

**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 **January 31, 2004** 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 (X) No ()

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

Yes (X) No ()

The number of shares outstanding of our common stock as of March 9, 2004 was 37,894,244.

[Table of Contents](#)

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES

Table of Contents

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets as of January 31, 2004 (unaudited) and April 30, 2003	3
Unaudited Consolidated Statements of Operations for the three months and nine months ended January 31, 2004 and 2003	4
Unaudited Consolidated Statements of Cash Flows for the nine months ended January 31, 2004 and 2003	5
Notes to Unaudited Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Quantitative and Qualitative Disclosures About Market Risk	21
Item 4. Controls and Procedures	21
PART II. OTHER INFORMATION	
Item 6. Exhibits and Reports on Form 8-K	22
SIGNATURE	23
CERTIFICATIONS	

[Table of Contents](#)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

KORN/FERRY INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	As of January 31, 2004	As of April 30, 2003
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 76,906	\$ 82,685
Receivables due from clients, net of allowance for doubtful accounts of \$8,412 and \$7,199	51,845	46,737
Income tax and other receivables	6,089	12,648
Deferred income taxes	9,162	9,162
Prepaid expenses	10,096	10,403
	<hr/>	<hr/>
Total current assets	154,098	161,635
Property and equipment, net	22,167	27,698
Cash surrender value of company owned life insurance policies, net of loans	58,453	53,143
Deferred income taxes	25,263	23,897
Goodwill	100,151	94,729
Deferred financing costs, investments and other	7,518	7,911
	<hr/>	<hr/>
Total assets	\$ 367,650	\$ 369,013
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable	\$ —	\$ 5,099
Accounts payable	7,032	8,651
Compensation and benefits payable	44,410	52,206
Other accrued liabilities	27,485	23,006
	<hr/>	<hr/>
Total current liabilities	78,927	88,962
Deferred compensation and other retirement plans	52,156	49,944
Long-term debt	43,635	41,364
Other liabilities	10,854	12,682
7.5% Convertible mandatorily redeemable preferred stock, net of unamortized discount and issuance costs, redemption value, 11,120	10,284	9,606
	<hr/>	<hr/>
Total liabilities	195,856	202,558
Stockholders' equity		
Common stock: \$0.01 par value, 150,000 shares authorized, 39,156 and 38,642 shares issued and 38,000 and 37,590 shares outstanding	305,111	302,021
Retained deficit	(129,938)	(126,607)
Unearned restricted stock compensation	(2,170)	(1,560)
Accumulated other comprehensive loss	(178)	(6,044)
	<hr/>	<hr/>
Stockholders' equity	172,825	167,810
Less: Notes receivable from stockholders	(1,031)	(1,355)
	<hr/>	<hr/>
Total stockholders' equity	171,794	166,455
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 367,650	\$ 369,013
	<hr/>	<hr/>

[Table of Contents](#)

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2004	2003	2004	2003
	(unaudited)		(unaudited)	
Fee revenue	\$ 81,362	\$ 75,536	\$ 230,599	\$ 239,058
Reimbursed out-of-pocket engagement expenses	5,323	5,127	16,384	17,051
	-	-	-	-
Total revenue	86,685	80,663	246,983	256,109
Compensation and benefits	53,625	54,549	156,298	169,637
General and administrative expenses	18,724	16,697	53,026	55,294
Out-of-pocket engagement expenses	5,544	5,234	16,800	17,051
Depreciation and amortization	2,546	4,000	7,833	12,292
Restructuring charges	—	—	8,526	16,281
	-	-	-	-
Total operating expenses	80,439	80,480	242,483	270,555
Operating income (loss)	6,246	183	4,500	(14,446)
Interest income and other income, net	591	87	1,061	1,470
Interest expense	2,370	2,704	7,793	7,757
	-	-	-	-
Income (loss) before provision for income taxes and equity in earnings of unconsolidated subsidiaries	4,467	(2,434)	(2,232)	(20,733)
Provision for income taxes	744	479	1,675	1,537
Equity in earnings of unconsolidated subsidiaries	162	354	576	1,111
	-	-	-	-
Net income (loss)	3,885	(2,559)	(3,331)	(21,159)
Accretion on redeemable convertible preferred stock	—	(245)	—	(611)
	-	-	-	-
Net income (loss) attributed to common stockholders	\$ 3,885	\$ (2,804)	\$ (3,331)	\$ (21,770)
	-	-	-	-
Basic earnings (loss) per common share	\$ 0.10	\$ (0.07)	\$ (0.09)	\$ (0.58)
	-	-	-	-
Basic weighted average common shares outstanding	37,506	37,546	37,474	37,631
	-	-	-	-
Diluted earnings (loss) per common share	\$ 0.10	\$ (0.07)	\$ (0.09)	\$ (0.58)
	-	-	-	-
Diluted weighted average common shares outstanding	40,639	37,546	37,474	37,631

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

[Table of Contents](#)

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

	Nine Months Ended January 31,	
	2004	2003
	(unaudited)	
Cash from operating activities:		
Net loss	\$ (3,331)	\$ (21,159)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	7,779	11,328
Amortization of intangible assets	54	964
Amortization of note payable discount		244
Interest paid in kind and amortization of discount on convertible securities	3,390	2,190
Loss(gain) on disposition of property and equipment	144	(2)
Unrealized loss on marketable securities and other assets		610
Provision for doubtful accounts	3,299	4,513
Gains on cash surrender value of life insurance policies	(3,555)	(189)
Deferred income tax (benefit) provision	(1,366)	331
Asset impairment charge	464	1,113
Restructuring charge		1,554
Restricted stock compensation	1,332	974
Change in other assets and liabilities		
Deferred compensation	2,362	3,886
Receivables	(1,914)	19,372
Prepaid expenses	307	(96)
Investment in unconsolidated subsidiaries	160	(454)
Income taxes		370
Accounts payable and accrued liabilities	(4,937)	(25,592)
Other	(2,124)	8,776
Net cash provided by operating activities	<u>2,064</u>	<u>8,733</u>
Cash from investing activities:		
Purchase of property and equipment	(1,181)	(658)
Premiums on life insurance policies	(3,820)	(7,100)
Proceeds from surrender of life insurance policies	5,859	
Proceeds from life insurance	594	738
Purchase of Futurestep minority shares	(570)	
Net cash provided by (used in) investing activities	<u>882</u>	<u>(7,020)</u>
Cash from financing activities:		
Proceeds from issuance of convertible debt, preferred stock and warrants, net	—	45,628
Payments on previous credit facility	—	(39,000)
Payment of shareholder acquisition notes	(5,099)	(9,528)
Payments on life insurance policy loans	(5,970)	
Borrowings under life insurance policies	1,648	8,198
Purchase of common stock and payment on related notes	(969)	(1,298)
Proceeds from issuance of common stock and receipts on stockholders' notes	2,291	743
Net cash (used in) provided by financing activities	<u>(8,099)</u>	<u>4,743</u>
Effect of exchange rate changes on cash flows	(626)	(4,181)
Net (decrease) increase in cash and cash equivalents	(5,779)	2,275
Cash and cash equivalents at beginning of the period	82,685	66,128
Cash and cash equivalents at end of the period	<u>\$ 76,906</u>	<u>\$ 68,403</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 nine months ended January 31, 2004 and 2003 include the accounts of Korn/Ferry International (“KFY”) and 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.

