such shares were converted into Common Stock immediately prior to such liquidation, dissolution or winding up. Such greater amount per share shall be the "Liquidation Preference Amount".

(ii) *Partial Payment.* If the assets of the Corporation are not sufficient to pay the Liquidation Preference Amount in full to all holders of Series A Preferred Stock and all holders of any Parity Stock, the amounts paid to the holders of Series A Preferred Stock and to the holders of all Parity Stock shall be *pro rata* in accordance with the respective aggregate Liquidation Preference Amounts of Series A Preferred Stock and all such Parity Stock.

(iii) *Residual Distributions.* If the Liquidation Preference Amount has been paid in full to all holders of Series A Preferred Stock and all holders of any Parity Stock, the holders of Junior Stock shall be entitled to receive all remaining assets of the Corporation according to their respective rights and preferences.

(iv) *Merger, Consolidation and Sale of Assets Not Liquidation.* For purposes of this Section 5(e), the merger or consolidation of the Corporation with any other corporation, including a merger in which the holders of Series A Preferred Stock receive cash or property for their shares, or the sale of all or substantially all of the assets of the Corporation, shall not constitute a liquidation, dissolution or winding up of the Corporation.

(f) Redemption.

(i) *Optional Redemption by the Corporation.* Any time after the third anniversary of the Closing Date, the Corporation, at the option of the Board of Directors, may redeem in whole or in part the shares of Series A Preferred Stock at the time outstanding, at any time or from time to time, upon notice given as provided in Section 5(f)(vi), at the redemption price in effect at the notice date as provided in this Section 5(f), provided, however, that (A) no shares of Series A Preferred Stock may be redeemed pursuant to this Section 5(f)(i) if at any time during the 135 days prior to the Redemption Date the Shelf Registration Statement (as defined in the Investor Rights Agreement) with respect to the Common Stock into which any shares of Series A Preferred Stock are convertible shall not be effective, (B) optional redemption may only be made if the Corporation certifies to the holders in the redemption notice sent in accordance with Section 5(f)(vi) that it is able, financially and otherwise, to make the redemption payment, and there has been no default (as set forth in Section 5(f)(ix)) by the Corporation on an obligation to pay for shares of Series A Preferred Stock duly called for redemption in accordance

with this Section 5(f) within the 12 months prior to the date of such notice, (C) optional redemption may only be made pursuant to this Section 5(f)(i) if, after giving effect to such redemption (and any simultaneous redemption of Notes), the ratio of (a) the aggregate outstanding principal amount of the Notes and (b) the product of (x) the number of issued and outstanding shares of Series A Preferred Stock and (y) the Issuance Price, is equal to 4:1, and (D) the Corporation shall not be permitted to redeem shares of Series A Preferred Stock pursuant to this Section 5(f)(i) if, after giving effect to such redemption (and any simultaneous redemption of Notes), the sum of (a) the aggregate outstanding principal amount of the Notes and (b) the product of (x) the number of issued and outstanding shares of Series A Preferred Stock and (y) the Issuance Price, does not exceed \$15,000,000.00. The foregoing clauses (C) and (D) shall not limit the Corporation's right pursuant to this Section 5(f)(i) to redeem all of the outstanding principal amount of the Notes and all of the outstanding shares of Series A Preferred Stock in one redemption.

(ii) *Redemption Price.* The redemption price for shares of Series A Preferred Stock redeemed pursuant to Section 5(f)(i) hereof shall be set by the Corporation in its discretion pursuant to any available redemption price calculation methodology set forth below.

The Corporation may in its discretion set the redemption price for each share of Series A Preferred Stock at 100% of the Issuance Price together with an amount equal to all Accrued Dividends to the date of redemption, provided, however, that the Corporation may not set the redemption price using this methodology unless the Average Closing Price of the Common Stock over the 20 Trading Day period immediately preceding the Redemption Date is equal to or greater than the price that is the result of dividing (i) the price specified in the following schedule by (ii) the number of shares of Common Stock into which such share of Series A Preferred Stock would be convertible on the notice date (such price, the "Minimum Share Purchase Price").

<u>Redemption Date</u>	<u>Basis of Minimum Share Purchase Price Calculation</u>
After the third and through and including the fourth anniversary of the Closing Date	2.0 x Issuance Price
After the fourth and through and including the fifth anniversary of the Closing Date	2.25 x Issuance Price
After the fifth anniversary of the Closing Date	25 x Issuance Price

The Corporation may in its discretion set the redemption price for each share of Series A Preferred Stock at the product of (i) the number of shares of Common Stock into which such share of Series A Preferred Stock would be convertible on the notice date and (ii) the greater of (x) the Average Closing Price over the 20 Trading Day period immediately preceding the notice date and (y) the Minimum Share Purchase Price.

