

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

FORM 10-Q

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

For the quarterly period ended October 31, 2003 or

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

For the transition period from _____ to _____

Commission File Number 001-14505

KORN/FERRY INTERNATIONAL

(Exact name of registrant as specified in its charter)

Delaware
(State of other jurisdiction
of incorporation or organization)

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

1800 Century Park East, Suite 900, Los Angeles, California 90067

(Address of principal executive offices) (Zip code)

(310) 552-1834

(Registrant's telephone number, including area code)

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of our common stock as of December 10, 2003 was 37,622,368.

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

	As of October 31, 2003	As of April 30, 2003
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 64,403	\$ 82,685
Receivables due from clients, net of allowance for doubtful accounts of \$7,352 and \$7,199	49,923	46,737
Income tax and other receivables	6,370	12,648
Deferred income taxes	9,162	9,162
Prepaid expenses	9,974	10,403
	<u>139,832</u>	<u>161,635</u>
Total current assets	139,832	161,635
Property and equipment, net	23,541	27,698
Cash surrender value of company owned life insurance policies, net of loans	54,012	53,143
Deferred income taxes	24,923	23,897
Goodwill	96,734	94,729
Deferred financing costs, investments and other	6,995	7,911
	<u>\$ 346,037</u>	<u>\$ 369,013</u>
Total assets	\$ 346,037	\$ 369,013
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable	\$	\$ 5,099
Accounts payable	7,438	8,651
Compensation and benefits payable	33,990	52,206
Other accrued liabilities	26,148	23,006
	<u>67,576</u>	<u>88,962</u>
Total current liabilities	67,576	88,962
Deferred compensation and other retirement plans	52,595	49,944
Long-term debt	42,864	41,364
Other liabilities	11,054	12,682
7.5% Convertible mandatorily redeemable preferred stock, net of unamortized discount and issuance costs, redemption value \$10,100	10,055	9,606
	<u>184,144</u>	<u>202,558</u>
Total liabilities	184,144	202,558
Stockholders' equity		
Common stock: \$0.01 par value, 150,000 shares authorized, 38,912 and 38,642 shares issued and 37,780 and 37,590 shares outstanding	304,098	302,021
Retained deficit	(133,823)	(126,607)
Unearned restricted stock compensation	(2,646)	(1,560)
Accumulated other comprehensive loss	(4,652)	(6,044)
	<u>162,977</u>	<u>167,810</u>
Stockholders' equity	162,977	167,810
Less: Notes receivable from stockholders	(1,084)	(1,355)
	<u>161,893</u>	<u>166,455</u>
Total stockholders' equity	161,893	166,455
Total liabilities and stockholders' equity	<u>\$ 346,037</u>	<u>\$ 369,013</u>

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2003	2002	2003	2002
	(unaudited)		(unaudited)	
Fee revenue	\$ 76,650	\$ 79,572	\$ 149,237	\$ 163,522
Reimbursed out-of-pocket engagement expenses	5,315	6,086	11,061	11,924
Total revenue	81,965	85,658	160,298	175,446
Compensation and benefits	51,355	55,581	102,673	115,088
General and administrative expenses	17,492	19,921	34,302	38,597
Out-of-pocket engagement expenses	5,460	5,753	11,256	11,817
Depreciation and amortization	2,500	4,061	5,287	8,292
Restructuring charges	—	16,281	8,526	16,281
Total operating expenses	76,807	101,597	162,044	190,075
Operating income (loss)	5,158	(15,939)	(1,746)	(14,629)
Interest income and other income, net	9	411	470	1,383
Interest expense	2,714	2,397	5,423	5,053
Income (loss) before provision for income taxes and equity in earnings of unconsolidated subsidiaries	2,453	(17,925)	(6,699)	(18,299)
Provision for income taxes	475	488	931	1,058
Equity in earnings of unconsolidated subsidiaries	243	396	414	757
Net income (loss)	2,221	(18,017)	(7,216)	(18,600)
Accretion on redeemable convertible preferred stock		(242)		(366)
Net income (loss) attributed to common stockholders	\$ 2,221	\$ (18,259)	\$ (7,216)	\$ (18,966)
Basic earnings (loss) per common share	\$ 0.06	\$ (0.48)	\$ (0.19)	\$ (0.50)
Basic weighted average common shares outstanding	37,491	37,701	37,457	37,672
Diluted earnings (loss) per common share	\$ 0.06	\$ (0.48)	\$ (0.19)	\$ (0.50)
Diluted weighted average common shares outstanding	39,669	37,701	37,457	37,672

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

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

	Six Months Ended October 31,	
	2003	2002
	(unaudited)	
Cash from operating activities:		
Net loss	\$ (7,216)	\$ (18,600)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	5,252	7,655
Amortization of intangible assets	35	638
Amortization of note payable discount		164
Interest paid in kind and amortization on convertible securities	2,243	1,318
Loss on disposition of property and equipment	83	31
Unrealized loss on marketable securities and other assets		353
Provision for doubtful accounts	1,833	4,122
Cash surrender value gains	(2,203)	(394)
Deferred income tax (benefit) provision	(1,026)	401
Asset impairment charge	464	798
Restructuring charge		1,554
Restricted stock compensation	856	685
Variable stock-based compensation	535	
Change in other assets and liabilities, net of acquisitions:		
Deferred compensation	2,801	2,709
Receivables	1,955	15,250
Prepaid expenses	429	(915)
Investment in unconsolidated subsidiaries	331	(609)
Income taxes		925
Accounts payable and accrued liabilities	(16,287)	(26,485)
Other	(1,386)	6,252
Net cash used in operating activities	<u>(11,301)</u>	<u>(4,148)</u>
Cash from investing activities:		
Purchase of property and equipment	(948)	(277)
Premiums on life insurance	(1,127)	(2,466)
Surrender of life insurance policies	1,917	
Purchase of Futurestep minority shares	(570)	
Net cash used in investing activities	<u>(728)</u>	<u>(2,743)</u>
Cash from financing activities:		
Issuance of convertible debt, preferred stock and warrants, net		45,679
Payments on previous credit facility		(39,000)
Payment of shareholder acquisition notes	(5,099)	(5,128)
Payments on life insurance policy loans	(1,574)	
Net borrowings under life insurance policies	1,421	2,557
Purchase of common stock and payment on related notes	(676)	(485)
Issuance of common stock and receipts on stockholders' notes	397	740
Net cash (used in) provided by financing activities	<u>(5,531)</u>	<u>4,363</u>
Effect of exchange rate changes on cash flows	(722)	(3,104)
Net decrease in cash and cash equivalents	(18,282)	(5,632)
Cash and cash equivalents at beginning of the period	82,685	66,128
Cash and cash equivalents at end of the period	<u>\$ 64,403</u>	<u>\$ 60,496</u>

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

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share amounts)

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements for the three and six months ended October 31, 2003 and 2002 include the accounts of Korn/Ferry International (“KFY”), all of its wholly and majority owned domestic and international subsidiaries (collectively, the “Company”). The consolidated financial statements are unaudited but include all adjustments, consisting of normal recurring accruals and any other adjustments, which management considers necessary for a fair presentation of the results for these periods. These financial statements have been prepared consistently with the accounting policies described in the Company’s Annual Report on Form 10-K for the fiscal year ended April 30, 2003 (“Annual Report”) and should be read together with the Annual Report.

Critical Accounting Policies and Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 financial statements and the reported amounts of revenue and expenses during the reporting period. As a result, actual results could differ from these estimates. The most significant areas that require management judgment are revenue recognition, deferred compensation and deferred income taxes.

Stock Based Compensation

The Company accounts for its employee stock options under the recognition and measurement principles of Accounting Principles Board Opinion (“APB”) No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. Under APB No. 25, no stock-based compensation is reflected in net income (loss), when stock options granted under the Company’s stock option plans have an exercise price equal to the fair market value of the underlying common stock on the date of grant and the related number of shares granted is fixed at that point in time.

In December 2002, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure”, effective for fiscal years ending after December 15, 2002. This rule amends SFAS No. 123, “Accounting for Stock-based Compensation,” to provide several alternatives for adopting the stock option expense provisions of SFAS No. 123, as well as additional required interim financial statement disclosures. SFAS No. 148 does not require companies to expense stock options in current operations. The Company has not adopted the provisions of SFAS No. 123 for expensing stock-based compensation; however, the Company has adopted the additional interim disclosure provisions required by SFAS 148.

The following table illustrates the effect on net income (loss) and earnings (loss) per share as if the Company had applied the fair value recognition provisions of SFAS No. 148:

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -
(Continued)
(in thousands, except per share amounts)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2003	2002	2003	2002
Net income (loss) attributed to common stockholders, as reported	\$ 2,221	\$ (18,259)	\$ (7,216)	\$ (18,966)
Stock-based employee compensation charges:				
Determined under the intrinsic-value based method			535	
Determined under the fair-value based method	(4,108)	(9,134)	(9,465)	(17,199)
Net loss attributed to common stockholders, as adjusted	\$ (1,887)	\$ (27,393)	\$ (16,146)	\$ (36,165)
Basic EPS				
As reported	\$ 0.06	\$ (0.48)	\$ (0.19)	\$ (0.50)
Pro forma	\$ (0.05)	\$ (0.73)	\$ (0.43)	\$ (0.96)
Dilutive EPS				
As reported	\$ 0.06	\$ (0.48)	\$ (0.19)	\$ (0.50)
Pro forma	\$ (0.05)	\$ (0.73)	\$ (0.43)	\$ (0.96)

The fair value of options granted in the three and six months ended October 31, 2003 and 2002 is estimated on the date of grant using the Black-Scholes option-pricing model with a zero dividend rate and the following assumptions:

	2003	2002
Expected stock volatility	64.3%	66.2%
Risk-free interest rate	4.04%	3.76%
Expected option life (in years)	7.50	7.50

The Black-Scholes option valuation 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. Because changes in these subjective input assumptions can materially affect the fair value estimate in management's opinion, existing valuation models do not provide a reliable, single measure of the fair value of its employee stock options. For purposes of pro forma disclosures, the estimated fair values of the options are amortized over the options' vesting periods.

Reclassifications

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

New Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities", effective as of the first interim period beginning after June 15, 2003. Under FIN 46, a business enterprise that has a controlling financial interest in a variable interest entity would include the variable interest entity's assets, liabilities and results of operations in their consolidated financial statements. The impact upon adoption of this standard did not have an impact on the results of the Company's operations or financial position.

2. Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per common share ("basic EPS") was computed by dividing net income (loss) attributed to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share ("diluted EPS") reflects the potential dilution that would occur if all outstanding

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KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -
(Continued)
(in thousands, except per share amounts)

options or other contracts to issue common stock were exercised or converted and was computed by dividing the net income (loss) by the weighted average number of common shares plus dilutive common equivalent shares outstanding. Following is a reconciliation of the numerator and denominator used in the computation of basic and diluted EPS:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2003	2002	2003	2002
Net income (loss) (Numerator):				
Net income (loss)	\$ 2,221	\$ (18,017)	\$ (7,216)	\$ (18,600)
Accretion on redeemable convertible preferred stock		(242)		(366)
Net income (loss) for basic EPS	<u>\$ 2,221</u>	<u>\$ (18,259)</u>	<u>\$ (7,216)</u>	<u>\$ (18,966)</u>
Adjustment for interest expense on Convertible Preferred Stock	275			
Net income (loss) for diluted EPS, after assumed conversion of Preferred Stock	<u>\$ 2,475</u>	<u>\$ (18,259)</u>	<u>\$ (7,216)</u>	<u>\$ (18,966)</u>
Shares (Denominator):				
Weighted average shares for basic EPS	37,491	37,701	37,457	37,672
Effect of convertible debt				
Effect of convertible preferred stock	1,067			
Effect of warrants				
Effect of restricted stock	43			
Effect of stock options	1,064			
Effect of employee stock purchase plan	4			
Adjusted weighted average shares for diluted EPS	<u>39,669</u>	<u>37,701</u>	<u>37,457</u>	<u>37,672</u>
Basic earnings (loss) per share	<u>\$ 0.06</u>	<u>\$ (0.48)</u>	<u>\$ (0.19)</u>	<u>\$ (0.50)</u>
Diluted earnings (loss) per share	<u>\$ 0.06</u>	<u>\$ (0.48)</u>	<u>\$ (0.19)</u>	<u>\$ (0.50)</u>

Assumed exercises or conversions have been excluded in computing the diluted earnings per share when their inclusion would be anti-dilutive. If the assumed exercises or conversions had been used, the fully diluted shares outstanding for the six months ended October 31, 2003 would have been 39,288.

3. Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income (loss) and all changes to stockholders' equity, except those changes resulting from investments by owners (changes in paid in capital) and distributions to owners (dividends).

Total comprehensive income (loss) is as follows:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2003	2002	2003	2002
Net income (loss)	\$ 2,221	\$ (18,017)	\$ (7,216)	\$ (18,600)
Foreign currency translation adjustment	2,056	762	1,392	2,378
Comprehensive income (loss)	<u>\$ 4,277</u>	<u>\$ (17,255)</u>	<u>\$ (5,824)</u>	<u>\$ (16,222)</u>

The accumulated other comprehensive loss of \$4.7 million at October 31, 2003 is comprised of foreign currency translation adjustments.

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -
(Continued)
(in thousands, except per share amounts)

4. Restructuring Charges

Based on deteriorating economic conditions in fiscal 2002, the Company began a series of restructuring initiatives to address its cost structure and to reposition the enterprise to gain market share and take advantage of any potential economic up-trend. These business realignment initiatives reduced the Company's work force by nearly 30%, or over 850 employees. Such initiatives included consolidating back-office functions of Futurestep and executive recruitment, exiting the college recruitment market, discontinuing the operations of JobDirect and writing-down related assets and goodwill. These restructuring initiatives resulted in total charges of \$93.2 million and \$16.3 million against operating results in fiscal 2002 and 2003, respectively.

In June 2003, the Company further streamlined its infrastructure and improved organizational efficiencies. Near term activities focused on the continued consolidation of back-office functions, reduction of corporate and administrative overhead, and other adjustments to its cost base. As such, the Company incurred a restructuring charge of \$8.5 million, which includes \$6.7 million of severance and benefits related to 162 staff reductions, \$0.9 million related to facilities, \$0.4 million related to the write-off of related assets and \$0.5 million related to other charges.

Operating results include restructuring charges related to the following business segments in the six months ended October 31, 2003:

	Restructuring		
	Severance	Facilities	Total
Executive recruitment			
North America	\$ 455	\$ (191)	\$ 264
Europe	4,405	505	4,910
Asia Pacific	160		160
South America	58		58
Total executive recruitment	5,078	314	5,392
Futurestep	1,474	1,508	2,982
Corporate	152		152
Total	\$ 6,704	\$ 1,822	\$ 8,526

Executive recruitment severance of \$5.1 million includes 112 employees terminated. The \$0.3 million of facilities restructuring charge is net of a \$0.8 million favorable adjustment related to previously reported restructured properties as a result of subleases signed at better terms than originally anticipated. The facilities restructuring charge primarily relates to lease termination costs, net of estimated sublease income, for excess space in three executive recruitment offices and includes \$0.2 million related to the write-down of fixed assets and \$0.3 million of other restructuring charges.

Futurestep severance of \$1.5 million includes 43 employees terminated. Facilities of \$1.5 million primarily relates to five Futurestep Europe offices that were closed as employees were co-located with executive recruitment offices and includes \$0.2 million related to the write-down of related fixed assets and \$0.2 million of other restructuring charges.

Corporate severance of \$0.1 million includes 7 employees terminated.

Operating results include restructuring charges related to the following business segments in the three and six months ended October 31, 2002:

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -
(Continued)
(in thousands, except per share amounts)

	Restructuring		
	Severance	Facilities	Total
Executive recruitment			
North America	\$ 2,313	\$ 4,331	\$ 6,644
Europe	809	3,641	4,450
Asia Pacific	312		312
Total executive recruitment	\$ 3,434	\$ 7,972	\$ 11,406
Futurestep	761	3,036	3,797
Corporate	1,078		1,078
Total	\$ 5,273	\$ 11,008	\$ 16,281

The total restructuring charge for severance in the amount of \$5,273 includes severance for approximately 130 employees.

The facilities restructuring charge of \$7,972 in executive recruitment relates primarily to lease termination costs, net of estimated sublease income, for excess space in eight executive recruitment offices due to the reduction in workforce and includes \$1,042 related to unamortized leasehold improvements and \$109 related to the write-off of facility related assets.

The facilities restructuring charge of \$3,036 relates to eight Futurestep offices that were closed as employees were co-located with executive recruitment in Europe and Asia Pacific and includes \$340 related to unamortized leasehold improvements and \$689 related to the write-off of facility related assets.

A roll-forward of the restructuring liability at October 31, 2003 is as follows:

	Restructuring		
	Severance	Facilities	Total
Liability as of April 30, 2003	\$ 821	\$ 13,965	\$ 14,786
Charged to expense	6,704	1,822	8,526
Non-cash items		(401)	(401)
Payments	(4,138)	(3,948)	(8,086)
Liability as of October 31, 2003	\$ 3,387	\$ 11,438	\$ 14,825

The severance accrual includes amounts paid monthly and are expected to be paid in full by September 2004. The accrued liability for facilities costs primarily relates to commitments under operating leases, net of estimated sublease income, of which \$8.9 million is included in other long-term liabilities, paid over the next eight years.

5. Mandatorily Redeemable Convertible Securities

In June 2002, the Company issued 7.5% Convertible Subordinated Notes in an aggregate principal amount of \$40.0 million, 10,000 shares of 7.5% Convertible Series A Preferred Stock at an aggregate purchase price of \$10.0 million and warrants to purchase 272,727 shares of its Common Stock at an exercise price of \$12.00. The warrants were recorded at fair value resulting in discounts on the Notes and Preferred Stock (together "the securities") of \$1.2 million and \$0.3 million, respectively, that are amortized over the life of the securities.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" effective at the beginning of the first interim period after June 15, 2003. This Statement requires mandatorily redeemable instruments be classified as liabilities. The Company adopted this Statement and classified its convertible mandatorily redeemable preferred stock as a liability. Prior year consolidated balance sheet has been reclassified to conform to this Statement. The Company also reported its accretion on redeemable convertible preferred stock to interest expense in the three and six months ended October 31, 2003.

The securities may be redeemed at the option of the purchasers after June 13, 2008, the sixth anniversary of the closing date, at a price equal to 101% of the issuance price plus all accrued interest and dividends. The securities are

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -
(Continued)
(in thousands, except per share amounts)

mandatorily redeemable if outstanding on June 13, 2010, at a price equal to 101% of the issuance price plus accrued interest and dividends. From the third to the sixth year, the securities are subject to optional redemption by the Company provided certain minimum price targets of the Company's common stock are achieved.

Interest and dividends are payable semi-annually with 1% payable in cash and 6.5% payable in additional Notes and Preferred Stock for the first two year period from the date of issuance. Thereafter, interest and dividends are payable in either additional securities or cash at the option of the Company. The Company also incurred issuance costs of \$4.3 million that have been deferred and are being amortized as interest expense using the effective interest method over the life of securities with respect to \$3.4 million allocated to the Notes and \$0.9 million allocated to the Preferred Stock.

6. Business Segments

The Company operates in two global business segments, executive recruitment and Futurestep. These segments are distinguished primarily by the method used to identify candidates and the candidates level of compensation. The executive recruitment business segment is managed by geographic regional leaders. Revenue from strategic management assessment and other consulting engagements is included in executive recruitment. Futurestep is managed on a worldwide basis by the President of Futurestep. The executive recruitment geographic regional leaders and the President of Futurestep report directly to the Chief Executive Officer of the Company.

A summary of the Company's results of operations by business segment are as follows:

	Three months ended October 31,		Six months ended October 31,	
	2003	2002	2003	2002
Fee revenue:				
Executive recruitment:				
North America	\$ 40,615	\$ 42,312	\$ 77,022	\$ 84,475
Europe	17,860	19,157	36,015	41,321
Asia Pacific	8,314	8,775	16,321	16,847
South America	2,380	1,551	4,301	3,658
Total executive recruitment	69,169	71,795	133,659	146,301
Futurestep	7,481	7,777	15,578	17,221
Total fee revenue	76,650	79,572	149,237	163,522
Reimbursed out-of-pocket engagement expenses	5,315	6,086	11,061	11,924
Total revenue	\$ 81,965	\$ 85,658	\$ 160,298	\$ 175,446
	Three months ended October 31,		Six months ended October 31,	
	2003	2002	2003	2002
Operating income (loss) before restructuring charges				
Executive recruitment:				
North America	\$ 8,260	\$ 7,702	\$ 14,338	\$ 14,158
Europe	324	34	347	2,719
Asia Pacific	217	1,119	976	435
South America	350	(618)	400	(949)
Total executive recruitment	9,151	8,237	16,061	16,363
Futurestep	479	(1,816)	(70)	(2,729)
Corporate	(4,472)	(6,079)	(9,211)	(11,982)
Operating income before restructuring charges	5,158	342	6,780	1,652
Restructuring charges (Note 4)	—	(16,281)	(8,526)	(16,281)
Total operating income (loss)	\$ 5,158	\$ (15,939)	\$ (1,746)	\$ (14,629)

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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", "estimates", "potential", "continue" or other similar words or phrases. Similarly, statements that describe our objectives, plans or goals also are forward-looking statements. All of these forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from those contemplated by the relevant forward-looking statement. The principal risk factors that could cause actual performance and future actions to differ materially from the forward-looking statements include, but are not limited to, dependence on attracting and retaining qualified and experienced consultants, portability of client relationships, local political or economic developments in or affecting countries where we have operations, ability to manage growth, restrictions imposed by off-limits agreements, competition, risks related to the growth and results of Futurestep, reliance on information processing systems, and employment liability risk. Readers are urged to consider these factors carefully in evaluating the forward-looking statements. The forward-looking statements included in this Form 10-Q are made only as of the date of this report and we undertake no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.

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

Overview

We are a premier executive recruitment firm with the broadest global presence in the recruitment industry. Our services include executive recruitment, middle-management recruitment solutions (through Futurestep), strategic management assessment and executive coaching. We have approximately 385 executive recruitment consultants and 49 Futurestep consultants based in 70 cities across 36 countries. Our clients are many of the world's largest and most prestigious public and private companies, middle-market and emerging growth companies as well as government and not-for-profit organizations. Over half of the executive recruitment searches we performed in fiscal 2003 were for board level, chief executive and other senior executive positions and our 3,250 clients included approximately 40% of the Fortune 500 companies. We have established strong client loyalty; more than 79% of the executive recruitment assignments we performed in fiscal 2003 were on behalf of clients for whom we had conducted multiple assignments over the last three fiscal years.

In the current quarter we reported positive earnings per share for the first time since fourth quarter of fiscal 2001. The improvement in our earnings reflects the success of our multi-product strategy coupled with our restructuring initiatives and cost savings efforts discussed below.

Based on deteriorating economic conditions in fiscal 2002, we began a series of restructuring initiatives to address our cost structure and to reposition ourselves to gain market share and take full advantage of the eventual economic recovery. These restructuring initiatives resulted in total charges of \$93.2 million and \$16.3 million in fiscal 2002 and 2003, respectively.