[Table of Contents](#)

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

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:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2004	2003	2004	2003
Net income (loss) attributed to common stockholders, as reported	\$ 3,885	\$ (2,804)	\$ (3,331)	\$ (21,770)
Stock-based employee compensation charges:				
Determined under the fair-value based method	(3,818)	(10,394)	(13,265)	(27,593)
Net income (loss) attributed to common stockholders, as adjusted	<u>\$ 67</u>	<u>\$ (13,198)</u>	<u>\$ (16,596)</u>	<u>\$ (49,363)</u>
Basic EPS				
As reported	\$ 0.10	\$ (0.07)	\$ (0.09)	\$ (0.58)
Pro forma	\$ 0.00	\$ (0.35)	\$ (0.44)	\$ (1.31)
Dilutive EPS				
As reported	\$ 0.10	\$ (0.07)	\$ (0.09)	\$ (0.58)
Pro forma	\$ 0.00	\$ (0.35)	\$ (0.44)	\$ (1.31)

The fair value of options granted in the three and nine months ended January 31, 2004 and 2003 is estimated on the date of grant using the Black-Scholes option-pricing model with a zero dividend rate and the following assumptions:

	2004	2003
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 annual or interim period ending after March 31, 2004. 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 adoption of this pronouncement will not have an impact on the results of the Company's operations or financial position.

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

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 options or other contracts to issue common stock were exercised or converted and was computed by dividing the net income (loss), after assumed conversion of subordinated notes, 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 January 31,		Nine Months Ended January 31,	
	2004	2003	2004	2003
Net income (loss) (Numerator):				
Net income (loss)	\$ 3,885	\$ (2,559)	\$ (3,331)	\$ (21,159)
Accretion on redeemable convertible preferred stock		(245)		(611)
Net income (loss) for basic EPS	\$ 3,885	\$ (2,804)	\$ (3,331)	\$ (21,770)
Shares (Denominator):				
Weighted average shares for basic EPS	37,506	37,546	37,474	37,631
Effect of convertible subordinated notes				
convertible preferred stock	1,091			
warrants				
restricted stock	140			
stock options	1,893			
employee stock purchase plan	9			
Adjusted weighted average shares for diluted EPS	40,639	37,546	37,474	37,631
Basic earnings (loss) per share	\$ 0.10	\$ (0.07)	\$ (0.09)	\$ (0.58)
Diluted earnings (loss) per share	\$ 0.10	\$ (0.07)	\$ (0.09)	\$ (0.58)

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 three and nine months ended January 31, 2004 would have been 45,004 and 44,183.

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 January 31,		Nine Months Ended January 31,	
	2004	2003	2004	2003
Net income (loss)	\$ 3,885	\$ (2,559)	\$ (3,331)	\$ (21,159)
Foreign currency translation adjustment	4,473	3,860	5,865	6,238
Comprehensive income (loss)	\$ 8,358	\$ 1,301	\$ 2,534	\$ (14,921)

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

The accumulated other comprehensive loss of \$0.2 million at January 31, 2004 is comprised of foreign currency translation adjustments.

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 nine months ended January 31, 2004:

	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 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.

[Table of Contents](#)

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

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

In the three months ending January 31, 2003, revisions were made to costs associated with certain previously recorded restructuring charges as follows: a reduction of \$893 related to facilities in North America, an increase of \$893 related to facilities in Europe and an increase of \$1,578 related to Futurestep facilities. In addition, the Company recognized a \$1,578 gain primarily related to a litigation settlement related to a former subsidiary.

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

	Asset Impairment	Restructuring		Total
	Other	Severance	Facilities	
Executive recruitment				
North America	\$ 109	\$ 2,313	\$ 3,329	\$ 5,751
Europe	—	809	4,534	5,343
Asia/Pacific	—	312	—	312
Total executive recruitment	\$ 109	\$ 3,434	\$ 7,863	\$ 11,406
Futurestep	689	761	3,925	5,375
Corporate	(1,578)	1,078	—	(500)
Total	\$ (780)	\$ 5,273	\$ 11,788	\$ 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 \$7,863 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. The write-off of facility related assets was \$109.

The facilities restructuring charge of \$3,925 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. The write-off of facility related assets was \$689.

A roll-forward of the restructuring liability at January 31, 2004 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	(5,771)	(4,368)	(10,139)
Liability as of January 31, 2004	\$ 1,754	\$ 11,018	\$ 12,772

The severance accrual includes amounts paid monthly and are expected to be paid in full by September 2004. The accrued liability for facilities costs relates to commitments under operating leases, net of estimated sublease income, of which \$8.5 million is included in other long-term liabilities, paid over the next eight years.

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

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 nine months ended January 31, 2004.

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 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.

[Table of Contents](#)

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

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

	Three months ended January 31,		Nine months ended January 31,	
	2004	2003	2004	2003
Fee revenue:				
Executive recruitment:				
North America	\$ 42,074	\$ 39,126	\$ 119,096	\$ 123,601
Europe	19,877	18,654	55,892	59,975
Asia Pacific	8,893	8,562	25,214	25,409
South America	1,973	1,829	6,274	5,487
Total executive recruitment	72,817	68,171	206,476	214,472
Futurestep	8,545	7,365	24,123	24,586
Total fee revenue	81,362	75,536	230,599	239,058
Reimbursed out-of-pocket engagement expenses	5,323	5,127	16,384	17,051
Total revenue	\$ 86,685	\$ 80,663	\$ 246,983	\$ 256,109
	Three months ended January 31,		Nine months ended January 31,	
	2004	2003	2004	2003
Operating income (loss) before restructuring charges				
Executive recruitment:				
North America	\$ 9,548	\$ 4,945	\$ 23,886	\$ 19,103
Europe	604	2,550	951	5,269
Asia Pacific	1,234	941	2,210	1,376
South America	(26)	(46)	374	(995)
Total executive recruitment	11,360	8,390	27,421	24,753
Futurestep	628	(1,312)	558	(4,041)
Corporate	(5,742)	(6,895)	(14,953)	(18,877)
Operating income before restructuring charges	6,246	183	13,026	1,835
Restructuring charges (Note 4)			(8,526)	(16,281)
Total operating income (loss)	\$ 6,246	\$ 183	\$ 4,500	\$ (14,446)

Table of Contents

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

Forward-looking Statements

This quarterly report on Form 10-Q may contain certain statements that we believe are, or may be considered to be, "forward-looking" statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally can be identified by use of statements that include phrases such as "believe", "expect", "anticipate", "intend", "plan", "foresee", "may", "will", "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 leading provider of recruitment and leadership development services with the broadest global presence in the recruitment industry. Our services include executive recruitment, middle-management recruitment services (through Futurestep), strategic management assessment and executive coaching. We have approximately 385 executive recruitment consultants and 45 Futurestep consultants based in nearly 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.

Our executive recruitment revenues are driven by the average number of billable engagements during the period as well as the number of new engagements opened during the period. Depending on when engagements are opened during a particular quarter, new engagements can impact revenue in the following quarter. Our revenues are also driven by changes in the average fees per engagement opened.

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

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

Table of Contents

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 nine months ended January 31, 2004 and 2003 as a percentage of fee revenue:

	Three months ended January 31,		Nine months ended January 31,	
	2004	2003	2004	2003
Fee revenue	100%	100%	100%	100%
Total revenue	107	107	107	107
Compensation and benefits	66	72	68	71
General and administrative expenses	23	22	23	23
Out-of-pocket engagement expenses	7	7	7	7
Depreciation and amortization	3	5	3	5
Restructuring charges	0	0	4	7
Operating income (loss)*	8	0	2	(6)
Net income (loss)	5	(3)	(1)	(9)

* Operating income (loss), excluding restructuring charges, as a percentage of fee revenue was 6% and 1% for the nine months ended January 31, 2004 and 2003, respectively. On the same basis, net income (loss) as a percentage of fee revenue was 3% and (2%) for the nine months ended January 31, 2004 and 2003, respectively.