(iii) *Mandatory Redemption.* The Corporation shall, on the eighth anniversary of the Closing Date, redeem all of the outstanding shares of Series A Preferred Stock at a redemption price per share equal to (i) 101% of the Issuance Price plus (ii) an amount equal to all Accrued Dividends to such Redemption Date.

(iv) *Optional Redemption by the Holders.* After the sixth anniversary of the Closing Date, all (or a portion) of the shares of Series A Preferred Stock shall be subject to redemption at the option of the holders thereof at a redemption price per share equal to (i) 101% of the Issuance Price plus (ii) an amount equal to all Accrued Dividends to the Redemption Date. In addition, if a Registration Default exists and is continuing, and either (a) the Shelf Registration Statement has not been declared effective by the Securities and Exchange Commission (the "SEC") on or before the 365th calendar day after the date of filing of the Shelf Registration Statement or (b) the Shelf Registration Statement is declared effective by the SEC but the Shelf Registration Statement thereafter ceases to be effective and such failure to be effective continues for a period of 90 consecutive calendar days, or more than 120 days in any 365 day period, then all of the shares of Series A Preferred Stock shall be subject to redemption at the option of the holders thereof, beginning on such 365th or 91st or 121st day, as the case may be, until such time as the Registration Default ceases to continue (as set forth in the Investor Rights Agreement) at a redemption price equal to the greater of (y) 100% of the Issuance Price plus an amount equal to all Accrued Dividends to the Redemption Date or (z) the product of the number of shares of Common Stock into which such share of Series A Preferred Stock would be convertible on the date of the exercise of such option by the holder and the Average Closing Price over the 20 Trading Day period immediately preceding such date.

Any holder of Series A Preferred Stock electing to redeem shares of Series A Preferred Stock pursuant to this Section 5(f)(iv) shall give notice in writing of such election to the Corporation (or its successor, if the Corporation is no longer in existence) at its principal office, which notice shall set forth the name of the holder and the number of shares of Series A Preferred Stock to be redeemed. Such written notice of election shall be irrevocable without the consent of the Corporation, in its sole discretion. The Corporation shall forthwith give notice to all other holders of Series A Preferred Stock of any such notice of redemption, specifying the date fixed by the Corporation for redemption of such shares of Series A Preferred Stock, such date to be not more than 45 days nor less than 30 days from the notice date. Such other holders of Series A Preferred Stock may elect to sell to the Corporation all or a portion of their shares of Series A Preferred Stock by delivering written notice to the Corporation within 15 days after the distribution of the notice regarding optional redemption by the Corporation. Each holder of shares of Series A Preferred Stock that has given timely notice to the Corporation shall be entitled to receive the redemption price thereof as described in this Section 5(f)(iv), without interest, after surrender to the principal office of the Corporation of the certificate or certificates for the shares to be surrendered.

(v) *Change Of Control.* For the purposes of this Section 5(f): (1) a sale, conveyance or disposition of all or substantially all of the assets of the Corporation, (ii) the effectuation of a transaction (including a merger, consolidation, recapitalization or other reorganization) or series of related transactions as a result of which 50% or more of the issued and outstanding voting securities of the resulting entity are beneficially owned by a person, corporation, entity or group other than the stockholders of the Corporation immediately prior to

such transactions, or (iii) the effectuation of a transaction (including a merger, consolidation, recapitalization or other reorganization) or series of related transactions as a result of which any person or "group" (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) shall succeed in having a sufficient number of its nominees elected to the Corporation's Board of Directors such that such nominees will constitute a majority of the Board of Directors, shall be a "Change of Control Event." In the event of a Change of Control Event, each holder of a share of Series A Preferred Stock shall have the right to receive, at the option of the holder, (i) 101% of the Issuance Price plus an amount equal to all Accrued Dividends to the date of the Change of Control Event, or (ii) the per share consideration to be received by a holder of the Common Stock into which such share of Series A Preferred Stock is convertible as of such Change of Control Event. Upon the consummation of a Change of Control Event that is a Fundamental Change, each share of Series A shall automatically be converted into the right to receive, at the election of the holder in accordance with the third paragraph of this Section 5(f)(v), one of the two forms of consideration described above.