In June 2003, we recorded a restructuring charge of \$8.5 million representing \$6.7 million of severance and benefits related to 162 employees, \$0.9 million related to facilities, \$0.4 million related to the write-off of related assets and \$0.5 million related to other charges.

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The following table summarizes the restructuring charge for the six months ended October 31, 2003:

	Severance	Facilities and Other	Total
Executive recruitment			
North America	\$ 455	\$ (191)	\$ 264
Europe	4,405	505	4,910
Asia Pacific	160		160
South America	58		58
	<u>5,078</u>	<u>314</u>	<u>5,392</u>
Total executive recruitment	5,078	314	5,392
Futurestep	1,474	1,508	2,982
Corporate	152		152
	<u>6,704</u>	<u>1,822</u>	<u>8,526</u>
Total	<u>\$ 6,704</u>	<u>\$ 1,822</u>	<u>\$ 8,526</u>

Critical Accounting Policies

The following discussion and analysis of our financial condition and operating results are based on our unaudited condensed consolidated financial statements. Preparation of this 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. In preparing our financial statements and accounting for the underlying transactions and balances, we apply our accounting policies as disclosed in our Notes to Unaudited Condensed Consolidated Financial Statements. We consider the policies related to revenue recognition, deferred compensation and deferred income taxes as critical to an understanding of our financial statements because their application places the most significant demands on management's judgment. Specific risks for these critical accounting policies are described in our Fiscal 2003 Annual Report on Form 10-K.

Results of Operations

The following table summarizes the results of our operations for the three and six months ended October 31, 2003 and 2002 as a percentage of fee revenue:

	Three months ended October 31,		Six months ended October 31,	
	2003	2002	2003	2002
Fee revenue	100%	100%	100%	100%
Total revenue	107	108	107	107
Compensation and benefits	67	70	69	70
General and administrative expenses	23	25	23	24
Out-of-pocket engagement expenses	7	7	7	7
Depreciation and amortization	3	5	3	5
Restructuring charges	0	21	6	10
Operating income (loss)	7	(20)	(1)	(9)
Net income (loss)	3	(23)	(5)	(11)

* Operating income (loss), excluding restructuring charges, as a percentage of fee revenue was 1% for the three and six months ended October 31, 2002. Operating income (loss), excluding restructuring charges, was 5% for the six months ended October 31, 2003. On the same basis, net income (loss) as a percentage of fee revenue was (2%) and (1%) for the three and six months ended October 31, 2002, and 1% for the six months ended October 31, 2003.

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The following tables summarize the results of our operations by business segment. The operating margin is calculated based on fee revenue.

	Three Months Ended October 31,				Six Months Ended October 31,			
	2003		2002		2003		2002	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%
Fee revenue								
Executive recruitment:								
North America	\$ 40,615	53%	\$ 42,312	53%	\$ 77,022	52%	\$ 84,475	52%
Europe	17,860	23	19,157	24	36,015	24	41,321	25
Asia Pacific	8,314	11	8,775	11	16,321	11	16,847	10
South America	2,380	3	1,551	2	4,301	3	3,658	2
Total executive recruitment	69,169	90	71,795	90	133,659	90	146,301	89
Futurestep	7,481	10	7,777	10	15,578	10	17,221	11
Total fee revenue	76,650	100%	79,572	100%	149,237	100%	163,522	100%
Reimbursed expenses	5,315		6,086		11,061		11,924	
Total revenue	\$ 81,965		\$ 85,658		\$ 160,298		\$ 175,446	

	Three Months Ended October 31,				Six Months Ended October 31,			
	2003		2002		2003		2002	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%
Operating income (loss)								
Executive recruitment:								
North America	\$ 8,260	20%	\$ 1,058	3%	\$ 14,074	18%	\$ 7,514	9%
Europe	324	2	(4,416)	(23)	(4,563)	(13)	(1,731)	(4)
Asia Pacific	217	3	807	9	816	5	123	1
South America	350	15	(618)	(40)	342	8	(949)	(26)
Total executive recruitment	9,151	13	(3,169)	(4)	10,669	8	4,957	3
Futurestep	479	6	(5,613)	(72)	(3,052)	(20)	(6,526)	(38)
Corporate	(4,472)		(7,157)		(9,363)		(13,060)	
Total operating income (loss)	\$ 5,158	7 %	\$ (15,939)	(20%)	\$ (1,746)	(1%)	\$ (14,629)	(9%)

	Three Months Ended October 31,				Six Months Ended October 31,			
	2003		2002		2003		2002	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%
Adjusted operating income (loss) (a)								
Executive recruitment:								
North America	\$ 8,260	20%	\$ 7,702	18%	\$ 14,338	19%	\$ 14,158	17%
Europe	324	2	34	0	347	1	2,719	7
Asia Pacific	217	3	1,119	13	976	6	435	3
Latin America	350	15	(618)	(40)	400	9	(949)	(26)
Total executive recruitment	9,151	13	8,237	11	16,061	12	16,363	11
Futurestep	479	6	(1,816)	(23)	(70)	(0)	(2,729)	(16)
Corporate	(4,472)		(6,079)		(9,211)		(11,982)	
Total adjusted operating income (loss)	\$ 5,158	7 %	\$ 342	0%	\$ 6,780	5%	\$ 1,652	1%

(a) Adjusted operating income (loss) are non-GAAP financial measures and exclude restructuring charges of \$16.3 million for the three and six months ended October 31, 2002 as follows: \$6.6 million in North America, \$4.5 million in Europe, \$0.3 million in Asia Pacific, \$3.8 million in Futurestep, and \$1.1 million in Corporate, respectively. Adjusted operating income (loss) excludes restructuring charges of \$8.5 million for the six months ended October 31, 2003, as follows: \$0.3 million in North America, \$4.9 million in Europe, \$0.2 million in Asia Pacific, \$3.0 million in Futurestep and \$0.1 million in Corporate, respectively. These charges primarily relate to severance and facility charges and do not affect fee revenue or revenue. The Company presents adjusted amounts as alternative measures to the actual amounts for comparison purposes. The Company uses the adjusted amounts to analyze its operating results since it believes that the restructuring charges do not reflect, and make it difficult to compare, the Company's ongoing operations over various quarters.

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Three Months Ended October 31, 2003 Compared to Three Months Ended October 31, 2002

Fee Revenue. Fee revenue decreased \$2.9 million, or 4%, to \$76.7 million for the three months ended October 31, 2003 compared to \$79.6 million for the three months ended October 31, 2002. The decrease in fee revenue was due to the challenging economic environment.

Executive Recruitment—With the exception of South America, all geographic regions reported lower fee revenue in the three months ended October 31, 2003 compared to the same period last year. North America fee revenue declined \$1.7 million, or 4%, to \$40.6 million in the current quarter primarily due to the challenging economic environment partially offset by increases in the number of new engagements opened as well as a slight increase in average fee. Europe reported fee revenue of \$17.9 million, a decline of \$1.3 million, or 7%, compared to the same period last year primarily driven by the challenging economic environment. Europe also reported a slight increase in the number of engagements opened partially offset by a slight decrease in average fees. Asia Pacific fee revenue declined \$0.5 million, or 5%, to \$8.3 million compared to the same period last year primarily due to the challenging economic environment. Asia Pacific's number of engagements and average fee remained fairly constant compared to prior year quarter. South America reported fee revenue of \$2.4 million, an increase of \$0.8 million, or 53%, compared to the same period last year primarily due to an increase in the number of engagements.

Futurestep—Fee revenue decreased \$0.3 million, or 4%, to \$7.5 million in the three months ended October 31, 2003 compared to \$7.8 million in the three months ended October 31, 2002. Europe had a decrease in fee revenue of \$1.2 million, or 26% over prior year offset by an increase in North America fee revenues of \$1.0 million, or 49% over prior year. The increase in North America fee revenues is due to the successful roll-out of the Company's managed services and large project strategy, which resulted in an increase in the number of engagements. The decrease in Europe fee revenue reflects the restructuring of Futurestep Europe operations.

Compensation and Benefits. Compensation and benefits expense decreased \$4.2 million, or 8%, to \$51.4 million in the three months ended October 31, 2003 compared to \$55.6 million in the three months ended October 31, 2002. The decrease in executive recruitment compensation and benefits costs of \$2.1 million, or 5%, reflects the reduction in our workforce in the last twelve months. Executive recruitment compensation and benefits expense as a percentage of fee revenue remained constant at 64% in both periods. Futurestep compensation and benefits expense declined \$0.9 million, or 15%, to \$5.2 million in the current quarter compared to the same period last year reflecting the reduction in the number of employees in the last twelve months. As a percentage of fee revenue, Futurestep compensation and benefits expense decreased to 69% in the current quarter from 78% in the same period last year. Corporate compensation and benefits expense declined \$1.2 million, or 35%, reflecting the reduction in our workforce.

General and Administrative Expenses. General and administrative expenses decreased \$2.4 million, or 12%, to \$17.5 million in the three months ended October 31, 2003 compared to \$19.9 million in the same period last year. In executive recruitment, general and administrative expenses decreased \$0.7 million, or 5%. The decline was due to a decrease in facilities and office costs resulting from restructuring initiatives coupled with a decline in bad debt expenses as a result of better receivable performance. These decreases were offset by an increase in professional services and other cost associated with partner meetings held worldwide. As a percentage of fee revenue, executive recruitment general and administrative expenses remained constant at 20% in both periods. Futurestep general and administrative expenses decreased \$1.4 million, or 49%, as compared to the same period last year primarily due to a decrease in facilities and office costs resulting from restructuring initiatives coupled with a decrease in professional services and business development costs. Futurestep general and administrative expenses as a percentage of fee revenue decreased to 19% in the current quarter from 36% in the same period last year. Corporate general and administrative expenses decreased \$0.4 million, or 15%, as a result of our on going cost reduction efforts.

Out-of-Pocket Engagement Expenses. Out-of-pocket engagement expenses are comprised of expenses incurred by candidates and our consultants that are generally billed to clients.

Out-of-pocket engagement expenses of \$5.5 million in the three months ended October 31, 2003 decreased \$0.3 million, or 5%, from \$5.8 million in the three months ended October 31, 2002. As a percentage of fee revenue, out-of-pocket engagement expenses remained constant at 7% in both periods.

Depreciation and Amortization Expenses. Depreciation and amortization expense decreased \$1.6 million, or 38%, compared to the same period last year as a result of a significant amount of fixed assets becoming fully depreciated in the second half of fiscal 2003.

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Operating Income (Loss). Operating income was \$5.2 million in the current quarter compared to an operating loss of \$15.9 million in the same period last year. Excluding restructuring charges of \$16.3 million in the three months ended October 31, 2002, operating income improved \$4.8 million from an adjusted operating income of \$0.3 million.

Executive recruitment operating income increased to \$9.2 million, or 13% of fee revenue in the three months ended October 31, 2003 compared to adjusted operating income of \$8.2 million, or 12% of fee revenue, in the three months ended October 31, 2002. Adjusted operating income excludes restructuring charges of \$11.4 million in the three months ended October 31, 2002. The \$1.0 million increase in executive recruitment operating income reflects \$4.3 million of cost savings as a result of the Company's restructuring and costs savings efforts partially offset by a decrease of \$3.3 million in revenue year over year. The increase in operating income was primarily driven by North America which represented \$0.6 million of the increase and Europe which represented \$0.3 million of the increase.

Futurestep operating income of \$0.5 million improved \$2.3 million compared to adjusted operating loss of \$1.8 million, excluding restructuring charges of \$3.8 million in the three months ended October 31, 2002. The improvement in operating income reflects the success of the Company's managed services and large project strategy roll-out. Operating income was 6% of fee revenue in the current quarter compared to (23%) of fee revenue in the same period last year.