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

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2004		2003		2004		2003	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%
Fee revenue								
Executive recruitment:								
North America	\$ 42,074	52%	\$ 39,126	52%	\$ 119,096	52%	\$ 123,601	52%
Europe	19,877	24	18,654	25	55,892	24	59,975	25
Asia Pacific	8,893	11	8,562	11	25,214	11	25,409	11
South America	1,973	2	1,829	2	6,274	3	5,487	2
Total executive recruitment	72,817	89%	68,171	90%	206,476	90%	214,472	90%
Futurestep	8,545	11	7,365	10	24,123	10	24,586	10
Total fee revenue	81,362	100%	75,536	100%	230,599	100%	239,058	100%
Reimbursed expenses	5,323		5,127		16,384		17,051	
Total revenue	\$ 86,685		\$ 80,663		\$ 246,983		\$ 256,109	

[Table of Contents](#)

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2004		2003		2004		2003	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%
Operating income (loss)								
Executive recruitment:								
North America	\$ 9,548	23%	\$ 5,838	15%	\$ 23,622	20%	\$ 13,352	11%
Europe	604	3	1,657	9	(3,959)	(7)	(74)	0
Asia Pacific	1,234	14	941	11	2,050	8	1,064	4
South America	(26)	(1)	(46)	(3)	316	5	(995)	(18)
Total executive recruitment	11,360	16	8,390	12	22,029	11	13,347	6
Futurestep	628	7	(2,890)	(39)	(2,424)	(10)	(9,416)	(38)
Corporate	(5,742)		(5,317)		(15,105)		(18,377)	
Total operating income (loss) come (loss)	\$ 6,246	8 %	\$ 183	0%	\$ 4,500	2%	\$ (14,446)	(6)%

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2004		2003		2004		2003	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%
Adjusted operating income (loss) (a) Executive recruitment:								
North America	\$ 9,548	23%	\$ 4,945	13%	\$ 23,886	20%	\$ 19,103	15%
Europe	604	3	2,550	14	951	2	5,269	9
Asia Pacific	1,234	14	941	11	2,210	9	1,376	5
Latin America	(26)	(1)	(46)	(3)	374	6	(995)	(18)
Total executive recruitment	11,360	16	8,390	12	27,421	13	24,753	12
Futurestep	628	7	(1,312)	(18)	558	2	(4,041)	(16)
Corporate	(5,742)		(6,895)		(14,953)		(18,877)	
Total adjusted operating income (loss)	\$ 6,246	8%	\$ 183	0%	\$ 13,026	6%	\$ 1,835	1%

(a) Adjusted operating income (loss) are non-GAAP financial measures and exclude restructuring charges of \$1.6 million for Futurestep and (\$1.6) million for Corporate for the three months ended January 31, 2003. Restructuring charges of \$8.5 million for the nine months ended January 31, 2004 are 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. Restructuring charges of \$16.3 million for the nine months ended January 31, 2003 are as follows: \$5.8 million in North America, \$5.3 million in Europe, \$0.3 million in Asia Pacific, \$5.4 million in Futurestep, and (\$0.5) million in Corporate. These charges primarily relate to severance and facility charges and do not affect fee revenue or revenue. We present adjusted amounts as alternative measures to the actual amounts for comparison purposes. We use the adjusted amounts to analyze our operating results since we believe that the restructuring charges do not reflect, and make it difficult to compare, our ongoing operations over various quarters.

Three Months Ended January 31, 2004 Compared to Three Months Ended January 31, 2003

Fee Revenue. Fee revenue increased \$5.9 million, or 8%, to \$81.4 million for the three months ended January 31, 2004 compared to \$75.5 million for the three months ended January 31, 2003. The increase in fee revenue is attributable to an increase in the number of new engagements opened across all executive recruitment regions as well as an increase in North America fee revenue of \$4.4 million. Exchange rates favorably impacted fee revenues by \$4.3 million in the current quarter.

Executive Recruitment – All geographic regions reported higher fee revenue and an increase in the number of new engagements opened in the three months ended January 31, 2004 compared to the same period last year. Average fees per engagement were fairly consistent in all geographic regions with prior period at constant foreign exchange rates. North America fee revenue increased \$2.9 million, or 8%, to \$42.1 million in the current

Table of Contents

quarter due to the increase in the number of new engagements opened in the current quarter. Europe reported fee revenue of \$19.9 million, an increase of \$1.2 million, or 7%, compared to the same period last year driven by exchange rates that had a favorable impact on fee revenue. The number of new engagements opened in Europe increased approximately 30% compared to the same period last year. Asia Pacific fee revenue increased \$0.3 million, or 4%, to \$8.9 million compared to the same period last year. South America reported fee revenue of \$2.0 million, an increase of \$0.1 million, or 8%, compared to the same period last year driven by exchange rates that had a favorable impact on fee revenue.

Futurestep—Fee revenue increased \$1.2 million, or 16%, to \$8.5 million in the three months ended January 31, 2004 compared to \$7.4 million in the three months ended January 31, 2003. North America had an increase in fee revenue of \$1.5 million, or 86%, over prior year offset by a decrease in Europe fee revenues of \$0.5 million, or 11%, over prior year. The increase in North America fee revenue is due to our strategic movement toward large projects, including managed services. The decrease in Europe fee revenue reflects the closing of certain Futurestep Europe entities, which generated \$1.1 million in fee revenue in the prior period. Exchange rates increased Futurestep Europe fee revenues by \$0.5 million.

Compensation and Benefits. Compensation and benefits expense decreased \$0.9 million, or 2%, to \$53.6 million in the three months ended January 31, 2004 compared to \$54.5 million in the three months ended January 31, 2003. The decline in compensation and benefits expense reflects a reduction of approximately 150 employees which reduced compensation and benefit expense by approximately \$3.7 million. This decline was partially offset by the unfavorable impact of exchange rates in the amount of \$2.8 million in the current quarter versus prior year quarter. Executive recruitment compensation and benefits costs of \$44.5 million was consistent with the same period last year. Exchange rates increased executive recruitment compensation and benefits expense in the current quarter by \$2.3 million. Compensation and benefits expense decreased from 65% of fee revenue to 61% in the current quarter. Futurestep compensation and benefits expense of \$5.9 million was consistent with the same period last year. Exchange rates increased Futurestep compensation and benefits expense by \$0.6 million in the current quarter versus prior year quarter. Futurestep compensation and benefits expense decreased significantly from 83% of fee revenue to 69% in the current quarter. Corporate compensation and benefits expense declined \$0.9 million, or 21%, reflecting the reduction in our workforce and the improved return on investments related to our Company Owned Life Insurance (“COLI”) policies.

General and Administrative Expenses. General and administrative expenses increased \$2.0 million, or 12%, to \$18.7 million in the three months ended January 31, 2004 compared to \$16.7 million in the same period last year. Exchange rates increased general and administrative expense by \$0.8 million in the current quarter. In executive recruitment, general and administrative expenses increased \$2.6 million, or 21%. The increase is due to the fact that there was a favorable exchange gain of \$1.1 million recognized in the three months ended January 31, 2003, not repeated in the current quarter. In addition, there was an increase of bad debt expense of \$1.0 million and an increase of facilities expense of \$0.7 million related to the relocation of one of our larger offices in Europe. Executive recruitment general and administrative expenses increased slightly from 18% of fee revenue in the prior year to 20%. Futurestep general and administrative expenses decreased \$0.3 million, or 18%, compared to the same period last year due to our cost efficiency efforts. Futurestep general and administrative expenses decreased significantly to 19% of fee revenue in the current quarter from 26% in the same period last year. Corporate general and administrative expenses decreased \$0.2 million, or 8%, 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 January 31, 2004 increased \$0.3 million, or 6%, from \$5.2 million in the three months ended January 31, 2003. As a percentage of fee revenue, out-of-pocket engagement expenses remained constant at 7% in both periods.

Table of Contents

Depreciation and Amortization Expenses. Depreciation and amortization expense decreased \$1.5 million, or 36%, 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.

Restructuring A Futurestep restructuring charge of \$1.6 million was recognized in the three months ended January 31, 2003 as a result of revised facility estimates for previous restructuring initiatives. This amount was substantially offset by a gain primarily related to a litigation settlement related to a former subsidiary.

Operating Income (Loss.) Operating income was \$6.2 million in the current quarter compared to \$0.2 million in the same period last year.