On or before the 30th calendar day after a Change of Control Event (or the 30th calendar day prior to such Change of Control Event that is a Fundamental Change), the Corporation shall give notice in accordance with this Section 5(f)(v) of the redemption right or other right to receive consideration set forth herein arising as a result thereof to each holder. To exercise a redemption right, a Holder shall deliver to the Corporation (or an agent designated by the Corporation for such purposes in the notice referred to above) on or before the 90th calendar day after such Change of Control Event (or if such Change of Control Event is a Fundamental Change then on or before such date of such Fundamental Change) (a) written notice of the holder's exercise of such right, which notice shall set forth the name of the holder, the number of shares of Series A Preferred Stock to be redeemed, and a statement that the option to exercise the redemption right or receive the consideration is being made thereby, and (b) the certificates for the shares of Series A Preferred Stock with respect to which the redemption right is being exercised, duly endorsed for transfer to the Corporation. Such written notice shall be irrevocable without the consent of the Corporation, in its sole discretion.

(vi) *Notice of Redemption.* Each notice of a redemption of shares of Series A Preferred Stock or otherwise to be provided by the Corporation under this Section 5(f) shall be made by hand delivery or delivered by overnight courier, addressed to the holders of record of the shares to be redeemed at their respective addresses appearing on the books of the Corporation. Each such notice shall state, as appropriate, the following and may contain such other information as the Corporation deems advisable: (a) the Redemption Date, (b) the number of such shares of Series A Preferred Stock held by such holder to be redeemed, (c) the redemption price, (d) the place or places where one or more certificates for such shares of Series A Preferred Stock are to be surrendered for redemption and (e) such items as are required to be stated in a notice of an optional redemption by the Corporation pursuant to Section 5(f)(i) above. The "notice date" shall be the date such notice is mailed. Such mailing shall be at least 30 days and not more than 45 days before the date fixed for redemption. Any notice mailed as provided in this Section 5(f)(vi) shall be conclusively presumed to have been duly given upon receipt, but failure duly to give such notice by overnight mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Series A Preferred Stock designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Series A Preferred Stock. Upon duly delivering notice to a holder of Series A Preferred Stock, the Corporation may not thereafter rescind such notice of redemption or the Company's obligation to pay the redemption price.

(vii) *Partial Redemption*. In case of any optional redemption of only part of the shares of Series A Preferred Stock at the time outstanding (other than in the case of optional redemption by the holders pursuant to Section 5(f)(iv)), the shares to be redeemed shall be selected either pro rata or by lot or in such other manner as the Board of Directors may determine to be equitable.

(viii) *Effectiveness of Redemption*. If notice of redemption has been duly given and if on or before the Redemption Date specified in the notice all funds necessary for the redemption have been set aside by the Corporation, separate and apart from its other funds, in trust for the *pro rata* benefit of the holders of the shares of Series A Preferred Stock called for redemption (or to be redeemed pursuant to Section 5(f)(iv)), so as to be and continue to be available therefor, then, notwithstanding that any certificate (or an affidavit of loss and indemnification in lieu thereof has been provided to the Corporation as provided below) for any share of Series A Preferred Stock so called for redemption (or to be redeemed pursuant to Section 5(f)(iv)) has not been surrendered for cancellation, on and after the Redemption Date all shares of Series A Preferred Stock so called for redemption (or to be redeemed pursuant to Section 5(f)(iv)) shall cease to be outstanding and all rights with respect to such shares of Series A Preferred Stock shall forthwith on such Redemption Date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption without interest. In the event any certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the holder certifying to the satisfaction of the Corporation that such certificate has been lost, stolen or destroyed and entering into an indemnity agreement against any claim that may be made against it with respect to such certificate, the Corporation will deliver any redemption price in respect thereof issuable and/or payable in exchange for such lost, stolen or destroyed certificate pursuant to the terms of this Section 5(f). Any funds unclaimed at the end of one year from the Redemption Date shall, to the extent permitted by law, be released to the Corporation, after which time the holders of the shares of Series A Preferred Stock so called for redemption (or to be redeemed pursuant to Section 5(f)(iv)) shall look only to the Corporation for payment of the redemption price of such shares of Series A Preferred Stock.

(ix) *Redemption Default*. If the Corporation defaults on an obligation incurred hereunder to pay a redemption price payable pursuant to the terms of this Section 5(f), the holder of any share of Series A Preferred Stock subject to such default (a) shall receive additional dividends in an amount equal to 2.0% per annum for each day for which such default continues, and (b) may at its option either (A) enforce its right to receive such redemption price and receive the additional interest due thereon pursuant to clause (b) or (B) terminate or rescind such attempted redemption.