Interest Income and Other Income, Net. Interest income and other income, net includes interest income of \$0.2 million for the three months ended October 31, 2003 and 2002. Other loss was \$0.2 million in the three months ended October 31, 2003 compared to other income of \$0.2 million in the three months ended October 31, 2002.

Interest Expense. Interest expense, primarily related to the borrowings under Company Owned Life Insurance ("COLI") policies and the Company's convertible securities, was \$2.7 million, comparable with the same period last year. The accretion on redeemable convertible preferred stock of \$0.3 million was reported as interest expense in the three months ended October 31, 2003.

Provision for (Benefit from) Income Taxes. The provision for income taxes was \$0.5 million, consistent with the same period last year. Although we reported a pretax loss in the prior year, certain foreign subsidiaries reported pretax income resulting in foreign income tax expense.

Equity in Earnings of Unconsolidated Subsidiaries. Equity in earnings of unconsolidated subsidiaries is comprised of our less than 50% shareholder interest in our Mexico subsidiaries. We report our interest in earnings or loss of the Mexico subsidiaries on the equity basis as a one line adjustment to net income (loss). Equity in earnings of \$0.2 million decreased in the current quarter compared to \$0.4 million the same period last year due to lower revenues reported in the current quarter.

Six Months Ended October 31, 2003 Compared to Six Months Ended October 31, 2002

Fee Revenue. Fee revenue decreased \$14.3 million, or 9%, to \$149.2 million for the six months ended October 31, 2003 compared to \$163.5 million for the six months ended October 31, 2002. The decrease in fee revenue was a result of the continued weakness in the global economy.

Executive Recruitment—With the exception of South America, all geographic regions reported lower fee revenue in the six months ended October 31, 2003 compared to the same period last year. North America fee revenue declined \$7.5 million, or 9%, to \$77.0 million in the current period primarily due to the challenging economic environment partially offset by increases in the number of new engagements opened as well as an increase in average fees in the current period. Europe reported fee revenue of \$36.0 million, a decline of \$5.3 million, or 13%, compared to the same period last year primarily driven by the challenging economic environment. Europe also reported an increase in the number of engagements opened as well as a slight increase in average fees in the current period compared to the same period last year. Asia Pacific fee revenue declined \$0.5 million, or 3%, to \$16.3 million primarily due to the challenging economic environment. Asia Pacific's number of engagements and average fee remained fairly constant compared to the same period last year. South America reported fee revenue of \$4.3 million, an increase of \$0.6 million, or 18%, compared to the same period last year primarily due to an increase in average fees while the number of engagements decreased slightly.

Futurestep—Fee revenue decreased \$1.6 million, or 10%, to \$15.6 million in the six months ended October 31, 2003 compared to \$17.2 million in the six months ended October 31, 2002. Europe decreased \$2.8 million in fee revenue primarily as a result of the restructuring of Futurestep Europe operations. The decrease in fee revenues was offset by an increase of \$1.1 million in North America fee revenues due to the successful roll-out of the Company's managed services and large project strategy, which resulted in an increase in the number of engagements. Asia Pacific had an increase of \$0.1 million in fee revenue.

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Compensation and Benefits. Compensation and benefits expense decreased \$12.4 million, or 11%, to \$102.7 million in the six months ended October 31, 2003 compared to \$115.1 million in the six months ended October 31, 2002. The decrease in executive recruitment compensation and benefits costs of \$8.8 million, or 10%, reflects the reduction in our workforce in the last twelve months. Executive recruitment compensation and benefits expense as a percentage of fee revenue was 65% for both periods. Futurestep compensation and benefits expense declined \$1.5 million, or 12%, to \$11.0 million in the current period compared to the same period last year reflecting a reduction in our workforce as a result of the restructuring initiatives. As a percentage of fee revenue, Futurestep compensation and benefits expense was 71% in the current period an improvement of two percentage points compared to the same period last year. Corporate compensation and benefits decreased \$2.1 million, or 30%, reflecting a reduction in our workforce.

General and Administrative Expenses. General and administrative expenses decreased \$4.3 million, or 11%, to \$34.3 million in the six months ended October 31, 2003 compared to \$38.6 million in the same period last year. In executive recruitment, general and administrative expenses decreased \$1.8 million, or 6%. The decline was primarily due to a decrease in bad debt expense as a result of better receivable performance and a decrease in facilities and office costs as a result of the restructuring initiatives. These decreases were offset by an increase in professional services costs and other costs incurred in conjunction with partner meetings held worldwide. As a percentage of fee revenue, executive recruitment general and administrative expenses was 20% for both periods. Futurestep general and administrative expenses decreased \$1.9 million, or 35%, primarily due to a decrease in facilities and office costs resulting from our restructuring initiatives. Futurestep general and administrative expenses as a percentage of fee revenue decreased to 23% in the current period from 32% in the same period last year. Corporate general and administrative expenses decreased \$0.5 million, or 12%, primarily due to a decrease in advertising costs partially off set by an increase in professional services costs.

Out-of-Pocket Engagement Expenses. Out-of-pocket engagement expenses of \$11.2 million in the six months ended October 31, 2003 decreased \$0.6 million, or 5%, compared to \$11.8 million in the six months ended October 31, 2002. As a percentage of fee revenue, out-of-pocket engagement expenses remained constant at 7% in both periods.

Depreciation and Amortization Expenses. Depreciation and amortization expense decreased \$3.0 million, or 36%, compared to the same period last year primarily as a result of a significant amount of fixed assets becoming fully depreciated in the second half of fiscal 2003.

Operating Income. Operating loss was \$1.7 million in the six months ended October 31, 2003 compared to \$14.6 million in the six months ended October 31, 2002. Excluding restructuring charges of \$8.5 million and \$16.3 million in the six months ended October 31, 2003 and 2002, respectively, adjusted operating income increased \$5.1 million to \$6.8 million compared to adjusted operating income of \$1.7 million in the same period last year.

Executive recruitment adjusted operating income slightly decreased to \$16.1 million, or 12% of fee revenue in the six months ended October 31, 2003 compared to \$16.4 million, or 11% of fee revenue, in the six months ended October 31, 2002. Adjusted operating income excludes restructuring charges of \$5.4 million and \$11.4 million in the three months ended October 31, 2003 and 2002, respectively. This decline in adjusted operating income was primarily driven by Europe with a reduction of \$2.4 million. This decline was partially offset by an improvement of \$0.2 million, \$0.5 million and \$1.3 million in operating income in North America, Asia Pacific and South America, respectively.

Futurestep adjusted operating loss improved \$2.7 million reflecting the success of the Company's managed services and large project strategy roll-out. Adjusted operating income excludes restructuring charges of \$3.0 million and \$3.8 million in the six months ended October 31, 2003 and 2002, respectively. Futurestep broke even in the current period compared to (16%) of fee revenue in the same period last year.

Interest Income and Other Income, Net. Interest income and other income, net includes interest income of \$0.5 million and \$0.7 million for the six months ended October 31, 2003 and 2002, respectively. The decrease in interest income is primarily due to a lower average investment balance compared to the same period last year. Other loss was \$0.1 million in the current period compared to other income of \$0.7 million in the same period last year. Other income of \$0.7 million primarily relates to favorable foreign exchange rates on an offshore investment.

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Interest Expense. Interest expense, primarily related to the borrowings under COLI policies and the Company's convertible securities, was \$5.4 million and \$5.1 million in the six months ended October 31, 2003 and, 2002, respectively. The accretion on redeemable convertible preferred stock of \$0.5 million was reported as interest expense in the six months ended October 31, 2003.

Provision for (Benefit from) Income Taxes. The provision for income taxes was \$0.9 million in the six months ended October 31, 2003 compared to \$1.1 million in the six months ended October 31, 2002. Although we reported a pretax loss in both periods, certain foreign subsidiaries reported pretax income resulting in foreign income tax expense.

Equity in Earnings of Unconsolidated Subsidiaries. Equity in earnings of unconsolidated subsidiaries is comprised of our less than 50% shareholder interest in our Mexico subsidiaries. We report our interest in the earnings or loss of the Mexico subsidiaries on the equity basis as a one line adjustment to net income. Equity in earnings of \$0.4 million decreased in the current period compared to \$0.8 million in the same period last year due to lower revenues in the current period.

Liquidity and Capital Resources

Cash used in operating activities was \$11.3 million in the six months ended October 31, 2003 and \$4.1 million in the same period last year. The increase in operating cash used in the current period is primarily due to the increase of receivables partially offset with the decrease in net loss in six months ended October 31, 2003 compared to the same period last year.

Cash used in investing activities was \$0.7 million in the six months ended October 31, 2003 compared to \$2.7 million for the same period last year. In the six months ended October 31, 2003 and 2002, cash used in investing activities was primarily related to premiums on Company Owned Life Insurance, or COLI. In the current period, we received \$1.9 million of proceeds in conjunction with the surrender of life insurance policies.

Capital expenditures consist primarily of systems hardware and software costs, upgrades to information systems and leasehold improvements. The expenditures in the six months ended October 31, 2003 and 2002 were \$0.9 million and \$0.3 million, respectively.

Cash used by financing activities was \$5.5 million and cash provided by financing activities was \$4.4 million during the six months ended October 31, 2003 and 2002, respectively. In the current period, we made payments of \$1.6 million on life insurance policy loans and purchased 77,000 in common stock for \$0.7 million in conjunction with our Employee Stock Purchase Plan (ESPP). In the same period last year, we received net proceeds of \$45.7 million from the issuance of convertible securities and paid the net outstanding borrowings of \$39.0 million on our previous credit facility.

We obtained a \$30 million Senior Secured Revolving Credit Facility in February 2003. The total amount available for borrowing is limited based on certain accounts receivable balances. The credit facility, as amended, is secured by substantially all of our assets including certain accounts receivable balances and guarantees by and pledges of the capital stock of significant subsidiaries. We are required to meet certain financial condition covenants on a quarterly basis. The facility matures in February 2005. As of October 31, 2003, we had no borrowings outstanding on our amended credit facility.

Total outstanding borrowings under COLI policies were \$65.7 million and \$60.7 million as of October 31, 2003 and 2002, respectively. Generally, we borrow under our COLI policies to pay premiums. Such borrowings do not require principal payments, bear interest at primarily variable rates and are secured by the cash surrender value of the life insurance policies of \$119.7 million and \$113.3 million as of October 31, 2003 and 2002, respectively.

In the six months ended October 31, 2003, we issued an additional \$1.4 million of 7.5% Convertible Subordinated Notes in lieu of interest paid in cash and \$0.4 million of 7.5% Convertible Series A Preferred Stock in lieu of cash dividends. As of October 31, 2003, we had outstanding approximately \$42.9 million in aggregate principal amount of 7.5% Convertible Subordinated Notes due in June 2010 and 7.5% Convertible Series A Preferred Stock with an aggregate liquidation preference of \$10.1 million.

We believe that cash on hand, the credit facility and funds from operations will be sufficient to meet our anticipated working capital, capital expenditures and general corporate requirements.

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Recently Issued Accounting Standards

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities", effective as of the first interim period beginning after June 15, 2003. Under FIN 46, a business enterprise that has a controlling financial interest in a variable interest entity would include the variable interest entity's assets, liabilities and results of operations in their consolidated financial statements. The impact upon adoption of this standard did not have an impact on the results of our operations or financial position.

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, fluctuations in interest rates and variability in interest rate spread relationships. We manage our exposure to these risks in the normal course of our business as described below. We have not utilized financial instruments for trading or other speculative purposes nor do we trade in derivative financial instruments.

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

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

Historically, we have not realized any significant translation gains or losses on transactions involving U.S. dollars and other currencies. This is primarily due to natural hedges of revenue and expenses in the functional currencies of the countries in which our offices are located and investment of excess cash balances in U.S. dollar denominated accounts. In the six months ended October 31, 2003 and October 31, 2002, we recognized foreign currency losses, after income taxes, of \$0.1 million and \$1.2 million, respectively, primarily related to our operations in Europe. Realization of translation gains or losses due to the translation of intercompany payables denominated in U.S. dollars is mitigated through the timing of repayment of these intercompany borrowings.