Executive recruitment operating income increased to \$11.4 million, or 16% of fee revenue in the three months ended January 31, 2004 compared to operating income of \$8.4 million, or 12% of fee revenue in the three months ended January 31, 2003. The \$3.0 million increase in executive recruitment operating income was driven by the increase in North America fee revenue in the current quarter.

Futurestep operating income of \$0.6 million improved \$1.9 million compared to adjusted operating loss of \$1.3 million, excluding restructuring charges of \$1.6 million in the three months ended January 31, 2003. Actual operating loss was \$2.9 million for the three months ended January 31, 2003. The improvement in Futurestep operating income relates to the increase in fee revenue as well as the success of our cost efficiency efforts. Operating income was 7% of fee revenue in the current quarter compared to adjusted operating loss of (18%) of fee revenue in the same period last year. Actual operating loss for the three months ended January 31, 2003 was (39%) of fee revenue.

Interest Income and Other Income, Net. Interest income and other income, net includes interest income of \$0.3 million for the three months ended January 31, 2004 compared to \$0.5 million in the same period last year. The decrease in interest income is due to lower investment balances. Other income was \$0.3 million in the three months ended January 31, 2004 compared to other loss of \$0.3 million in the same period last year.

Interest Expense. Interest expense, primarily related to the borrowings under COLI policies and our convertible securities, was \$2.4 million, down \$0.3 million compared to the same period last year. The decrease in interest expense in the current quarter is due to the reduced loan amounts related to our COLI policies. In the three months ended January 31, 2004, the accretion on redeemable convertible preferred stock of \$0.3 million is included as interest expense.

Provision for (Benefit from) Income Taxes. The provision for income taxes was \$0.7 million compared to \$0.5 million in 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 in the current quarter decreased compared to \$0.4 million the same period last year.

Nine Months Ended January 31, 2004 Compared to Nine Months Ended January 31, 2003

Fee Revenue. Fee revenue decreased \$8.5 million, or 4%, to \$230.6 million for the nine months ended January 31, 2004 compared to \$239.1 million for the nine months ended January 31, 2003. The decrease in fee revenue is attributable to the weak global economy, which resulted in the decrease in the average number of executive recruitment billable engagements, while the number of new engagements opened increased across regions. Exchange rates impacted fee revenue favorably by \$10.9 million in the nine months ended January 31, 2004 compared to the same period last year.

Table of Contents

Executive Recruitment— With the exception of South America, all geographic regions reported lower fee revenue in the nine months ended January 31, 2004 compared to the same period last year as a result of a decrease in the average number of billable engagements. Average fees per engagement were fairly consistent in all geographic regions with prior period at constant foreign exchange rates. North America fee revenue declined \$4.5 million, or 4%, to \$119.1 million in the current period primarily due to a decrease in the average number of billable engagements partially offset by an increase in the number of new engagements opened in the period. Europe reported fee revenue of \$55.9 million, a decline of \$4.1 million, or 7%, compared to the same period last year driven by a decrease in the average number of billable engagements. Exchange rates impacted Europe fee revenue favorably by \$6.4 million in the nine months ended January 31, 2004 compared to the same period last year. Europe reported an increase in the number of new engagements opened compared to the same period last year. Asia Pacific fee revenue declined \$0.2 million, or 1%, to \$25.2 million. Exchange rates impacted Asia Pacific fee revenue favorably by \$2.1 million in the current period. Asia Pacific's number of new engagements opened and average billable engagements increased compared to the same period last year. South America reported fee revenue of \$6.3 million, an increase of \$0.8 million, or 14%, compared to the same period last year due to an increase in the number of new engagements opened in the current period.

Futurestep—Fee revenue decreased \$0.5 million, or 2%, to \$24.1 million in the nine months ended January 31, 2004 compared to \$24.6 million in the nine months ended January 31, 2003. Europe fee revenue decreased \$3.3 million as a result of the closing of certain Futurestep Europe entities, which generated \$4.2 million in fee revenues in the prior period. Exchange rates impacted Futurestep Europe fee revenue favorably by \$1.6 million in the current period. The decrease in fee revenues was partially offset by an increase of \$2.6 million in North America fee revenues due to our strategic movement toward larger projects, including managed services. Asia Pacific had an increase of \$0.2 million in fee revenue. Exchange rates impacted Futurestep Asia Pacific fee revenue favorably by \$0.7 million in the current period.

Compensation and Benefits. Compensation and benefits expense decreased \$13.3 million, or 8%, to \$156.3 million in the nine months ended January 31, 2004 compared to \$169.6 million in the nine months ended January 31, 2003. The decline in compensation and benefits expense reflects a reduction of approximately 150 employees which reduced compensation and benefits expense by \$20.8 million. This decline was partially offset by exchange rates of \$7.5 million which increased compensation and benefits expense in the current period. The decrease in executive recruitment compensation and benefits costs of \$8.7 million, or 6%, to \$131.3 million reflects the reduction in our workforce in the last twelve months. Exchange rates increased executive recruitment compensation and benefits expense in the current period by \$5.9 million. Executive recruitment compensation and benefits expense was 64% of fee revenue compared to 65% for the same period last year. Futurestep compensation and benefits expense declined \$1.7 million, or 9%, to \$17.0 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. Exchange rates increased Futurestep compensation and benefits expense in the current period by \$1.6 million. Futurestep compensation and benefits expense was 70% of fee revenue in the current period an improvement of six percentage points compared to the same period last year. Corporate compensation and benefits decreased \$2.9 million, or 27%, compared to the same period last year reflecting a reduction in our workforce and the improved return on investments related to our COLI policies.

General and Administrative Expenses. General and administrative expenses decreased \$2.3 million, or 4%, to \$53.0 million in the nine months ended January 31, 2004 compared to \$55.3 million in the same period last year. The decline in general and administrative expense reflects our on-going cost reduction efforts which reduced general and administrative expense by \$4.4 million. This decline was partially offset by exchange rates which increased general and administrative expense by \$2.1 million in the current period. In executive recruitment, general and administrative expenses increased \$0.7 million, or 2%, to \$41.5 million. The increase was due to the fact that we recognized a \$2.2 million foreign exchange gain in the nine months ended January 31, 2003 that was not repeated in the current period. This increase was partially offset by decreases in bad debt expense of \$1.2 million as a result of improved collections as well as a decrease in facilities and office costs of \$1.4 million as a result of prior restructuring initiatives. Exchange rates increased executive recruitment general

Table of Contents

and administrative expense by \$1.6 million in the current period compared to the same period last year. Executive recruitment general and administrative expenses was 19% of fee revenue in the prior year compared to 20% for the current year. Futurestep general and administrative expenses decreased \$2.3 million, or 31% to \$5.1 million, due to a decrease in facilities and office costs resulting from our restructuring initiatives. Exchange rates increased Futurestep general and administrative expense by \$0.4 million in the current period compared to prior period. Futurestep general and administrative expenses decreased from 30% of fee revenue in the prior year to 21% in the current year. Corporate general and administrative expenses decreased \$0.7 million, or 10% compared to the same period last year, 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 \$16.8 million in the nine months ended January 31, 2004 decreased \$0.3 million, or 2%, compared to \$17.1 million in the nine months ended January 31, 2003. 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 \$4.5 million, or 36%, 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 2004.

Operating Income. Operating income was \$4.5 million in the nine months ended January 31, 2004 compared to an operating loss of \$14.5 million in the nine months ended January 31, 2003. Excluding restructuring charges of \$8.5 million and \$16.3 million in the nine months ended January 31, 2004 and 2003, respectively, adjusted operating income was \$13.0 million compared to adjusted operating income of \$1.8 million in the same period last year.