(g) *Conversion Rights*. Each share of Series A Preferred Stock shall be convertible at the option of the holder thereof at any time into fully paid and non-assessable shares of Common Stock of the Corporation (calculated as to each conversion to the nearest 1/100th of a share) on and subject to the following terms and conditions:

(i) *Conversion Price*. The conversion price at which shares of Series A Preferred Stock shall be convertible into Common Stock (the "Conversion Price") shall initially be \$10.25 per share and shall be adjusted in certain events as provided in Section 5(g)(v). Each share of Series A Preferred Stock shall be taken at the Issuance Price and any Accrued Dividends for the purpose of conversion.

(ii) *Surrender of Certificates.* In order to convert shares of Series A Preferred Stock into Common Stock the holder must surrender, at the office of any transfer agent for the Common Stock or at such other office as the Board of Directors may designate, the certificate or certificates for the shares to be converted, duly endorsed or assigned either to the Corporation or in blank, together with irrevocable written notice that such holder elects to convert such shares. Such shares shall be deemed to be converted immediately before the close of business on the date of such surrender, and the person or persons entitled to receive the Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such Common Stock at such time. As promptly as practicable on or after such date, and in any event within 3 Business Days, the Corporation shall issue and deliver at such office to the person or persons entitled to receive the same a certificate or certificates for the number of full shares of Common Stock issuable upon such conversion, together with payment in lieu of any fraction of a share as provided in Section 5(g)(iv).

(iii) *Shares Called for Redemption.* In case shares of Series A Preferred Stock are called for redemption, the right to convert such shares shall cease and terminate at the close of business on the Business Day before the date fixed for redemption' provided, however, that such right may be reinstated in case of a default in payment of the redemption price as set forth in Section 5(f)(ix).

(iv) *Fractional Shares.* No fractional shares of Common Stock shall be issued upon conversion of shares of Series A Preferred Stock, but, instead of any fraction of a share that would otherwise be issuable, the Corporation shall pay cash in an amount equal to the same fraction of the Closing Price on the date of surrender of the certificate or certificates for such shares for conversion, or, if such date is not a Trading Day, on the next Trading Day.

(v) *Adjustment of Conversion Price Anti-Dilution.* The Conversion Price and the number and kind of shares of capital stock or other property issuable on conversion shall be adjusted from time to time as follows.

(A) *Sales of Common Stock Below Fair Market Value* In case the Corporation shall issue or grant to any person (whether directly or by assumption in a merger or otherwise, other than upon a Fundamental Change to which Section 5(g)(v)(E) applies) (a) rights, warrants, options, exchangeable securities or convertible securities (each referred to herein as "Rights") entitling such person to subscribe for or purchase shares of Common Stock at a price per share less than the Fair Market Value or (b) shares of Common Stock at a price per share less than the Fair Market Value, on the record date fixed for the determination of persons entitled to receive such Rights or such shares, the Conversion Price in effect immediately before the close of business on the record date fixed for such determination shall be reduced by multiplying such Conversion Price by a fraction, of which (i) the numerator is the number of shares of Common Stock outstanding (including all shares of Common Stock issued or issuable upon conversion of



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any convertible security or upon the exercise of any rights, warrants or options) on such record date plus the number of shares of Common Stock which the aggregate of the offering price of the total number of shares of Common Stock so offered for subscription or purchase pursuant to such Rights, or so issued, would purchase at the Fair Market Value on such record date and (ii) the denominator shall be the number of shares of Common Stock outstanding (including all shares of Common Stock issued or issuable upon conversion of any convertible security or upon the exercise of any rights, warrants or options) at the close of business on such record date plus the number of shares of Common Stock so offered for subscription or purchase pursuant to such Rights, or so issued. If, after any such record date, any such Rights or shares are not in fact issued, or are not exercised prior to the expiration thereof, the Conversion Price shall be immediately readjusted, effective as of the date such Rights or shares expire, or the date the Board of Directors determines not to issue such Rights or shares, to the Conversion Price that would have been in effect if the unexercised Rights had never been granted or such record date had not been fixed, as the case may be. Such adjustment shall be made successively whenever any such event shall occur. For the purposes of this paragraph, the aggregate of the offering price received or to be received by the Corporation shall include the maximum aggregate amount (if any) payable upon exercise or conversion of such Rights. The value of any consideration received or to be received by the Corporation, if other than cash, is to be determined by the Board of Directors on a reasonable basis and in good faith.