Interest Rate Risk. As of October 31, 2003, we had no outstanding bank borrowings. We had \$65.7 million of borrowings against the cash surrender value of COLI contracts as of October 31, 2003 bearing interest primarily at variable rates payable at least annually.

In June 2002, we issued \$40.0 million of 7.5% Convertible Subordinated Notes and \$10.0 million of 7.5% Convertible Preferred Stock that is mandatorily redeemable by us if outstanding on June 2010.

Item 4. Controls and Procedures

- (a) *Evaluation of Disclosure Controls and Procedures.* Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934, as amended), as of October 31, 2003. Based on such evaluation, they have concluded that as of such date, our disclosure controls and procedures are effective.
- (b) *Changes in Internal Controls.* There were no changes in our internal controls over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) *Exhibits*

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	Certificate of Incorporation of the Company, filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, dated December 15, 1999, and incorporated herein by reference.
3.2	Certificate of Designations of 7.5% Convertible Preferred Stock, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, dated June 18, 2002, and incorporated herein by reference.
3.3	Amended and Restated Bylaws of the Company, filed as Exhibit 3.3 to the Company's Annual Report on Form 10-K, dated July 29, 2002, and incorporated herein by reference.
10.1	First Amendment to Credit Agreement, dated August 18, 2003, among the Company, the lenders thereto and Wells Fargo Bank, N.A., as administrative agent.
10.2	Employment Agreement between the Company and Robert H. McNabb, dated October 1, 2003.
31.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Furnished herewith.
31.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Furnished herewith.
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.

(b) *Reports on Form 8-K*

On December 12, 2003, we furnished to the Securities and Exchange Commission a Current Report on Form 8-K which contains information required under "Item 12. Results of Operations and Financial Condition." The Current Report on Form 8-K includes a copy of our press release dated December 10, 2003, reporting our results of operations and financial condition for the quarter ended October 31, 2003.

SIGNATURE

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

KORN/FERRY INTERNATIONAL

Date: December 12, 2003

By: _____ /s/ GARY D. BURNISON

Gary D. Burnison
Chief Operating Officer and
Chief Financial Officer

FIRST AMENDMENT TO CREDIT AGREEMENT

This **FIRST AMENDMENT TO CREDIT AGREEMENT** (this "**Amendment**") is dated as of August 18, 2003 and entered into by and among **KORN/FERRY INTERNATIONAL**, a Delaware corporation ("**Company**"), **WELLS FARGO BANK, NATIONAL ASSOCIATION**, as the sole Lender under the Credit Agreement (as defined below) as of the date hereof and as Administrative Agent (in such capacity, "**Administrative Agent**") for Lenders, and, for purposes of Section 4 hereof, **KORN/FERRY INTERNATIONAL FUTURESTEP, INC.**, a Delaware corporation, and is made with reference to that certain Credit Agreement dated as of February 14, 2003 (the "**Credit Agreement**"), by and among Company, Lenders and Administrative Agent. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement.

RECITALS

WHEREAS, Company and Administrative Agent desire to amend the Credit Agreement to (i) revise certain definitions and adjust certain financial covenants set forth therein and (ii) make certain other amendments as set forth below;

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

Section 1. AMENDMENTS TO THE CREDIT AGREEMENT**1.1 Amendments to Section 1: Definitions**

A. Subsection 1.1 of the Credit Agreement is hereby amended by adding thereto the following definitions, which shall be inserted in proper alphabetical order:

“**First Amendment**” means that certain First Amendment to Credit Agreement dated as of August 18, 2003 by and among Company, Wells Fargo Bank, National Association, as Administrative Agent and as a Lender, and, for purposes of Section 4 thereof, Korn/Ferry International Futurestep, Inc.”

“**Korn/Ferry International Employee Stock Purchase Plan**” means Company’s 2003 Korn/Ferry International Employee Stock Purchase Plan in the form delivered to Administrative Agent on or prior to the date of the First Amendment.”

“**Shareholder Notes**” means the notes set forth on Schedule 1.1A annexed to the First Amendment.”

B. Subsection 1.1 of the Credit Agreement is hereby further amended by deleting the definition of "Consolidated Fixed Charges" therefrom in its entirety and substituting the following therefor:

"**Consolidated Fixed Charges** means, for any period, the sum of (i) Consolidated Cash Interest Expense for such period, plus (ii) all principal payments (including, without limitation, all scheduled payments and any prepayments) on all Indebtedness of Company and its Subsidiaries during such period (excluding (a) prepayments of Revolving Loans except to the extent the Revolving Loan Commitments are permanently reduced in connection with such prepayments and (b) principal payments made on or prior to July 31, 2003 in respect of the Shareholder Notes), all of the foregoing as determined on a consolidated basis for Company and its Subsidiaries in conformity with GAAP."

C. Subsection 1.1 of the Credit Agreement is hereby further amended by deleting the definition of "Amortization Adjustment" therefrom in its entirety.

1.2 **Amendments to Section 7: Company's Negative Covenants**

A. **Restricted Junior Payments.** Subsection 7.5 of the Credit Agreement is hereby amended by deleting it in its entirety and substituting the following therefor:

7.5 Restricted Junior Payments.

Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, declare, order, pay, make or set apart any sum for any Restricted Junior Payment; provided that Company may make mandatory payments in respect of the Convertible Subordinated Notes and the Convertible Series A Preferred Stock in accordance with the terms of, and only to the extent required by, and subject to the subordination provisions contained in, the indenture or other agreement pursuant to which such Subordinated Indebtedness was issued, as such indenture or other agreement may be amended from time to time to the extent permitted under subsection 7.13, and the Subordination Agreement, as the case may be; provided, further, that, so long as no Event of Default shall have occurred and be continuing or would result after giving effect to any such payment, Company may make payments for acquisitions of shares of its common stock (i) from its current or former employees in an aggregate amount not to exceed \$1,500,000 in any Fiscal Year, and (ii) from any Person in an aggregate amount not to exceed \$7,500,000 in any Fiscal Year provided that all shares acquired pursuant to this subclause (ii) are acquired for the purpose of delivery to eligible employees in connection with purchases made pursuant to the Korn/Ferry International Employee Stock Purchase Plan."

B. **Minimum Consolidated Fixed Charge Coverage Ratio.** Subsection 7.6A of the Credit Agreement is hereby amended by deleting it in its entirety and substituting the following therefor:

"A. **Minimum Consolidated Fixed Charge Coverage Ratio.** Company shall not permit the ratio of (i) the sum of (a) Consolidated EBITDA for any four Fiscal Quarter period ending on or after July 31, 2003, minus (b) Consolidated Capital Expenditures made during such period, minus (c) income taxes payable for such period to (ii) Consolidated Fixed Charges for such period to be less than (x) 1.25:1.00

for any such period ending on or before April 30, 2004 and (y) 1.40:1.00 for any such period ending thereafter.”

C. Minimum Consolidated EBITDA. Subsection 7.6C of the Credit Agreement is hereby amended by deleting it in its entirety and substituting the following therefor:

“**C. Minimum Consolidated EBITDA.** Company shall not permit Consolidated EBITDA for (i) the four Fiscal Quarter period ended April 30, 2003 to be less than \$16,000,000 and (ii) any four Fiscal Quarter period ending thereafter to be less than \$15,000,000.”

Section 2. CONDITIONS TO EFFECTIVENESS

Section 1 of this Amendment shall be deemed to have become effective as of April 30, 2003, upon the satisfaction of all of the following conditions precedent (the date of satisfaction of such conditions being referred to herein as the “**First Amendment Effective Date**”):

A. On or before the First Amendment Effective Date, Company shall deliver to Lenders (or to Administrative Agent for Lenders) executed copies of this Amendment.

B. On or before the First Amendment Effective Date, all corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incidental thereto not previously found acceptable by Administrative Agent, acting on behalf of Lenders, and its counsel shall be satisfactory in form and substance to Administrative Agent and such counsel, and Administrative Agent and such counsel shall have received all such counterpart originals or certified copies of such documents as Administrative Agent may reasonably request.

Section 3. COMPANY’S REPRESENTATIONS AND WARRANTIES

In order to induce Lenders to enter into this Amendment and to amend the Credit Agreement in the manner provided herein, Company represents and warrants to each Lender that the following statements are true, correct and complete:

A. Corporate Power and Authority. Company has all requisite corporate power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Credit Agreement as amended by this Amendment (the “**Amended Agreement**”).

B. Authorization of Agreements. The execution and delivery of this Amendment and the performance of the Amended Agreement have been duly authorized by all necessary corporate action on the part of Company.

C. No Conflict. The execution and delivery by Company of this Amendment and the performance by Company of the Amended Agreement do not and will not (i) violate any provision of any law or any governmental rule or regulation applicable to Company or any of its Subsidiaries, the Certificate or Articles of Incorporation or bylaws of Company or any of its Subsidiaries or any order, judgment or decree of any court or other agency of government binding on Company or any of its Subsidiaries, (ii) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any Contractual Obligation of Company or any of its Subsidiaries, (iii) result in or require the creation or imposition of any Lien upon any of the properties or assets of Company or any of its Subsidiaries (other than Liens created under any of the Loan Documents in favor of Administrative Agent on behalf of Lenders), or (iv) require any approval of stockholders or any approval or consent of any Person under any Contractual Obligation of Company or any of its Subsidiaries.

D. Governmental Consents. The execution and delivery by Company of this Amendment and the performance by Company of the Amended Agreement do not and will not require any Governmental Authorization.

E. Binding Obligation. This Amendment has been duly executed and delivered by Company and this Amendment and the Amended Agreement are the legally valid and binding obligations of Company, enforceable against Company in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

F. Incorporation of Representations and Warranties From Credit Agreement. The representations and warranties contained in Section 5 of the Credit Agreement are and will be true, correct and complete in all material respects on and as of the First Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date; provided, that, if a representation and warranty is qualified as to materiality, with respect to such representation and warranty the materiality qualifier set forth above shall be disregarded.

G. Absence of Default. No event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would constitute an Event of Default or a Potential Event of Default.

Section 4. ACKNOWLEDGEMENT AND CONSENT

The guarantor listed on the signatures pages hereof (“**Guarantor**”) hereby acknowledges and agrees that the Subsidiary Guaranty and each Collateral Document (each, a “**Credit Support Document**”) to which it is a party or otherwise bound shall continue in full force and effect and that all of its obligations thereunder shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment. Guarantor represents and warrants that all representations and warranties contained in the

Amended Agreement and the Credit Support Documents to which it is a party or otherwise bound are true, correct and complete in all material respects on and as of the First Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date; provided, that, if a representation and warranty is qualified as to materiality, with respect to such representation and warranty the materiality qualifier set forth above shall be disregarded.

Guarantor acknowledges and agrees that (i) notwithstanding the conditions to effectiveness set forth in this Amendment, Guarantor is not required by the terms of the Credit Agreement or any other Loan Document to consent to the amendments to the Credit Agreement effected pursuant to this Amendment and (ii) nothing in the Credit Agreement, this Amendment or any other Loan Document shall be deemed to require the consent of Guarantor to any future amendments to the Credit Agreement.

Section 5. MISCELLANEOUS

A. Reference to and Effect on the Credit Agreement and the Other Loan Documents.

(i) On and after the First Amendment Effective Date, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof”, “herein” or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the “Credit Agreement”, “thereunder”, “thereof” or words of like import referring to the Credit Agreement shall mean and be a reference to the Amended Agreement.

(ii) Except as specifically amended by this Amendment, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(iii) The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of Administrative Agent or any Lender under, the Credit Agreement or any of the other Loan Documents.