Executive recruitment adjusted operating income increased to \$27.4 million, or 13% of fee revenue in the nine months ended January 31, 2004 compared to \$24.8 million, or 12% of fee revenue in the nine months ended January 31, 2003. Adjusted operating income excludes restructuring charges of \$5.4 million and \$11.4 million in the nine months ended January 31, 2004 and 2003, respectively. The improvement in adjusted operating income was driven by North America with an increase of \$4.8 million, Asia Pacific with an increase of \$0.8 million and South America with an increase of \$1.3 million. These increases were offset by a decline of \$4.3 million in adjusted operating income in Europe.

Futurestep adjusted operating income improved \$4.6 million to \$0.6 million in the nine months ended January 31, 2004, reflecting the success of our managed services and large project strategy roll-out. Adjusted operating income (loss) excludes restructuring charges of \$3.0 million and \$5.4 million in the nine months ended January 31, 2004 and 2003, respectively. Futurestep adjusted operating income increased to 2% of fee revenue 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 \$0.8 million and \$1.1 million for the nine months ended January 31, 2004 and 2003, respectively. The decrease in interest income is primarily due to a lower average investment balance compared to the same period last year. Other income was \$0.2 million in the current period compared to \$0.4 million in the same period last year.

Interest Expense. Interest expense, primarily related to the borrowings under COLI policies and our convertible securities, was \$7.8 million in the nine months ended January 31, 2004 and 2003. In the nine months ended January 31, 2004 the accretion on redeemable convertible preferred stock of \$0.8 million is included as interest expense. The decrease of \$0.8 million in interest expense in the current period is due to the reduced loan amounts related to our COLI policies and the pay down of acquisition notes payable in the latter part of fiscal 2003.

Provision for (Benefit from) Income Taxes. The provision for income taxes was \$1.7 million in the nine months ended January 31, 2004 compared to \$1.5 million in the nine months ended January 31, 2004. Although we reported a pretax loss in both periods, certain foreign subsidiaries reported pretax income resulting in foreign income tax expense.

Table of Contents

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 \$0.6 million in the current period decreased compared to \$1.1 million in the same period last year.

Liquidity and Capital Resources

Cash provided by operating activities was \$2.1 million in the nine months ended January 31, 2004 and \$8.7 million in the same period last year. The decrease in cash provided by operating activities in the current period is due to a tax refund received in the prior period not repeated in the current period, offset with the decrease in net loss in nine months ended January 31, 2004 as well as, timing differences in the payment of normal operating expenses. Our cash needs are generally highest in the first quarter of our fiscal year as bonuses are paid to our consultants.

Cash provided by investing activities was \$0.9 million in the nine months ended January 31, 2004 compared to cash used of \$7.0 million for the same period last year. In the nine months ended January 31, 2004 and 2003, cash used in investing activities was related to premiums paid on COLI. In the current period, we received \$5.9 million of proceeds in conjunction with the surrender of life insurance policies.

Capital expenditures consist primarily of systems hardware and software costs and leasehold improvements. The expenditures in the nine months ended January 31, 2004 and 2003 were \$1.2 million and \$0.7 million, respectively.

Cash used in financing activities was \$8.1 million in the nine months ended January 31, 2004 compared to cash provided by financing activities of \$4.7 million in the nine months ended January 31, 2003. In the current period, we made payments of \$6.0 million on life insurance policy loans and issued \$2.3 million of common stock. In the same period last year, we received net proceeds of \$45.6 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 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 January 31, 2004, we had no borrowings outstanding on our credit facility.

Total outstanding borrowings under COLI policies were \$61.6 million and \$66.3 million as of January 31, 2004 and 2003, respectively. Generally, we borrow under our COLI policies to pay premiums. Such borrowings do not require principal payments, bear interest at variable rates and are secured by the cash surrender value of the life insurance policies of \$120.0 million and \$117.6 million as of January 31, 2004 and 2003, respectively.

In the nine months ended January 31, 2004, we issued an additional \$2.8 million of 7.5% Convertible Subordinated Notes in lieu of interest paid in cash and \$0.7 million of 7.5% Convertible Series A Preferred Stock in lieu of cash dividends. As of January 31, 2004, we had approximately \$43.6 million outstanding 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 \$11.1 million.

Our primary long-term commitments relate to leases for our offices. 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.

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 annual or interim period ending after March 31, 2004. Under FIN 46, a business

Table of Contents

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 adoption of this pronouncement will 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 and fluctuations in interest rates. We manage our exposure to these risks in the normal course of our business as described below. We have not utilized financial instruments for trading 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 nine months ended January 31, 2004 we recognized a foreign currency loss, after income taxes, of \$0.1 million compared to a foreign currency gain, after income taxes, of \$1.9 million in the nine months ended January 31, 2003. This foreign currency loss was 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 January 31, 2004 we had no outstanding bank borrowings. We had \$61.6 million of borrowings against the cash surrender value of COLI contracts as of January 31, 2004 bearing interest 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 January 31, 2004. 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.

[Table of Contents](#)

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	Letter Agreement, dated December 31, 2003, among the Company, Friedman Fleischer & Lowe Capital Partners, L.P. and FFL Executive Partners, L.P.
10.2	Employment Agreement between the Company and Gary D. Burnison, dated October 1, 2003.
10.3	Third Amendment to the Employment Agreement between the Company and Paul C. Reilly, dated March 10, 2004.
10.4	Form of Indemnification Agreement between the Company and some of its executive officers and directors.
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 March 11, 2004, 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 March 10, 2004, reporting our results of operations and financial condition for the quarter ended January 31, 2004.

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.

Date: March 12, 2004

KORN/FERRY INTERNATIONAL

By: /s/ GARY D. BURNISON

Gary D. Burnison
Chief Operating Officer and Chief Financial Officer

As of December 31, 2003

Friedman Fleischer & Lowe Capital Partners, L.P.,
FFL Executive Partners, L.P.,
One Maritime Plaza, Suite 1000,
San Francisco, California 94111.

Re: Korn/Ferry International (the "Company") - 7.5% Convertible Series A Preferred Stock (the "Stock") and 7.5% Convertible Subordinated Notes due 2010 (the "Notes")

Ladies and Gentlemen:

The parties desire to confirm the current Conversion Price (as defined in the Certificate of Designations relating to the Stock) (the "Stock Conversion Price"), the Conversion Price (as defined in the Notes) (the "Note Conversion Price") and the Exercise Price of the Warrants (as defined in the Notes) (the "Warrant Exercise Price"). The Stock Conversion Price, the Note Conversion Price and the Warrant Exercise Price are referred to herein collectively as the "Conversion Prices" and each individually as a "Conversion Price." The Certificate of Designations relating to the Stock (the "Certificate"), the Notes and the Warrants are referred to herein collectively as the "Transaction Documents" and each individually as a "Transaction Document."

The parties also desire to confirm the mechanics for adjusting the Conversion Prices under the Transaction Documents in connection with restricted stock grants of Common Stock (as defined in the Transaction Documents) pursuant to the Company's incentive and performance plans (each such grant, a "Restricted Stock Grant") and in connection with issuances of shares of Common Stock pursuant to the Company's Employee Stock Purchase Plan (the "Stock Purchase Plan").

Accordingly, the parties hereby agree as follows:

1. As of the date hereof, (a) the Stock Conversion Price and the Note Conversion Price is \$10.19, (b) the Warrant Exercise Price is \$11.94 and (c) the aggregate number of Warrant Shares issuable upon the exercise of the Warrants is 274,207 (269,335 Warrant Shares issuable upon exercise of the Warrant issued to Friedman Fleischer & Lowe Capital Partners, L.P. and 4,872 Warrant Shares issuable upon exercise of the Warrant issued to FFL Executive Partners, L.P.).
2. Each of the Transaction Documents (*i.e.*, Section 7(e)(vi) of the Certificate, Section 4.2(vi)(1) of the Notes and Section 3(g)(i) of the Warrants) contains an exemption to the anti-dilution provisions of such Transaction Document that is limited to 7,000,000 shares of Common Stock (the "Specified Share Basket") and to an

additional 1,574,501 shares of Common Stock issuable upon the exercise of options reserved for grant in September 2002 pursuant to the Company's option exchange program. As of the date hereof, 4,270,000 shares of Common Stock have been issued under the Specified Share Basket.