(B) *Stock Splits and Combinations.* In case the Corporation shall subdivide its outstanding Common Stock into a greater number of shares or combine its outstanding Common Stock into a smaller number of shares, the Conversion Price in effect immediately before the time when such subdivision or combination becomes effective shall be adjusted so that the holder of each share of Series A Preferred Stock converted thereafter shall be entitled to receive the number of shares of Common Stock that such holder would have received if such shares of Series A Preferred Stock had been converted immediately prior thereto at the Conversion Price then in effect. Such adjustment shall be made successively whenever any such event shall occur.

(C) *Stock Dividends in Common Stock.* In case the Corporation shall pay a dividend or make a distribution in shares of Common Stock on any class of capital stock of the Corporation, the Conversion Price in effect immediately before the close of business on the record date fixed for determination of stockholders entitled to receive such dividend or distribution shall be reduced by multiplying such Conversion Price by a fraction, of which the numerator is the number of shares of Common Stock outstanding (including all shares of Common Stock issued or issuable upon conversion of any convertible security or upon the exercise of any rights, warrants or options) on such record date and the denominator is the sum of such number of shares and the total number of shares of Common Stock issued in such dividend or distribution. Such adjustment shall be made successively whenever any such event shall occur.

(D) *Distributions of Indebtedness, Securities or Assets.* In case the Corporation shall distribute to all holders of Common Stock (whether by dividend or in a merger or consolidation or otherwise) evidences of indebtedness, shares of capital stock of any class or series, other securities, cash or assets (other than Common Stock or a dividend or distribution payable exclusively in cash and other than as a result of a Fundamental Change), the Conversion Price in effect immediately before the close of business on the record date fixed for determination

of stockholders entitled to receive such distribution shall be reduced by multiplying such Conversion Price by a fraction, of which the numerator is the Fair Market Value on such record date less the fair market value (as determined by the Board of Directors, whose determination in good faith shall be conclusive) of the portion of such evidences of indebtedness, shares of capital stock, other securities, cash and assets so distributed applicable to one share of Common Stock and the denominator is such Fair Market Value. Such adjustment shall be made successively whenever any such event shall occur. In case such distribution is not made after such a record date has been fixed, the Conversion Price shall be readjusted to the Conversion Price that would have been in effect if such record date had not been fixed.

(E) *Fundamental Changes.* In case any Fundamental Change shall occur, the holder of each share of Series A Preferred Stock outstanding immediately before such Fundamental Change shall have, in addition to all other rights hereunder, the right to receive the kind and amount of stock, other securities, cash and assets that such holder would have received if such share of Series A Preferred Stock had been converted immediately prior thereto. The Corporation agrees that it will not be a party to or permit any Fundamental Change to occur unless the foregoing provisions are included in the terms thereof, and unless the holders of Series A Preferred Stock shall continue to have all of its rights and privileges hereunder in an equivalent manner after giving effect to the Fundamental Change.

(F) *Exempted Issuances.* Notwithstanding any other provision in this Section 5(g)(v), the foregoing provisions of this Section 5(g)(v) shall not apply to, and no adjustment shall be made to the Conversion Price for:

(1) shares of Common Stock issuable upon the exercise of options or other convertible securities to be issued pursuant to the Company's stock option, performance award or employee benefit plans; provided, however, that this exemption shall be limited to 7,000,000 shares of Common Stock issuable upon and an additional 1,574,501 shares of Common Stock issuable upon the exercise of options reserved for grant in September 2002 pursuant to the Company's option exchange program;

(2) shares of Common Stock issuable upon the exercise of options or other convertible securities previously issued pursuant to the Corporation's stock option, performance award or employee benefit plan;

(3) shares of Common Stock issuable upon conversion of shares of Series A Preferred Stock, the Note or exercise of outstanding Warrants, or pay-in-kind dividends paid on the Series A Preferred Stock or the Note;

(4) securities that have been approved for issuance or grant by the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock; or

(5) securities that are issued in conjunction with an acquisition or a non-financing strategic transaction approved by the Board of Directors provided, however, that the number of shares of Common Stock or securities convertible into Common Stock issued by the Corporation in conjunction with non-financing strategic transactions that are exempt from the foregoing provisions of this Section 5(g)(v) shall be limited to 20% of the shares of Common

Stock outstanding (including all shares of Common Stock issued or issuable upon conversion of any convertible security or upon the exercise of any rights, warrants or options) immediately prior to the Closing Date.

(G) *No Adjustment for Participating Distributions.* Notwithstanding any of the provisions of this Section 5(g)(v), no adjustment to the Conversion Price shall be made pursuant to a distribution by the Corporation in which the holders of Series A Preferred Stock shares have participated on an as-converted to Common Stock basis in accordance with Section 5(d)(iii).