B. Fees and Expenses. Company acknowledges that all costs, fees and expenses as described in subsection 10.2 of the Credit Agreement incurred by Administrative Agent and its counsel with respect to this Amendment and the documents and transactions contemplated hereby shall be for the account of Company.

C. Headings. Section and subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

D. Applicable Law. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF CALIFORNIA (INCLUDING WITHOUT LIMITATION SECTION 1646.5 OF THE CIVIL CODE OF THE STATE OF CALIFORNIA), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES THAT WOULD REQUIRE APPLICATION OF ANOTHER LAW.

E. Counterparts; Effectiveness. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document. This Amendment (other than the provisions of Section 1 hereof, the effectiveness of which is governed by Section 2 hereof) shall become effective upon the execution of a counterpart hereof by Company, the undersigned Lender and Guarantor and receipt by Company and Administrative Agent of written or telephonic notification of such execution and authorization of delivery thereof.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

KORN/FERRY INTERNATIONAL

By: _____
Name:
Title:

**KORN/FERRY INTERNATIONAL FUTURESTEP, INC., as
Guarantor**

By: _____
Name:
Title:

**WELLS FARGO BANK, NATIONAL ASSOCIATION, as
Administrative Agent and individually as a Lender**

By: _____
Name:
Title:

SCHEDULE 1.1A

Shareholder Notes

	<u>Amount</u>	<u>Description</u>
1.	\$556,800.00	KORN/FERRY CANADA, INC. NON-NEGOTIABLE PROMISSORY NOTE, dated April 28, 2000, by Korn/Ferry Canada, Inc. in favor of Jean-Pierre Bourbonnais
2.	\$458,160.00	KORN/FERRY CANADA, INC. NON NEGOTIABLE PROMISSORY NOTE, dated April 28, 2000, by Korn/Ferry Canada, Inc. in favor of Francois Durand
3.	\$389,520.00	KORN/FERRY CANADA, INC. NON-NEGOTIABLE PROMISSORY NOTE, dated April 28, 2000, by Korn/Ferry Canada, Inc. in favor of Michel Pinsonneault
4.	\$240,000.00	KORN/FERRY CANADA, INC. NON-NEGOTIABLE PROMISSORY NOTE, dated April 28, 2000, by Korn/Ferry Canada, Inc. in favor of Jean-Pierre Lefebvre
5.	\$375,360.00	KORN/FERRY CANADA, INC. NON-NEGOTIABLE PROMISSORY NOTE, dated April 28, 2000, by Korn/Ferry Canada, Inc. in favor of Ronald Drennan
6.	\$188,160.00	KORN/FERRY CANADA, INC. NON-NEGOTIABLE PROMISSORY NOTE, dated April 28, 2000, by Korn/Ferry Canada, Inc. in favor of Yves Champoux
7.	\$192,000.00	KORN/FERRY CANADA, INC. NON-NEGOTIABLE PROMISSORY NOTE, dated April 28, 2000, by Korn/Ferry Canada, Inc. in favor of 154785 Canada Inc.
8.	\$677,284.80	KORN/FERRY INTERNATIONAL NON-NEGOTIABLE PROMISSORY NOTE, dated April 30, 2000, by Korn/Ferry International in favor of W. Michael M. Honey

Schedule 1.1A-1

	Amount	Description
9.	\$397,627.46	KORN/FERRY INTERNATIONAL NON-NEGOTIABLE PROMISSORY NOTE, dated April 30, 2000, by Korn/Ferry International in favor of Honey Family Trust
10.	\$879,876.92	KORN/FERRY INTERNATIONAL NON-NEGOTIABLE PROMISSORY NOTE, dated April 30, 2000, by Korn/Ferry International in favor of The Patrick Spencer Group
11.	\$272,606.56	KORN/FERRY INTERNATIONAL NON-NEGOTIABLE PROMISSORY NOTE, dated April 30, 2000, by Korn/Ferry International in favor of Martine Parent
12.	\$159,574.70	KORN/FERRY INTERNATIONAL NON-NEGOTIABLE PROMISSORY NOTE, dated April 30, 2000, by Korn/Ferry International in favor of Chris Bloomer
13.	\$272,606.56	KORN/FERRY INTERNATIONAL NON-NEGOTIABLE PROMISSORY NOTE, dated April 30, 2000, by Korn/Ferry International in favor of Brent Shervey
14.	\$125,000.00	ELAN PRATZER NON-NEGOTIABLE PROMISSORY NOTE, dated April 30, 2000, by Elan Pratzer in favor of Pratzer & Partners, Inc.
15.	\$95,297.02	KORN/FERRY CANADA, INC. NON-NEGOTIABLE PROMISSORY NOTE, dated April 30, 2000, by Korn/Ferry Canada, Inc. in favor of 1247662 Ontario Limited
16.	\$2,558,125.80	KORN/FERRY CANADA, INC. NON-NEGOTIABLE PROMISSORY NOTE, dated April 30, 2000, by Korn/Ferry Canada, Inc. in favor of Elan Pratzer
17.	\$265,155.59	KORN/FERRY CANADA, INC. NON-NEGOTIABLE PROMISSORY NOTE, dated April 30, 2000, by Korn/Ferry Canada, Inc. in favor of Malka Lewittes
18.	\$810,023.15	KORN/FERRY CANADA, INC. NON-NEGOTIABLE PROMISSORY NOTE, dated April 30, 2000, by Korn/Ferry Canada, Inc. in favor of Dov Zevy

Schedule 1.1A-2

	Amount	Description
19.	\$185,977.89	KORN/FERRY CANADA, INC. NON-NEGOTIABLE PROMISSORY NOTE, dated April 30, 2000, by Korn/Ferry Canada, Inc. in favor of John Mealia
20.	\$182,295.41	KORN/FERRY CANADA, INC. NON-NEGOTIABLE PROMISSORY NOTE, dated April 30, 2000, by Korn/Ferry Canada, Inc. in favor of Joanne Mealia
21.	\$178,125.14	KORN/FERRY CANADA, INC. NON-NEGOTIABLE PROMISSORY NOTE, dated April 30, 2000, by Korn/Ferry Canada, Inc. in favor of Tom Summers
22.	\$1,125,000.00	KORN/FERRY INTERNATIONAL NON-NEGOTIABLE PROMISSORY NOTE, dated April 30, 2000, by Korn/Ferry International in favor of Russell E. Marks, Jr.
23.	\$2,750,000.00	KORN/FERRY INTERNATIONAL NON-NEGOTIABLE PROMISSORY NOTE, dated June 9, 2000, by Korn/Ferry International in favor of Westgate Group, LLC
24.	\$2,250,000.00	KORN/FERRY INTERNATIONAL NON-NEGOTIABLE PROMISSORY NOTE, dated June 9, 2000, by Korn/Ferry International in favor of Westgate Group, LLC
25.	\$833,333.33	KORN/FERRY INTERNATIONAL NON-NEGOTIABLE PROMISSORY NOTE, dated October 1, 1999, by Korn/Ferry International in favor of John R. Pearson
26.	\$833,333.33	KORN/FERRY INTERNATIONAL NON-NEGOTIABLE PROMISSORY NOTE, dated October 1, 1999, by Korn/Ferry International in favor of William R. Caldwell
27.	\$833,333.33	KORN/FERRY INTERNATIONAL NON-NEGOTIABLE PROMISSORY NOTE, dated October 1, 1999, by Korn/Ferry International in favor of John A. Farnsworth
28.	\$4,400,000	Share Purchase Agreement dated as of December 30, 1999, by and among Korn/Ferry International GMBH and the individuals listed therein

Schedule 1.1A-3

**EMPLOYMENT AGREEMENT
BETWEEN
KORN/FERRY INTERNATIONAL
AND
ROBERT MCNABB**

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EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of October 1, 2003, by and between KORN/FERRY INTERNATIONAL, a Delaware corporation with its principal offices in Los Angeles, California (the "Company"), and ROBERT MCNABB, an individual (the "Executive").

1. Employment. The Company agrees to employ Executive and Executive agrees to be employed by the Company upon the terms and conditions set forth in this Agreement.

2. Term of Employment. Executive's employment under this Agreement will begin on October 1, 2003 and will continue for an initial term ending on October 1, 2006. The Company may renew this Agreement for successive [1] year periods thereafter by providing Executive with written notice at least 30 days' prior to the expiration of this Agreement. (If the Company does not deliver such a notice and the Agreement expires then that shall be referred to as a "failure to renew" the Agreement.)

3. Position, Duties and Responsibilities. Executive will serve as Chief Executive Officer of Korn/Ferry International Futurestep, Inc., a Delaware corporation having its principal executive offices in Los Angeles, California (the "Subsidiary") and Executive Vice President of the Company with duties and responsibilities customary to such offices. At the request of the Board of Directors of the Company (the "Board"), Executive will serve as an officer or director of the Company's subsidiaries and other affiliates without additional compensation. Executive will devote substantially all of Executive's business time and attention to the performance of Executive's obligations, duties and responsibilities under this Agreement. Subject to Company policies applicable to senior executives generally, Executive may engage in personal, charitable, professional and investment activities to the extent such activities do not conflict or interfere with Executive's obligations to, or Executive's ability to perform the normal duties and functions of Executive pursuant to this Agreement.

4. Annual Compensation. In consideration of Executive's services to the Company pursuant to this Agreement, Executive's annual compensation shall be as follows:

(a) Base Salary. The Company will pay a base salary to Executive of \$425,000 annually in accordance with its regular payroll practices (the "Base Salary"). The Board will review the level of Executive's Base Salary at least annually, beginning in June, 2004. The Board, acting in its discretion, may increase (but may not decrease) the annual rate of Base Salary in effect for Executive at any time, unless the Board concludes that an across-the-board reduction in compensation is required for all executive officers of the Company, in which case Executive's compensation shall be ratably reduced.

(b) Annual Cash Incentive Award. Executive will participate in the Company's annual cash incentive plan established for senior executives with an annual target cash award equal to 100% of Base Salary, and a maximum cash award equal to 200% of Base Salary. Executive's annual cash incentive award will be payable at such time as annual cash incentive awards are paid to executive officers generally, but not later than 120 days after the end of the fiscal year for which such award is earned. Such annual cash incentive award shall be considered earned only if Executive is employed by the Company as of the last day of the fiscal year to which the award applies.

(c) Annual Stock Option Grant. Executive shall be awarded, subject to the approval of the Board, equity incentives with respect to shares of the Company's common stock ("Shares"), which shall be granted under the Korn/Ferry International Performance Award Plan. Executive shall be eligible to receive an annual grant of stock options, subject to the discretion of and approval by the Board, with a target grant value of 50% of Base Salary and a maximum grant value of 100% of Base Salary. Grant value shall be determined by the Black-Scholes Option Pricing Model using the same assumptions the Board applies to determine annual option grants for the Company's other executive officers. Such annual stock option grant shall be awarded at the same time annual option grants are awarded to the Company's other executive officers, beginning with grants attributable to performance for the firm's 2003 fiscal year. The terms of any stock options granted shall be set by the Board or the Compensation Committee of the Board.

(d) Annual Restricted Stock Grant. Executive shall be eligible to receive an annual grant of restricted stock, subject to the discretion of and approval of the Board. The terms of any restricted stock grants shall be set by the Board or the Compensation Committee of the Board.

5. Employee Benefit Programs and Perquisites.

(a) General. Executive will be entitled to participate in such retirement or pension plans, group health, long term disability and group life insurance plans, and any other welfare and fringe benefit plans, arrangements, programs and perquisites sponsored or maintained by the Company from time to time for the benefit of its senior executives generally, including four weeks paid vacation. In addition, the Company will reimburse Executive for the cost of medical benefits for Executive and his immediate family provided through COBRA until such time as Executive is eligible to participate in the Company's medical insurance programs.