3. The Specified Share Basket shall be reduced by 2.3 shares of Common Stock for each share of Common Stock issued on or after the date hereof pursuant to any Restricted Stock Grant. Shares of Common Stock issued on or after the date hereof pursuant to any Restricted Stock Grant shall not result in any adjustment to any Conversion Price.

4. On each Expiration Date (as defined in the Stock Purchase Plan), the Conversion Prices shall be adjusted under the applicable provisions of the Transaction Documents (*i.e.*, Section 7(e)(i) of the Certificate, Section 4.2(i) of the Notes and Section 3(a) of the Warrants) (the "Adjustment Provisions") to take into account the issuance of all the shares of Common Stock issued under the Stock Purchase Plan on such Expiration Date (the "Total Purchase Shares") at the Option Price (as defined in the Stock Purchase Plan) on such Expiration Date. For purposes of any such adjustment on any Expiration Date, (a) the "record date" as used in the Adjustment Provisions shall mean such Expiration Date, (b) the phrase "the aggregate of the offering price of the total number of shares of Common Stock" in clause (i) of the Adjustment Provisions shall mean the Total Purchase Price (as defined below) on such Expiration Date and (c) the phrase "the number of shares of Common Stock so offered for subscription or purchase pursuant to such Rights, or so issued" in clause (ii) of the Adjustment Provisions shall mean the Total Purchase Shares and (d) the term "Total Purchase Price" means, for any Expiration Date, an amount equal to the product of (x) the number of Total Purchase Shares multiplied by (y) the Option Price on such Expiration Date.

5. If any holder of the Stock, the Notes or the Warrants (collectively, the "Securities") converts or exercises its Securities on any day that is not an Expiration Date (the "Specified Conversion Date"), the Conversion Price in respect of such conversion or exercise shall be the applicable Conversion Price in effect on such day. Notwithstanding the foregoing, on the next Expiration Date following any Specified Conversion Date, the Company shall issue to any holder that converted its Securities on such Specified Conversion Date an additional number of fully paid and non-assessable shares of Common Stock equal to the product of (a) the number of additional shares of Common Stock that such holder would have been entitled to receive on the Specified Conversion Date in respect of the portion of the Securities so converted or exercised had the adjustment to the Conversion Prices on the next Expiration Date occurred immediately prior to such conversion or exercise, multiplied by (b) a fraction, the numerator of which is the number of days elapsed during the period beginning on the first day after the preceding Expiration Date and ending on the Specified Conversion Date and the denominator of which is 180.

6. Except as expressly provided herein, no term or provision of the Transaction Documents shall be amended or otherwise modified, and each term and provision of the Transaction Documents shall remain in full force and effect.

7. This letter agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts (including by facsimile), 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.

8. THIS LETTER AGREEMENT 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 DELAWARE WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES THAT WOULD REQUIRE APPLICATION OF ANOTHER LAW.

[signatures appear on next page]

IN WITNESS WHEREOF, the undersigned have caused this agreement to be duly executed as of the date first written above.

KORN/FERRY INTERNATIONAL

By: /s/ Gary D. Burnison

Name: Gary D. Burnison
Title: Chief Operating Officer

Agreed and Accepted by:

**FRIEDMAN FLEISCHER & LOWE CAPITAL PARTNERS,
L.P.,**

By: Friedman Fleischer & Lowe GP, LLC
Its General Partner

By: /s/ Spencer Fleischer

Name: Spencer Fleischer
Title: Vice Chairman

FFL EXECUTIVE PARTNERS, L.P.,

By: Friedman Fleischer & Lowe GP, LLC,
Its General Partner

By: /s/ Spencer Fleischer

Name: Spencer Fleischer
Title: Vice Chairman

**EMPLOYMENT AGREEMENT
BETWEEN
KORN/FERRY INTERNATIONAL
AND
GARY BURNISON**

TABLE OF CONTENTS

	Page
1. Employment	1
2. Term of Employment	1
3. Position, Duties and Responsibilities	1
4. Annual Compensation	1
(a) Base Salary	1
(b) Annual Cash Incentive Award	1
(c) Annual Stock Option Grant	2
(d) Annual Restricted Stock Grant	2
5. Employee Benefit Programs and Perquisites.	2
(a) General	2
(b) Reimbursement of Business Expenses	2
(c) Conditions of Employment	2
6. Termination of Employment.	3
(a) Death	3
(b) Disability	3
(c) Termination by the Company for Cause or Voluntary Termination by Executive	3
(d) Termination by the Company Without Cause, by Executive for Good Reason or for Failure by the Company to Renew Agreement Prior to Change in Control	4
(e) Following a Change of Control, Termination by the Company Without Cause or by Executive for Good Reason	4
(f) Parachute Limitation	5
(g) Other Programs	6
(h) Certain Definitions	6
7. No Mitigation; No Offset	8
8. Confidential Information; Cooperation with Regard to Litigation.	8
(a) Nondisclosure of Confidential Information	8
(b) Definition of Confidential Information	9
(c) Cooperation in Litigation	9
9. Non-solicitation	9

	Page
10. Remedies	9
11. Resolution of Disputes	10
12. Indemnification.	10
(a) Company Indemnity	10
(b) No Presumption Regarding Standard of Conduct	11
(c) Liability Insurance	11
13. Effect of Agreement on Other Benefits	11
14. Assignment; Binding Nature	11
15. Representations	12
16. Entire Agreement	12
17. Amendment or Waiver	12
18. Severability	12
19. Survivorship	12
20. Beneficiaries/References	12
21. Governing Law	13
22. Notices	13

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 GARY BURNISON, 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 April 30, 2007. 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 Operating Officer, Chief Financial Officer and Executive Vice President of the Company with duties and responsibilities customary to such offices. At the request of the Board of Directors ("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 \$475,000 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.

(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.

(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 corporate headquarters in Los Angeles, California, 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 Chief Operating Officer 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 and all of Executive's benefits under the Executive Capital Accumulation Plan 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 and all of Executive's benefits under the Executive Capital Accumulation Plan 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, by Executive for Good Reason or for Failure by the Company to Renew Agreement Prior to Change in Control or More Than 12 Months After a Change in Control. If Executive's employment is terminated prior to a "Change in Control" (as defined in Schedule A), or more than 12 months after the date on which a Change in Control occurs, (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 of such a termination a lump sum payment equal to one and one-half times both Executive's then current Base Salary and target bonus provided, however, that if Executive's employment is terminated by reason of the Company's failure to renew this Agreement, then Executive shall be entitled only to one time the 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; 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 and all of Executive's benefits under the Executive Capital Accumulation Plan at the time of Executive's termination that would have vested in the twelve months following 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) two times the then current Base Salary, plus (B) two 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 and all of Executive's benefits under the Executive Capital Accumulation Plan at the time of Executive's termination will become fully vested and shall remain exercisable until their originally scheduled expiration dates.

(f) Certain Additional Payments by the Company.

(1) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment, award, benefit or distribution (or any acceleration of any payment, award, benefit or distribution) by the Company (or any of its affiliated entities) or any entity which effectuates a Change in Control (or any of its affiliated entities) to or for the benefit of Executive (whether pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 6(f)) (the "Payments") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Company shall pay to Executive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any Excise Tax) imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. For purposes of determining the amount of the Gross-Up Payment, the Executive shall be deemed to (i) pay federal income taxes at the highest marginal rates of federal income taxation for the calendar year in which the Gross-Up Payment is to be made and (ii) pay applicable state and local income taxes at the highest marginal rate of taxation for the calendar year in which the Gross-Up Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes. In the event that no Excise Tax is applicable, this Section 6(f) shall not be applicable.