(H) *Deferral of Certain Conversions Requiring Adjustment.* In any case in which this Section 5(g)(v) requires that an adjustment as a result of any event become effective from and after a record date, the Corporation may elect to defer until after the occurrence of such event (A) issuing to the holder of any shares of Series A Preferred Stock converted after such record date and before the occurrence of such event the additional shares of Common Stock issuable upon such conversion over and above the shares issuable on the basis of the Conversion Price in effect immediately before adjustment and (B) paying to such holder any amount in cash in lieu of a fractional share of Common Stock pursuant to Section 5(g)(iv) above. In any such case the Corporation shall issue or cause a transfer agent to issue due bills or other appropriate evidence of the right to receive the shares the issuance of which is so deferred.

(I) *Deferral of Small Adjustments.* Any adjustment in the Conversion Price otherwise required by this Section 5(g) may be postponed until the date of the next adjustment (or the date of conversion, if earlier) otherwise required to be made if such adjustment (together with any other adjustments postponed pursuant to this paragraph (ix) and not theretofore made) would not require an increase or decrease of more than 0.5% in such Conversion Price. All calculations under this Section 5(g)(v) shall be made to the nearest cent or to the nearest 1/100th of a share, as the case may be.

(J) *Voluntary Reduction in Conversion Price.* The Board of Directors may make such reductions in the Conversion Price, in addition to those required by this Section 5(g)(v), as it shall deem necessary to avoid taxation of any dividend or distribution of stock or rights to acquire stock or any event treated as a deemed dividend or distribution for Federal income tax purposes to the recipients.

(vi) *Notice of Conversion Price Adjustments.* Whenever the Conversion Price is adjusted as herein provided:

(A) The Corporation shall compute and file with each transfer agent for the shares of Series A Preferred Stock the adjusted Conversion Price in accordance with this Section 5(g) and shall prepare a certificate signed by the Corporation's chief financial officer setting forth the adjusted Conversion Price and showing in reasonable detail the facts upon which such adjustment is based; and

(B) A notice stating that the Conversion Price has been adjusted and setting forth the adjusted Conversion Price shall be made by hand delivery or delivered by overnight courier, as soon as practicable to the holders of record of outstanding shares of Series A Preferred Stock at their respective addresses appearing on the books of the Corporation.

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(vii) *Notice of Certain Events.* In case:

(A) The Corporation declares a dividend or other distribution on its Common Stock;

(B) The Corporation authorizes the issuance to the holders of its Common Stock of rights or warrants entitling them to subscribe for or purchase any shares of capital stock of any class or any other subscription rights or warrants; or

(C) Of any reclassification of the capital stock of the Corporation (other than a subdivision or combination of its outstanding shares of Common Stock), or of any consolidation or merger to which the Corporation is a party and for which approval of any stockholders of the Corporation is required, or of any sale, transfer or other disposition of all or substantially all of the assets of the Corporation or of any other transaction or event that would constitute or result in a Fundamental Change or a Change in Control; or

(D) Of the voluntary or involuntary liquidation, dissolution or winding up of the Corporation;

then the Corporation shall file with each transfer agent for the shares of Series A Preferred Stock and shall deliver by hand delivery or by overnight courier to the holders of record of outstanding shares of Series A Preferred Stock, at their respective addresses appearing on the books of the Corporation, at least 5 days before the applicable record or effective date hereinafter specified, a notice stating (x) the date as of which the holders of record of Common Stock to be entitled to such dividend, distribution, rights or warrants are to be determined, or (y) the date on which such reclassification, consolidation, merger, sale, transfer, disposition, liquidation, dissolution or winding up or Fundamental Change is expected to become effective, and the date as of which it is expected that holders of record of Common Stock shall be entitled to exchange their shares for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer, disposition, liquidation, dissolution or winding up or Fundamental Change. Failure to give notice as required by this Section 5(g)(vii), or any defect in such notice, shall not affect the validity of any such dividend, distribution, right, warrant, reclassification, consolidation, merger, sale, transfer, disposition, liquidation, dissolution or winding up or Fundamental Change, or the vote on any action authorizing such.

(viii) *Reservation of Shares.* The Corporation shall at all times reserve and keep available, free from preemptive rights, out of its authorized but unissued Common Stock, solely for the purpose of issuance upon conversion of shares of Series A Preferred Stock, the full number of shares of Common Stock then deliverable upon conversion of all shares of Series A Preferred Stock outstanding.