(b) Reimbursement of Business Expenses. Executive is authorized to incur reasonable expenses in accordance with the Company's written policy in carrying out Executive's duties and responsibilities under this Agreement. The

Company will promptly reimburse Executive for all such expenses that are so incurred upon presentation of appropriate vouchers or receipts, subject to the Company's expense reimbursement policies applicable to senior executive officers generally. In addition, Executive will receive \$600.00 per month as an automobile allowance and reimbursement for monthly membership dues at the CCA Club (up to \$300.00 monthly) and the Champions Country Club (up to \$350.00 monthly).

(c) Conditions of Employment. Executive's place of employment during the term of Executive's employment under this Agreement will be at the Company's Houston, Texas office, subject to the need for reasonable business travel. The conditions of Executive's employment, including, without limitation, office space, office appointments, secretarial, administrative and other support, will be consistent with Executive's status as Executive Vice President of the Company.

6. Termination of Employment.

(a) Death. If Executive's employment with the Company terminates before the end of the term by reason of Executive's death, then as soon as practicable thereafter the Company will pay to Executive's estate an amount equal to Executive's "Accrued Compensation" (as defined in Section 6(h)), and all outstanding stock options and other equity-type incentives held by Executive at the time of Executive's death will become fully vested (whether or not fully vested immediately prior to Executive's death) and shall remain exercisable until their originally scheduled expiration dates. Executive's covered dependent(s) will be entitled to continue to participate at the expense of the Company in the Company's group health plan(s) after Executive's death at the same benefit level and to the same extent and for the same contribution, if any, as such continued participation is available to other executive officers of the Company, and such participation may continue for such additional period as may be available under COBRA.

(b) Disability. If the Company terminates Executive's employment before the end of the term by reason of Executive's Disability (as defined in Section 6(h)), then as soon as practicable thereafter the Company will pay to Executive an amount equal to Executive's Accrued Compensation, and all outstanding stock options and other equity-type incentives held by Executive at Executive's termination date will become fully vested and shall remain exercisable until their originally scheduled expiration dates. Executive and Executive's covered dependent(s) will be entitled to continue to participate at the expense of the Company in the Company's group health plan(s) after Executive's termination at the same benefit level and to the same extent and for the same contribution, if any, as such continued participation is available to other executive

officers of the Company, and such participation may continue for such additional period as may be available under COBRA.

(c) Termination by the Company for Cause or Voluntary Termination by Executive If (i) the Company terminates Executive's employment for Cause (as defined in Section 6(h)), or (ii) Executive voluntarily terminates Executive's employment without Good Reason (as defined in Section 6(h)) before the end of the stated term of this Agreement that is then in effect, then the Company shall pay to Executive within 30 days after the date of such termination Executive's Accrued Compensation through the date Executive's employment terminates.

(d) Termination by the Company Without Cause or for Failure by the Company to Renew Agreement Prior to Change in Control

(I) If Executive's employment is terminated prior to a "Change in Control" (as defined in Schedule A) by the Company without Cause and such termination occurs within two years of October 1, 2003 then (1) the Company shall pay to Executive within 30 days Executive's Accrued Compensation; (2) the Company shall pay to Executive within 30 days a lump sum payment equal to one time Executive's then current Base Salary and target bonus; (3) Executive and Executive's covered dependent(s) will be entitled to continue to participate at the expense of the Company in the Company's group health plan(s) after Executive's termination at the same benefit level and to the same extent and for the same contribution, if any, as such continued participation is available to other executive officers of the Company, and such participation may continue for a period of eighteen months after such termination; and (4) all outstanding stock options and other equity-type incentives held by Executive at the time of Executive's termination that would have vested in the calendar year of termination will become fully vested and shall remain exercisable until their originally scheduled expiration dates.

(II) If Executive's employment is terminated prior to a Change in Control (i) by the Company without Cause and such termination occurs more than two years after October 1, 2003, or (ii) by reason of the Company's failure to renew this Agreement at any time before Executive reaches the age of 65, then (1) the Company shall pay to Executive within 30 days Executive's Accrued Compensation; (2) the Company shall pay to Executive within 30 days a lump sum payment equal to one time Executive's then current Base Salary; (3) Executive and Executive's covered dependent(s) will be entitled to continue to participate at the expense of the Company in the Company's group health plan(s) after Executive's termination at the same benefit level and to the same extent and for the same contribution, if any, as such continued participation is available to other executive officers of the Company, and such

participation may continue for a period of eighteen months after such termination; provided, however, that if such termination is due to the Company's failure to renew, then the period of continued participation will only be for one year after such termination; and (4) all outstanding stock options and other equity-type incentives held by Executive at the time of Executive's termination that would have vested in the calendar year of termination will become fully vested and shall remain exercisable until their originally scheduled expiration dates.

(e) Following a Change of Control. Termination by the Company Without Cause or by Executive for Good Reason If a Change in Control occurs and, within 12 months after the date on which the Change in Control occurs, Executive's employment is terminated (i) by the Company without Cause or (ii) by Executive for Good Reason, or (iii) by reason of the Company's failure to renew this Agreement at any time before Executive reaches the age of 65, then: (1) the Company shall pay to Executive within 30 days Executive's Accrued Compensation; (2) the Company shall pay to Executive within 30 days a lump sum payment equal to (A) one and one-half times the then current Base Salary, plus (B) one and one-half times the annual target cash bonus for Executive for the incentive year in which such termination occurs; (3) Executive and Executive's covered dependent(s) will be entitled to continue to participate at the expense of the Company in the Company's group health plan(s) after Executive's termination at the same benefit level and to the same extent and for the same contribution, if any, as such continued participation is available to other executive officers of the Company, and such participation may continue for a period of eighteen months after such termination; and (4) all outstanding stock options and other equity-type incentives held by Executive at the time of Executive's termination will become fully vested and shall remain exercisable until their originally scheduled expiration dates.

(f) Parachute Limitation. Notwithstanding anything herein to the contrary, if any amounts due to Executive under this Agreement and any other plan or program of the Company constitute a "parachute payment," as such term is defined in Section 280G(b)(2) of the Internal Revenue Code, and the amount of the parachute payment, reduced by all federal, state and local taxes applicable thereto, including the excise tax imposed pursuant to Section 4999 of the Internal Revenue Code, is less than the amount Executive would receive if he were paid three times his "base amount," as defined in Section 280G(b)(3) of the Internal Revenue Code, less \$1.00, reduced by all federal, state and local taxes applicable thereto, then the aggregate of the amounts constituting the parachute payment shall be reduced to an amount that will equal three times his "base amount" less \$1.00. The determinations to be made with respect to this Section 6(f) shall be made by an accounting firm (the "Auditor") jointly selected by the Company and Executive and paid by the Company. The Auditor shall be a nationally recognized United States public accounting firm that has not during the two years

preceding the date of its selection acted in any way on behalf of the Company or any of its subsidiaries. If Executive and the Company cannot agree on the firm to serve as the Auditor, then Executive and the Company shall each select one such accounting firm and those two firms shall jointly select such an accounting firm to serve as the Auditor. If a determination is made by the Auditor that a reduction in the aggregate of all payments due to Executive upon a Change in Control is required by this Section 6(f), Executive shall have the right to specify the portion of such reduction, if any, that will be made under this Agreement and each plan or program of the Company. If Executive does not so specify within sixty (60) days following the date of a determination by the Auditor pursuant to the preceding sentence, the Company shall determine, in its sole discretion, the portion of such reduction, if any, to be made under this Agreement and each plan or program of the Company.

(g) Other Programs. Except as otherwise provided in this Agreement, Executive's entitlements under applicable plans and programs of the Company following termination of Executive's employment will be determined under the terms of those plans and programs.

(h) Certain Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth herein:

(1) "Accrued Compensation" means, as of any date, the amount of any unpaid Base Salary and annual cash incentive award earned by Executive through the date of Executive's death or the termination of Executive's employment, plus any additional amounts and/or benefits payable to or in respect of Executive under and in accordance with the provisions of any employee plan, program or arrangement under which Executive is covered immediately prior to Executive's death or the termination of Executive's employment.

(2) "Cause" shall mean (a) conviction of any felony or other crime involving fraud, dishonesty or acts of moral turpitude or pleading guilty or nolo contendere to such charges, or (b) negligent, reckless or intentional behavior or conduct, including, without limitation, any breach of fiduciary duty or duty of loyalty, that causes the Company or could cause the Company material harm or injury or expose the Company to any civil, criminal or administrative action, claim or proceeding, or (c) any willful failure to comply with a lawful order, policy or instruction of the CEO or the Board or any intentional behavior or conduct contrary to a lawful order, policy or instruction of the CEO or the Board, or (d) any misrepresentation or false statement made by an Officer in any application for employment, employment history, resume or other document submitted to the Company, either before, during or after employment. Prior to terminating the Executive for Cause, the Company shall be

required to provide Executive with 90 days advanced written notice of its intention to terminate Executive for Cause, but Executive shall be permitted to cure any performance deficiencies during such 90 day period (if the termination is not due to performance deficiencies, then the Company is permitted to put Executive on paid leave during such 90 day period).

(3) "Disability" means any medically determinable physical or mental condition or impairment which prevents Executive from performing the principal functions of Executive's duties with the Company that can be expected to result in death or that has lasted or can be expected to last for a period of 90 consecutive days or for shorter periods aggregating 180 days in any consecutive 12 month period, with such determination to be made by an approved medical doctor. For this purpose, an approved medical doctor shall mean a medical doctor selected by the Company and Executive. If the parties cannot agree on a medical doctor, each party shall select a medical doctor and the two doctors shall select a third medical doctor who shall be the approved medical doctor for this purpose.

(4) Executive shall be deemed to have "Good Reason" to terminate his employment hereunder if, without Executive's prior written consent, (A) the Company materially reduces Executive's duties or responsibilities or assigns Executive duties which are materially inconsistent with his duties or which materially impair Executive's ability to function as Chief Executive Officer of the Subsidiary, or (B) the Company reduces Executive's then current Base Salary or target award opportunity under the Company's annual cash incentive bonus plan or annual stock option award program, or terminates or materially reduces any employee benefit or perquisite enjoyed by Executive (other than as part of an across-the-board reduction applicable to all executive officers of the Company), or (C) the Company fails to perform or breaches its obligations under any other material provision of this Agreement and does not correct such failure or breach (if correctable) within 60 days following receipt of notice thereof from Executive to the Company, or (D) Executive's primary location of business is moved by more than 50 miles, or (E) the Company reduces Executive's title or removes him or (F) the Company fails to obtain the assumption in writing of its obligation to perform this Agreement by any successor to all or substantially all of the assets of the Company within 15 days after a merger, consolidation, sale or similar transaction; provided Executive shall not be deemed to have "Good Reason" if, following any sale or other disposition of the Subsidiary, Executive is no longer Chief Executive Officer of the Subsidiary and his title is changed to Senior Vice President of the Company with duties and responsibilities customary to such office. Prior

to terminating for Good Reason, the Executive shall be required to provide the Company with 30 days advanced written notice of its intention to terminate employment for Good Reason, but the Company shall be permitted to cure any events giving rise to such Good Reason during such 30 day period.

7. No Mitigation; No Offset. Executive will have no obligation to seek other employment or to otherwise mitigate the Company's obligations to Executive arising from the termination of Executive's employment, and no amounts paid or payable to Executive by the Company under this Agreement shall be subject to offset for any remuneration in which Executive may become entitled from any other source after Executive's employment with the Company terminates, whether attributable to subsequent employment, self-employment or otherwise except that subsequent employment during the term of this Agreement with an employer providing benefit plans shall result in an offset against benefits payable by the Company hereunder to the extent of the benefits paid by the new employer.