(2) 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. The Gross-Up Payment under this Section 6(f) with respect to any Payments shall be made no later than thirty (30)

days following such Payment. If the Auditor determines that no Excise Tax is payable by Executive, it shall furnish Executive with a written opinion to such effect, and to the effect that failure to report the Excise Tax, if any, on Executive's applicable federal income tax return will not result in the imposition of a negligence or similar penalty. The determinations by the Auditor shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the determination, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment") or Gross-Up Payments are made by the Company which should not have been made ("Overpayment"), consistent with the calculations required to be made hereunder. In the event that the Executive thereafter is required to make payment of any Excise Tax or additional Excise Tax, the Auditor shall determine the amount of the Underpayment that has occurred and any such Underpayment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) shall be promptly paid by the Company to or for the benefit of Executive. In the event the amount of the Gross-Up Payment exceeds the amount necessary to reimburse the Executive for his or her Excise Tax, the Auditor shall determine the amount of the Overpayment that has been made and any such Overpayment (together with interest at the rate provided in Section 1274(b)(2) of the Code) shall be promptly paid by Executive (to the extent he or she has received a refund if the applicable Excise Tax has been paid to the Internal Revenue Service) to or for the benefit of the Company. Executive shall cooperate, to the extent his or her expenses are reimbursed by the Company, with any reasonable requests by the Company in connection with any contests or disputes with the Internal Revenue Service in connection with the Excise Tax. In the event that the Company determines that the value of any accelerated vesting of stock options held by Executive shall be redetermined within the context of Treasury Regulation §1.280G-1 Q/A 33 (the "Option Redetermination"), Executive shall (i) file with the Internal Revenue Service an amended federal income tax return that claims a refund of the overpayment of the Excise Tax attributable to such Option Redetermination and (ii) promptly pay the refunded Excise Tax to the Company; provided that the Company shall pay all reasonable professional fees incurred in the preparation of Executive's amended federal income tax return.

(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, disability 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) reckless or intentional behavior or conduct 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 material misrepresentation or false statement made by Executive 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 as Chief Operating Officer or assigns Executive duties which are materially inconsistent with his duties or which materially impair Executive's ability to function as Chief Operating Officer, 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, or (D) Executive's primary location of business is moved by more than 50 miles, or (E) the Company reduces Executive's title of Chief Operating Officer or Executive Vice President (but not the title of Chief Financial Officer, to which title and position the Company may appoint another person) 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. 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 medical 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 following Executive's termination of employment for any reason for a period of two years thereafter), 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 for all expenses reasonably incurred by Executive in connection with Executive's provision of testimony or assistance (including the fees of any counsel that may be retained by Executive) 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 (i) 18 months following the termination of Executive's employment with or without Cause, or by Executive for Good Reason or (ii) 12 months for failure by the Company to renew this Agreement prior to a Change of Control.

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:

GARY BURNISON

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.

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.

THIRD AMENDMENT TO EMPLOYMENT AGREEMENT

This THIRD AMENDMENT, dated as of March 10, 2004 (this "Amendment"), to THE EMPLOYMENT AGREEMENT, dated as of May 24, 2001 (the "Agreement"), as amended as of December 1, 2001 (the "First Amendment"), and as of July 1, 2003 (the "Second Amendment"), by and between KORN/FERRY INTERNATIONAL, a Delaware corporation with its principal offices in Los Angeles, California (the "Company"), and PAUL C. REILLY, an individual (the "Executive").

A. Amendment to Parachute Limitation. Section 8(f) is hereby amended and restated to read in its entirety as follows:

(f) Certain Additional Payments by the Company.

(1) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment, award, benefit or distribution (or any acceleration of any payment, award, benefit or distribution) by the Company (or any of its affiliated entities) or any entity which effectuates a Change in Control (or any of its affiliated entities) to or for the benefit of Executive (whether pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 8(f)) (the "Payments") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Company shall pay to Executive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any Excise Tax) imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. For purposes of determining the amount of the Gross-Up Payment, the Executive shall be deemed to (i) pay federal income taxes at the highest marginal rates of federal income taxation for the calendar year in which the Gross-Up Payment is to be made and (ii) pay applicable state and local income taxes at the highest marginal rate of taxation for the calendar year in which the Gross-Up Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes. In the event that no Excise Tax is applicable, this Section 8(f) shall not be applicable.

(2) The determinations to be made with respect to this Section 8(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. The Gross-Up

Payment under this Section 8(f) with respect to any Payments shall be made no later than thirty (30) days following such Payment. If the Auditor determines that no Excise Tax is payable by Executive, it shall furnish Executive with a written opinion to such effect, and to the effect that failure to report the Excise Tax, if any, on Executive's applicable federal income tax return will not result in the imposition of a negligence or similar penalty. The determinations by the Auditor shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the determination, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment") or Gross-Up Payments are made by the Company which should not have been made ("Overpayment"), consistent with the calculations required to be made hereunder. In the event that the Executive thereafter is required to make payment of any Excise Tax or additional Excise Tax, the Auditor shall determine the amount of the Underpayment that has occurred and any such Underpayment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) shall be promptly paid by the Company to or for the benefit of Executive. In the event the amount of the Gross-Up Payment exceeds the amount necessary to reimburse the Executive for his or her Excise Tax, the Auditor shall determine the amount of the Overpayment that has been made and any such Overpayment (together with interest at the rate provided in Section 1274(b)(2) of the Code) shall be promptly paid by Executive (to the extent he or she has received a refund if the applicable Excise Tax has been paid to the Internal Revenue Service) to or for the benefit of the Company. Executive shall cooperate, to the extent his or her expenses are reimbursed by the Company, with any reasonable requests by the Company in connection with any contests or disputes with the Internal Revenue Service in connection with the Excise Tax. In the event that the Company determines that the value of any accelerated vesting of stock options held by Executive shall be redetermined within the context of Treasury Regulation §1.280G-1 Q/A 33 (the "Option Redetermination"), Executive shall (i) file with the Internal Revenue Service an amended federal income tax return that claims a refund of the overpayment of the Excise Tax attributable to such Option Redetermination and (ii) promptly pay the refunded Excise Tax to the Company; provided that the Company shall pay all reasonable professional fees incurred in the preparation of Executive's amended federal income tax return.

B. No Other Modification. Except as specifically modified herein, the remaining terms and provisions of the Agreement shall be and remain in full force and effect in accordance with their terms. Any reference in the Agreement pertaining to any time from and after the effective date of this Amendment shall be deemed a reference to the Agreement as modified and amended hereby.

C. Entire Agreement. This Amendment 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.

D. Counterparts. This Amendment may be executed in two or more counterparts with the same effect as if all parties had signed the same document. All such counterparts shall be deemed an original, shall be construed together and shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date first above written.

The Company:

KORN/FERRY INTERNATIONAL

By: _____

By: _____

Executive:

PAUL C. REILLY

INDEMNIFICATION AGREEMENT

This INDEMNIFICATION AGREEMENT (“Agreement”) is made as of _____ by and between Korn/Ferry International, a Delaware corporation (“Company”), and _____ (“Indemnitee”).

WHEREAS, Indemnitee is a[n] [director] [executive officer] of Company (the “Position”);

WHEREAS, in consideration of the Indemnitee acting in the Position and assuming the responsibilities attendant to the Position, Company desires to provide Indemnitee the rights to indemnification and reimbursement of expenses described below;

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Company and Indemnitee do hereby covenant and agree as follows:

Section 1. Definitions. For purposes of this Agreement:

“Expenses” shall include all actual and reasonable fees, costs and expenses, including without limitation, attorneys’ fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with defending, preparing to defend, or investigating an action, suit or proceeding, whether civil, criminal, administrative or investigative.

Section 2. Indemnification — General. Company shall indemnify, subject to the terms of this Agreement, Indemnitee to the full extent permitted by law if Indemnitee is made or threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact of Indemnitee’s Position.