(h) *Voting Rights.*

(i) *General.* The holders of Series A Preferred Stock shall be entitled to vote and, except as hereinafter provided, shall vote together with the holders of Common Stock (and of any other class or series that may similarly be entitled to vote with the holders of Common Stock) as a single class on all matters on which holders of Common Stock are entitled to vote.

In so voting, the holders of Series A Preferred Stock shall be entitled to cast such number of votes as such holders would have been entitled to cast if the Series A Preferred Stock and the Note had been converted into Common Stock on the record date for the determination of holders entitled to vote. Each share of Series A Preferred Stock shall be entitled to cast a pro rata portion of such number of votes.

(ii) *Other Voting Rights.* So long as the sum of (a) the aggregate outstanding principal amount of the Notes and (b) the product of (x) the number of issued and outstanding shares of Series A Preferred Stock and (y) the Issuance Price, exceeds \$15,000,000.00, the Corporation will not, without the prior written consent of the holders of two thirds of the Series A Preferred Stock at the time outstanding, permit the taking of the following actions or take any action that has the effect of:

(A) waiving, amending, altering, repealing or changing the rights, preferences or privileges of the Series A Preferred Stock, as provided herein or in the certificate of incorporation, whether by merger, consolidation or otherwise;

(B) authorizing or issuing any other equity security, including any other security convertible into or exercisable for any equity security, having a preference over the Series A Preferred Stock with respect to voting, the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the Corporation;

(C) reclassifying any outstanding shares of equity securities, including any security convertible into or exercisable for any such equity security, into equity securities having a preference over, or being on a parity with, the Series A Preferred Stock with respect to voting, the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the Corporation;

(D) authorizing or paying any dividend or distribution with respect to Common Stock or any other class or series of Junior Stock;

(E) increasing the authorized number of shares of Series A Preferred Stock other than in connection with the payment of dividends on the Series A Preferred Stock;

(F) altering or changing the business of the Corporation in any fundamental respect; or

(G) effecting a voluntary liquidation, dissolution or winding up of the Corporation;

provided, however, that the amendment of the certificate of incorporation so as to authorize or create, or to increase the authorized amount of, any Junior Stock or any shares of any class or series or any securities convertible into shares of any class or series of capital stock of the Corporation ranking on a parity with Series A Preferred Stock in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the Corporation

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shall not be deemed to affect adversely the rights, preferences or privileges of the Series A Preferred Stock; provided, further that no such vote or consent of the holders of Series A Preferred Stock shall be required if provision is made for the redemption pursuant to Section 5(f) of all shares of Series A Preferred Stock at the time outstanding at or before the time when such amendment, alteration or repeal is to take effect or when such authorization, creation or increase in the authorized amount of any shares or convertible securities is to be made, as the case may be.

(i) Other Rights. The shares of Series A Preferred Stock shall not have any voting powers, preferences or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the certificate of incorporation of the Corporation.

#### **Article V: Incorporator**

The name and mailing address of the incorporator are as follows: Peter L. Dunn, Korn/Ferry International, 1800 Century Park East, Suite 900, Los Angeles, California 90067.

#### **Article VI: Bylaws**

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized to adopt, alter, amend and repeal the Bylaws of the Corporation, subject to the power of the stockholders of the Corporation to alter or repeal any bylaw whether adopted by them or otherwise; provided, however, that the affirmative vote of 66 and 2/3 percent of the voting power of the capital stock of the Corporation entitled to vote thereon shall be required for stockholders to adopt, amend, alter or repeal any provision of the Bylaws of the Corporation.

#### **Article VII: Election of Directors**

Unless and except to the extent that the Bylaws of the Corporation shall so require, the election of directors of the Corporation need not be by written ballot.

#### **Article VIII: Number of Directors**

Except as otherwise provided for or fixed by or pursuant to the provisions of Article IV of this Certificate of Incorporation or any resolution or resolutions of the Board of Directors providing the issuance of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the Board of Directors shall consist of not fewer than 8 nor more than 15 directors, the exact number of directors within such limits to be determined solely by the Board of Directors in the manner set forth in the Bylaws of the Corporation. Commencing with the 2013 annual meeting of stockholders, directors shall be elected for a term ending on the date of the next annual meeting of stockholders following their election and until their successors shall have been duly elected and qualified, or until their earlier death, resignation or removal.

**Article IX: Director Liability**

A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended. Any amendment, modification or repeal of the foregoing sentence shall not adversely affect any right or protection of a director of the Corporation hereunder in respect of any act or omission occurring prior to the time of such amendment, modification or repeal.