8. Confidential Information; Cooperation with Regard to Litigation

(a) Nondisclosure of Confidential Information. During the term of Executive's employment and thereafter, Executive will not, without the prior written consent of the Company, disclose to anyone (except in good faith in the ordinary course of business to a person who will be advised by Executive to keep such information confidential) or make use of any Confidential Information (as defined below) except in the performance of Executive's duties hereunder or when required to do so by legal process, by any governmental agency having supervisory authority over the business of the Company or any of its Affiliates (as defined below) or by any administrative or legislative body (including a committee thereof) that requires Executive to divulge, disclose or make accessible such information. If Executive is so ordered, to divulge Confidential Information, he will give prompt written notice to the Company in order to allow the Company the opportunity to object to or otherwise resist such order.

(b) Definition of Confidential Information. For purposes of this Agreement, "Confidential Information" means information concerning the business of the Company or any corporation or other entity that, directly or indirectly, controls, is controlled by or under common control with the Company (an "Affiliate") relating to any of its or their products, product development, trade secrets, customers, suppliers, finances, and business plans and strategies. Excluded from the definition of Confidential Information is information (1) that is or becomes part of the public domain, other than through the breach of this Agreement by Executive or (2) regarding the Company's business or industry properly acquired by Executive in the course of Executive's career as an executive in the Company's industry and independent of Executive's employment by the Company. For this purpose, information known or available generally

within the trade or industry of the Company or any Affiliate shall be deemed to be known or available to the public and not to be Confidential Information.

(c) Cooperation in Litigation. Executive will cooperate with the Company, during the term of Executive's employment and thereafter (including following Executive's termination of employment for any reason), by making Executive reasonably available to testify on behalf of the Company or any Affiliate in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative, and to reasonably assist the Company or any such Affiliate in any such action, suit, or proceeding by providing information and meeting and consulting with the Board or its representatives or counsel, or representatives or counsel to the Company or any such Affiliate, as reasonably requested; provided, however, that the same does not materially interfere with Executive's then current professional activities. The Company will reimburse Executive, on an after-tax basis, for all expenses reasonably incurred by Executive in connection with Executive's provision of testimony or assistance and if such assistance is provided after Executive's termination of employment, will pay Executive a per diem rate of \$2,000.

9. Non-solicitation. Executive will not induce or solicit, directly or indirectly, any employee of the Company or any Affiliate to terminate such employee's employment with the Company or any Affiliate during Executive's employment hereunder and for a period of 24 months following the termination of this Agreement as it may be extended from time to time.

10. Remedies. If Executive commits a material breach of any of the provisions contained in Sections 8 and 9 above, then the Company will have the right to seek injunctive relief. Executive acknowledges that such a breach of Section 8 or 9 could cause irreparable injury and that money damages may not provide an adequate remedy for the Company. Nothing contained herein will prevent Executive from contesting any such action by the Company on the ground that no violation or threatened violation of either such Section has occurred.

11. Resolution of Disputes. Any controversy or claim arising out of or relating to this Agreement or any breach or asserted breach hereof or questioning the validity and binding effect hereof arising under or in connection with this Agreement, other than seeking injunctive relief under Section 10, shall be resolved by binding arbitration, to be held in Los Angeles in accordance with the rules and procedures of the American Arbitration Association. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Pending the resolution of any arbitration or court proceeding, the Company will continue payment of all amounts and benefits due Executive under this Agreement. All costs and expenses of any arbitration or court proceeding (including fees and disbursements of counsel) shall be borne by the respective party incurring such costs and expenses (with the limitation that, in no event, shall Executive be liable under this provision for more than two times the

fees paid by the Executive for Executive's counsel services in the arbitration or proceeding), but the Company shall reimburse Executive for all reasonable costs and expenses by Executive if Executive substantially prevails in such arbitration or court proceeding. Notwithstanding the foregoing, following a Change in Control, all reasonable costs and expenses (including fees and disbursements of counsel) incurred by Executive pursuant to this section shall be paid on behalf of or reimbursed to Executive promptly by the Company; provided, however, that Executive shall repay such amounts to the Company if and to the extent the arbitrator(s) determine(s) that any of Executive's litigation assertions or defenses were in bad faith or frivolous. Notwithstanding the foregoing, if any applicable law requires different or additional rules or procedures to be applied in order for this Agreement to arbitrate or to be enforceable, or prohibits any expense allocation provided herein, such rules or procedures shall take precedence and such prohibitions shall be a part of this Agreement to the extent necessary to render this Agreement enforceable.

12. Indemnification.

(a) Company Indemnity. If Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer or employee of the Company or any Affiliate or was serving at the request of the Company or any Affiliate as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, then the Company will indemnify Executive and hold Executive harmless to the fullest extent legally permitted or authorized by the Company's articles of incorporation, certificate of incorporation or bylaws or resolutions of the Company's Board to the extent not inconsistent with state laws, against all costs, expense, liability and loss (including, without limitation, attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by Executive in connection therewith, except to the extent attributable to Executive's gross negligence or fraud, and such indemnification shall continue as to Executive even if he has ceased to be a director, member, officer, employee or agent of the Company or Affiliate and shall inure to the benefit of Executive's heirs, executors and administrators. The Company will advance to Executive all reasonable costs and expenses to be incurred by Executive in connection with a Proceeding within 20 days after receipt by the Company of a written request for such advance. Such request shall include an undertaking by Executive to repay the amount of such advance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expenses. The provisions of this section shall not be deemed exclusive of any other rights of indemnification to which Executive may be entitled or which may be granted to Executive and shall be in

addition to any rights of indemnification to which he may be entitled under any policy of insurance.

(b) No Presumption Regarding Standard of Conduct. Neither the failure of the Company (including its Board, independent legal counsel or shareholders) to have made a determination prior to the commencement of any proceeding concerning payment of amounts claimed by Executive under the preceding subsection (a) of this section that indemnification of Executive is proper because Executive has met the applicable standard of conduct, nor a determination by the Company (including its Board, independent legal counsel or shareholders) that Executive has not met such applicable standard of conduct, shall create a presumption that Executive has not met the applicable standard of conduct.

(c) Liability Insurance. The Company will continue and maintain a directors and officers liability insurance policy covering Executive to the extent the Company provides such coverage for its other senior executive officers.

13. Effect of Agreement on Other Benefits. Except as specifically provided in this Agreement, the existence of this Agreement shall not be interpreted to preclude, prohibit or restrict Executive's participation in any other employee benefit or other plans or programs in which he currently participates.

14. Assignment: Binding Nature. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, heirs (in the case of Executive) and permitted assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred to the successor of the Company or its business if the assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law. No rights or obligations of Executive under this Agreement may be assigned or transferred by Executive other than Executive's rights to compensation and benefits, which may be transferred only by will or operation of law, except as otherwise specifically provided or permitted hereunder.

15. Representations. The Company represents and warrants that it is fully authorized and empowered to enter into this Agreement and that the performance of its obligations under this Agreement will not violate any Agreement between it and any other person, firm or organization. Executive represents and warrants that there is no legal or other impediment which would prohibit Executive from entering into this Agreement or which would prevent Executive from fulfilling Executive's obligations under this Agreement.

16. Entire Agreement. This Agreement contains the entire understanding and agreement between the parties concerning the subject matter hereof

and supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between the parties with respect thereto.

17. Amendment or Waiver. No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by Executive and an authorized officer of the Company. Except as set forth herein, no delay or omission to exercise any right, power or remedy accruing to any party shall impair any such right, power or remedy or shall be construed to be a waiver of or an acquiescence to any breach hereof. No waiver by either party of any breach by the other party of any condition or provision contained in this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by Executive or an authorized officer of the Company, as the case may be.

18. Severability. In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

19. Survivorship. The respective rights and obligations of the parties hereunder shall survive any termination of Executive's employment to the extent necessary to the intended preservation of such rights and obligations.

20. Beneficiaries/References. Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

21. Governing Law. This Agreement shall be governed by and construed and interpreted in accordance with the laws of California without reference to principles of conflict of laws.

22. Notices. Any notice given to a party shall be in writing and shall be deemed to have been given when delivered personally or sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the party concerned at the address of the party indicated below or to such changed address as such party may subsequently give such notice of:

If to the Company:

KORN/FERRY INTERNATIONAL
1800 Century Park East
Los Angeles, CA 90067
Attention: Corporate Secretary

If to Executive:

IN WITNESS WHEREOF, the undersigned have executed this Employment Agreement on the date first above written.

The Company:

KORN/FERRY INTERNATIONAL

By: _____

Executive:

ROBERT MCNABB

SCHEDULE A

DEFINITION OF CHANGE IN CONTROL

For purposes of the foregoing Agreement, a “Change in Control” shall mean any of the following:

(a) an acquisition by any Person (excluding one or more Excluded Persons) of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) or a pecuniary interest (as defined in Section 16a-1(a)(2) of the Exchange Act) in (either comprising “ownership of”) more than 30% of the Common Stock of the Company or voting securities entitled to then vote generally in the election of directors (“Voting Stock”) of the Company, after giving effect to any new issue in the case of an acquisition from the Company; or

(b) approval by the shareholders of the Company of a plan, or the consummation, of merger, consolidation, or reorganization of the Company or of a sale or other disposition of all or substantially all of the Company’s consolidated assets as an entirety (collectively, a “Business Combination”), other than a Business Combination (1) in which all or substantially all of the holders of Voting Stock of the Company hold or receive directly or indirectly 70% or more of the Voting Stock of the entity resulting from the Business Combination (or a parent company), and (2) after which no Person (other than any one or more of the Excluded Persons) owns more than 30% of the Voting Stock of the resulting entity (or a parent company) who did not own directly or indirectly at least that percentage of the Voting Stock of the Company immediately before the Business Combination, and (3) after which one or more Excluded Persons own an aggregate amount of Voting Stock of the resulting entity owned by any Persons who (i) own more than 5% of the Voting Stock of the resulting entity, (ii) are not Excluded Persons, (iii) did not own directly or indirectly at least the same percentage of the Voting Stock of the Company immediately before the Business Combination, and (iv) in the aggregate own more than 30% of the Voting Stock of the resulting entity; or

(c) approval by the Board of Directors of the Company and (if required by law) by shareholders of the Company of a plan to consummate the dissolution or complete liquidation of Korn/Ferry International; or

(d) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board and any new directors (excluding any new director designated by a person who has entered into an agreement or arrangement with Korn/Ferry International to effect a transaction described in clause (a) or (b) of this definition) whose appointment, election, or nomination for election was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose appointment, election or nomination for election was previously so approved (all such directors, “Incumbent Directors”), cease for any reason to constitute a majority of the Board; provided that for

purposes of this clause (d), any directors elected at any time during 1999 shall be deemed to be Incumbent Directors.

Notwithstanding the above provisions in this Schedule A, no Change in Control shall be deemed to have occurred if a Business Combination, as described in paragraph (b) above, is effected and a majority of the Incumbent Directors, through the adoption of a Board resolution, determines that, in substance, no Change in Control has occurred and no Change of Control shall be deemed to have occurred upon any sale or other disposition of the Subsidiary.

The “Company” means Korn/Ferry International, a Delaware corporation, its successors, and/or its Subsidiaries, as the context requires.

“Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time.

“Excluded Person” means

(i) the Company; or

(ii) any person described in and satisfying the conditions of Rule 13d-1(b)(1) under the Exchange Act; or

(iii) any employee benefit plan of the Company; or

(iv) any affiliates (within the meaning of the Exchange Act), successors, or heirs, descendants or members of the immediate families of the individuals identified in party (b) of this definition.

“Person” means an organization, a corporation, an individual, a partnership, a trust or any other entity or organization, including a governmental entity and a “person” as that term is used under Section 13(d) or 14(d) of the Exchange Act.