Section 3. Expenses. Subject to the terms of this Agreement, upon receipt by Company of an undertaking by Indemnitee to repay Expenses if it shall ultimately be determined that Indemnitee is not entitled to receive

reimbursement of Expenses from Company, Company shall pay or reimburse, to the full extent permitted by law, Expenses as incurred by Indemnitee in defending any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative, brought by reason of the fact of Indemnitee's Position.

Section 4. Indemnification Procedure. With respect to any proceeding for which indemnification is requested, Company will be entitled to participate therein at its own expense and, except as otherwise provided below, to the extent that it may wish, Company may assume the defense thereof, with counsel satisfactory to Indemnitee. After notice from Company to Indemnitee of its election to assume the defense of a proceeding, Company will not be liable to Indemnitee under this Agreement for any Expenses subsequently incurred by Indemnitee in connection with the defense thereof, other than as provided below. Company shall not settle any proceeding in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's written consent. Indemnitee shall have the right to employ Indemnitee's own counsel in any proceeding, but the fees and expenses of such counsel incurred after notice from Company of its assumption of the defense of the proceeding shall be at the expense of Indemnitee, unless (i) the employment of counsel by Indemnitee has been authorized by the Company, (ii) Indemnitee shall have reasonably concluded that there may be conflict of interest between Company and Indemnitee in the conduct of the defense of a proceeding or (iii) Company shall not in fact have employed counsel to assume the defense of a proceeding, in each of which cases the fees and expenses of Indemnitee's counsel shall be advanced by Company. Company shall not be entitled to assume the defense of any proceeding brought by or on behalf of Company or as to which Indemnitee has reasonably concluded that there may be a conflict of interest between Company and Indemnitee.

Section 5. Limitations on Indemnification. No payments pursuant to this Agreement are required to be made by Company:

(a) To indemnify or advance funds for Expenses with respect to actions, suits or proceedings initiated or brought voluntarily by Indemnitee and not by way of defense, except with respect to actions, suits or proceedings brought to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under law, but such indemnification or advancement of expenses may be provided by Company in specific cases if Company's Board of Directors finds it to be appropriate;

(b) To indemnify or advance funds for Expenses sustained in any action, suit or proceeding alleging (i) claims under Section 16(b) of the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder and amendments thereto or similar provisions of any federal, state or local statutory law or (ii) violations of Federal or state insider trading laws, unless, in the case of this clause (ii), Indemnitee has been successful on the merits, received Company's prior written consent to incurring the Expense or settled the case with the written consent of Company; and

(c) To the extent a court of competent jurisdiction holds that such payment hereunder is unlawful.

Section 6. Recovery for Expenses of Enforcement. Indemnitee shall be entitled to be reimbursed for Expenses incurred in any action, suit or proceeding to obtain indemnification or reimbursement of Expenses under this Agreement on the same terms and conditions as Indemnitee is entitled to Expenses under Section 3.

Section 7. Standard of Conduct. No claim for indemnification or reimbursement of Expenses shall be paid by Company unless Company has determined that Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of Company and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful and, in the case of a claim for reimbursement of Expenses, Indemnitee shall have demonstrated to Company that Indemnitee has the financial responsibility and ability to repay such Expenses if it is ultimately determined that Indemnitee is not entitled to receive payment or reimbursement of such Expenses. Unless ordered by a court, such determinations shall be made by (1) a majority vote of the directors who are not parties to the action, suit or proceeding for which indemnification or reimbursement of Expenses are sought, even though less than a quorum, or (2) by a committee of such directors designated by a majority vote of directors, even though less than a quorum, or (3) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (4) by stockholders. Indemnitee shall be deemed to have met the relevant standard if the determination is not made by Company within 30 thirty days of a demand by Indemnitee for indemnity or reimbursement of Expenses.

Section 8. Period of Indemnity. No claim for indemnification or the payment or reimbursement of Expenses shall be made by Indemnitee or paid by Company more than three years after the right to receive indemnification or Expenses arose hereunder.

Section 9. Confidentiality. Except as required by law or as otherwise becomes public, Indemnitee agrees to keep confidential any information that arises in connection with this Agreement, including but not limited to, claims for indemnification or reimbursement of Expenses, amounts paid or payable under this Agreement and any communications between the parties.

Section 10. Nonexclusivity. The rights of Indemnitee under this Agreement shall not be deemed exclusive and shall be in addition to, and not in lieu of, any right of indemnification or reimbursement of Expenses Indemnitee may have under Company's certificate of incorporation or by-laws. This Agreement is entered into pursuant to Section 145(f) of the Delaware General Corporation Law ("DGCL") and shall not be constrained or limited to indemnification and reimbursement of expenses provided by the DGCL.

Section 11. Inconsistent Provision. To the extent that any other agreement or undertaking of Company is inconsistent with the terms of this Agreement, this Agreement shall govern.

Section 12. No Duplication of Payments. Company shall not be liable under this Agreement to make any payment to Indemnitee under this Agreement to the extent that Indemnitee has otherwise actually received payment of amounts otherwise payable hereunder.

Section 13. Subrogation. In the event of payment under this Agreement, Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee (under any insurance policy or otherwise), who shall execute all papers required and shall do everything necessary to secure such rights, including the execution of such documents necessary to enable Company to effectively bring suit to enforce such rights.

Section 14. Notice by Indemnitee. Indemnitee shall promptly notify Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any matter which may be subject to indemnification or payment of Expenses covered hereunder. Any demand for payment by Indemnitee hereunder shall be in writing and shall provide an accounting of the amounts to be paid by Company.

Section 15. Severability. If any provision of this Agreement shall be held to be invalid, inoperative or unenforceable as applied to any particular case or in any particular jurisdiction, for any reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other distinguishable case or jurisdiction, or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to any extent whatsoever. The invalidity, inoperability or unenforceability of any one or more phrases, sentences, clauses or Sections contained in this Agreement shall not affect any other remaining part of this Agreement.

Section 16. Binding Effect. This Agreement shall be binding upon, and inure to the benefit of, Indemnitee and Indemnitee's heirs, personal representatives, executors and administrators and upon Company and its successors and assigns.

Section 17. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement.

Section 18. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

Section 19. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

Section 20. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand, on the date delivered, (ii) mailed by certified or registered mail, with postage prepaid, on the third business day after the date on which it is mailed or (iii) sent by guaranteed overnight courier service, with postage prepaid, on the business day after the date on which it is sent:

(a) If to Indemnitee, to:

(b) If to Company, to:

General Counsel
Korn/Ferry International
1800 Century Park East, Suite 900
Los Angeles, CA 90067

or to such other address as may have been furnished to Indemnitee by Company or to Company by Indemnitee, as the case may be.

Section 21. Governing Law. The parties agree that this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware.

Section 22. Venue. Any action, suit or proceeding regarding indemnification or reimbursement of Expenses arising out of this Agreement or otherwise shall only be brought and heard and shall only be venued in Delaware Chancery Court.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

KORN/FERRY INTERNATIONAL

By: _____

Name:

Title:

AGREED TO AND ACCEPTED BY:

Name:

**CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Paul C. Reilly, certify that:

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

Date: March 12, 2004

By: /s/ PAUL C. REILLY

Name: Paul C. Reilly
Title: Chairman and Chief Executive Officer

**CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gary D. Burnison, certify that:

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

Date: March 12, 2004

By: /s/ GARY D. BURNISON

Name: Gary D. Burnison
Title: Chief Operating Officer
and Chief Financial Officer

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

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

The Quarterly Report on Form 10-Q for the quarter ended January 31, 2004 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 12, 2004

By: /s/ PAUL C. REILLY

Name: Paul C. Reilly
Title: Chairman and Chief Executive Officer

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

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

The Quarterly Report on Form 10-Q for the quarter ended January 31, 2004 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 12, 2004

By: /s/ GARY D. BURNISON

Name: Gary D. Burnison
Title: Chief Operating Officer
and Chief Financial Officer