**Article X: Removal of Directors**

Any or all directors may be removed with or without cause by the holders of a majority of the shares entitled to vote at an election of directors.

**Article XI: Reservation of Rights by the Corporation**

The Corporation hereby reserves the right at any time and from time to time to amend, alter, change or repeal any provisions contained in this Certificate of Incorporation, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law, and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by or pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article XI.

**Article XII: Meetings of the Stockholders**

Section 1. Place of Meetings. Meetings of the stockholders may be held within or without the State of Delaware, as the Bylaws of the Corporation may provide.

Section 2. Ability to Call Special Meetings. Special meetings of the stockholders may be called only by the Board of Directors, the Chair of the Board of Directors, the Chief Executive Officer or the President of the Corporation, and may not be called by any other person or persons.

**Article XIII: Books of the Corporation**

The books of the Corporation may be kept (subject to any provision contained in the laws of the State of Delaware) outside of the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

**Article XIV: Action by Written Consent of Stockholders Prohibited**

No action that is required or permitted to be taken by the stockholders of the Corporation at any annual or special meeting of the stockholders may be effected by written consent of the stockholders in lieu of a meeting of the stockholders, unless the action to be effected by written consent of stockholders and the taking of such action by such written consent have expressly been approved in advance by the Board of Directors of the Corporation. Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of at

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least 66 and 2/3 percent in voting power of the then outstanding voting stock of the Corporation, voting together as a single class, shall be required to amend, repeal or adopt any provision inconsistent with this Article XIV.

*[Remainder of Page Intentionally Left Blank]*



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IN WITNESS WHEREOF, the Corporation has caused this Restated Certificate of Incorporation to be executed on its behalf by its Corporate Secretary on this 27<sup>th</sup> day of September, 2013.

KORN/FERRY INTERNATIONAL

By: /s/ Peter Dunn

Name: Peter Dunn

Title: Corporate Secretary

**THIRD AMENDED AND RESTATED BYLAWS**

**of**

**KORN/FERRY INTERNATIONAL,  
a Delaware corporation**

**(effective September 26, 2013)**

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**THIRD AMENDED AND RESTATED BYLAWS**

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

**of**

**KORN/FERRY INTERNATIONAL**

(effective September 26, 2013)

**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.

*(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

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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.

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(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) *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.

(d) *Length of Term for Directors.* At each annual meeting of the stockholders beginning with the 2013 annual meeting of the stockholders, directors shall be elected to hold office for a term ending on the date of the next annual meeting of stockholders, with each director to hold office until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal.

(e) *Removal of Directors.* Any director, or the entire Board, may be removed with or without cause, by the holders 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 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, 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

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- (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.

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(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 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.

Section 17            CHAIR OF THE BOARD

The Board of Directors shall elect one of its members to be Chair of the Board and shall fill any vacancy in the position of Chair of the Board at such time and in such manner as the Board of Directors shall determine. The Chair of the Board shall preside at all meetings of stockholders and directors, and shall perform such other and further duties as may from time to time be required of him by the Board. If the Chair of the Board is not present at a meeting of the Board, another director chosen by the Board shall preside.

**ARTICLE IV OFFICERS.**

Section 1            OFFICERS.

The senior officers of the corporation shall be 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

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 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.

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.

In the absence or disability of the Chief Executive Officer, the President, the Chief Operating Officer, 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.



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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 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 Chief Executive Officer, the Chief Operating Officer, the President, 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 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.

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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.

Any officer or officers authorized by 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 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 10 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.

## CERTIFICATIONS

I, Gary D. Burnison, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Korn/Ferry International;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ GARY D. BURNISON

Name: **Gary D. Burnison**

Title: **Chief Executive Officer and President**

Date: December 9, 2013

## CERTIFICATIONS

I, Robert P. Rozek, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Korn/Ferry International;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ ROBERT P. ROZEK

Name: **Robert P. Rozek**

Title: **Executive Vice President and Chief Financial Officer**

Date: December 9, 2013



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officers of Korn/Ferry International, a Delaware corporation (the "Company"), hereby certify that, to the best of their knowledge:

(a) the Quarterly Report on Form 10-Q for the quarter ended October 31, 2013 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 9, 2013

By: /s/ GARY D. BURNISON

Name: **Gary D. Burnison**

Title: **Chief Executive Officer and President**

By: /s/ ROBERT P. ROZEK

Name: **Robert P. Rozek**

Title: **Executive Vice President and Chief Financial Officer**